Custodian
REIT PLC

Annual Report 2019

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[1] 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 intends to provide investors with an attractive level of income and the potential for capital growth, becoming the REIT of choice for private and institutional investors seeking high and stable dividends from well-diversified UK real estate.

1. References to the Company in the Strategic report include the Company and its dormant subsidiaries: Custodian Real Estate Limited, Custodian Real Estate BL Limited, Custodian Real Estate (Beaumont Leys) Limited and Custodian Real Estate (Leicester) Limited.

Investment policy
Custodian REIT's policy is to principally invest in institutional grade properties of £2-10m

Secure
Secure income from a broad tenant base with low target gearing

Diverse
A portfolio covering assets from office, industrial and distribution to retail and a range of alternatives

Wolverhampton

> See page 22 for **Our portfolio**

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 2020*
6.65p

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.

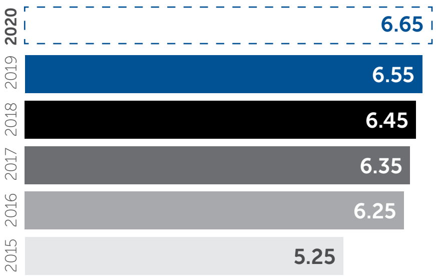
Financial highlights and performance summary

Return

Dividends per share[2]

6.55p

2018: 6.45p (+1.5%)



Dividend cover[5]*

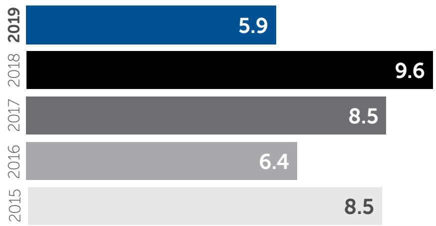
110.4%

2018: 105.5% (+4.9%)

NAV per share total return[3]*

5.9%

2018: 9.6% (-3.7%)

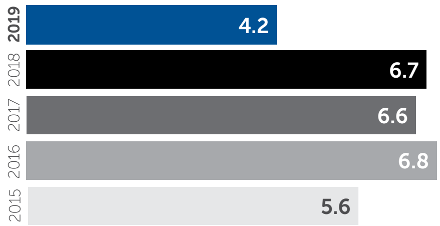


- EPRA[6] earnings per share[7]* of **7.3p** (2018: 6.9p)
- Basic and diluted earnings per share[8] of **6.0p** (2018: 8.9p)

Share price total return[4]*

4.2%

2018: 6.7% (-2.5%)



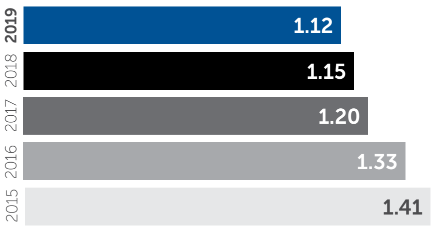
- Profit before tax down 27% to **£23.6m** (2018: £32.4m) primarily due to a £8.9m aggregate property valuation decrease[9]
- 2020 target dividend per share* increased 1.5% to **6.65p** (2019: 6.55p)

Costs

OCR excluding direct property expenses[10]*

1.12%

2018: 1.15% (-0.03%)



- Ongoing charges ratio[11]* ("OCR") of 1.53% (2018:1.37%).

2. Dividends paid and approved for the year.
3. Net Asset Value ("NAV") movement including dividends paid and approved for the year on shares in issue at 31 March 2018.
4. Share price movement including dividends paid and approved for the year.
5. Profit after tax, excluding net gains or losses on investment property, and one-off costs, divided by dividends paid and approved for the year.
6. The European Public Real Estate Association ("EPRA").
7. Profit after tax excluding net gains or losses on investment property and one-off costs divided by weighted average number of shares in issue.
8. Profit after tax divided by weighted average number of shares in issue.
9. Comprising £6.4m of valuation uplift from successful asset management initiatives less £11.9m of other valuation decreases and £3.4m of acquisition costs.
10. Expenses (excluding operating expenses of rental property) divided by average quarterly NAV.
11. Expenses (excluding operating expenses of rental property recharged to tenants) divided by average quarterly NAV.

STRATEGIC REPORT
Governance
Financial statements

Capital Values

NAV	NAV per share*	Portfolio value
£426.6m ↑	**107.1p** ↓	**£572.7m** ↑
2018: £415.2m (+2.7%)	2018: 107.3p (-0.2%)	2018: £528.9m (+8.3%)

- **£6.4m** property valuation uplift from successful asset management initiatives
- **£5.3m** property valuation decrease due to company voluntary arrangements
- **£4.3m** profit on disposal of three properties for an aggregate consideration of £15.4m

- Market capitalisation* increased to **£442.8m** (2018: £437.1m)
- **£13.4m**[12] of new equity raised at an average premium of 11% to dividend adjusted NAV*
- **£55.5m**[13] invested in 11 property acquisitions, £2.5m capital expenditure incurred primarily on one pre-let development and two significant refurbishments

- Share price* decreased to **111.2p** (2018: 113.0p)
- Net gearing[14]* increased to **24.1%** (2018: 21.0%)
- Premium to NAV per share decreased to **3.8%** (2018: 5.3%)

EPRA performance measures*	**2019**	2018	change
EPRA EPS (p)	**7.3**	6.9	+5.8%
EPRA NAV per share (p)	**107.1**	107.3	-0.2%
EPRA net initial yield ("NIY")	**6.2%**	6.1%	+0.1%
EPRA 'topped-up' NIY	**6.4%**	6.5%	-0.1%
EPRA vacancy rate	**4.1%**	3.5%	+0.6%
EPRA cost ratio (including direct vacancy costs)	**16.1%**	15.3%	+0.8%
EPRA cost ratio (excluding direct vacancy costs)	**14.5%**	14.6%	-0.1%
EPRA capital expenditure (£m)	**2.53**	2.50	+1.2%
EPRA like for like rental growth (£m)	**39.1**	34.1	+14.7%

*Alternative performance measures

The Company presents NAV per share total return, share price total return, dividend cover, target dividend per share, ongoing charges ratios, NAV per share, market capitalisation, new equity raised, share price, net gearing, premium to NAV per share and EPRA Best Practice Recommendations as alternative performance measures ("APMs") to assist stakeholders in assessing performance alongside the Company's results on a statutory basis.

APMs are among the key performance indicators used by the Board to assess the Company's performance and are used by research analysts covering the Company. EPRA Best Practice Recommendations have been disclosed to facilitate comparison with the Company's peers through consistent reporting of key real estate specific performance measures.

Certain other APMs may not be directly comparable with other companies' adjusted measures, and APMs are not intended to be a substitute for, or superior to, any IFRS measures of performance. Supporting calculations for APMs and reconciliations between APMs and their IFRS equivalents are set out in the Alternative performance measure workings section of the Annual Report.

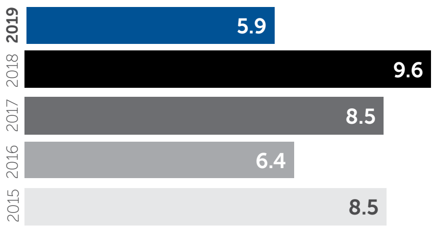
12. Before costs and expenses of £0.2m.
13. Before acquisition costs of £3.4m.
14. Gross borrowings less unrestricted cash, divided by portfolio value.

Chairman's statement

> Proactive asset management and rental growth are sustaining a fully covered dividend

David Hunter,
Independent Chairman

NAV per share total return (%)



Our objectives

- Attractive level of income with the potential for capital growth
- Sustainable, growing fully covered dividends
- Portfolio diversified by tenant, location and lease term
- Conservative net gearing level with long-term fixed-rate debt

I am pleased to report that five years since its initial public offering ("IPO") Custodian REIT is continuing to deliver on its objectives and performing for shareholders.

The Company's market capitalisation has grown from £132m to £443m through managing a portfolio of increasingly well diversified regional properties with a gross value that has increased from £95m at IPO to £573m. Since IPO the Company has successfully deployed new equity, reached target net gearing and grown dividends annually. While property market dynamics may have assisted performance through much of the last five years, we expect our focus on income to provide a stable platform to deliver positive shareholder returns in the future.

The chart above illustrates how the Company has delivered strong NAV per share total returns through its first five years. The commitment to delivering income from well-located properties predominantly let to institutional grade tenants has underpinned returns with income accounting for 78% of NAV per share total return over the last five years. The recent turmoil in the High Street has underscored the importance of having a well-diversified, income focused portfolio that can perform even when valuations are under pressure in certain sectors.

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. These economies of scale and a continued focus on controlling costs have reduced the ongoing charges ratio (excluding direct property expenses) from 1.41% during the financial year ended 31 March 2015 to 1.12% in the financial year ended 31 March 2019, demonstrating the benefits to shareholders of scale and growth.
The Company pays one of the highest fully covered dividends amongst its peer group of listed property investment companies[15].

During a period of further growth we have mitigated the impact from 'cash drag' following the issue of new shares by taking advantage of the flexibility offered by the Company's revolving credit facility ("RCF"). Total funds available under the RCF were increased from £35.0m to £45.0m in January 2019 for six months to provide further flexibility to exploit potential acquisition opportunities. The Board expects the RCF facility to be permanently increased to £45m later this year.

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

While we have taken a cautious approach to investment through the year, I am pleased to report that £58m has been invested across 11 acquisitions, the completion of one pre-let development and two significant refurbishments, funded principally by £13.4m raised from the issue of new shares and through the Company's existing debt facilities. The new acquisitions reflected an average net initial yield[16] ("NIY") of 6.8%. The Company continues to maintain a diverse portfolio strategy, allowing enough flexibility to make contra-cyclical investments where appropriate but always with a strong focus on acquiring assets that support our dividend policy. We believe a well-defined investment strategy that offers secure income and focuses on long-term goals and deliverable targets will provide considerable protection to shareholders from market volatility.

The prompt deployment of cash coupled with the flexibility of the RCF and the proactive asset management of the portfolio to secure rental growth have allowed us to increase the target dividend[17] for the fifth year running.
The target dividend for the year ending 31 March 2020 is proposed to be increased by 1.5% to 6.65p per share. 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.

15. Source: Numis Securities Limited.
16. Passing rent divided by valuation plus assumed purchaser's costs.
17. 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.

Net asset value

The NAV of the Company at 31 March 2019 was £426.6m, approximately 107.1p per share, a decrease of 0.2p (0.2%) since 31 March 2018:

	Pence per share	£m
NAV at 31 March 2018	107.3	415.2
Issue of equity in the year (net of costs)	0.3	13.2
	107.6	428.4
Valuation movements relating to:		
• Asset management activity	1.6	6.4
• Other valuation movements	(3.0)	(11.9)
Gross valuation decrease	(1.4)	(5.5)
Impact of acquisition costs	(0.9)	(3.4)
Net valuation decrease	(2.3)	(8.9)
Profit on disposal of investment property	1.1	4.3
Net loss on investment property	(1.2)	(4.6)
Revenue	10.0	40.0
Expenses and net finance costs	(2.9)	(11.7)
Dividends paid[18]	(6.4)	(25.5)
NAV at 31 March 2019	**107.1**	**426.6**

18. Dividends totalling 6.525p per share (1.6125p relating to the prior year and 4.9125p relating to the year) were paid on shares in issue throughout the year. Dividends paid on shares in issue at the year end averaged 6.4p per share due to new shares being issued after the first ex-dividend date.

Sheffield

» See page 22 for **Our portfolio**

Chairman's statement continued

The Company delivered NAV per share total return of 5.9% for the year despite continued new investment. The initial costs (primarily stamp duty) of investing £55.5m across 11 property acquisitions diluted NAV total return by £3.4m (0.9p per share), partly offset by raising £13.2m of new equity (net of costs) at an average 11% premium to dividend adjusted NAV which added 0.4p per share[19] and fully covered the cost of raising and deploying the proceeds.

The Company experienced a £5.3m valuation decrease due to company voluntary arrangements ("CVAs"), an application of insolvency law intended to be used by companies in difficulty to enforce a reduction in current and prospective liabilities, typically involving continuing to trade from leased properties at lower rents to avoid administration or insolvency. The CVAs of Homebase, Office Outlet (formerly Staples), Paperchase and Carpetright impacted the Company's units in Leighton Buzzard, Milton Keynes, Shrewsbury and Grantham respectively, resulting in contractual rent reductions of £485k. Since the year end, a further CVA has been proposed by Cotswold Outdoor, potentially reducing our Shrewsbury store's rent by £75k. In each CVA during the year the Company retained the right to terminate the lease at short notice and consistent with our asset selection strategy we believe all assets would appeal to a broad range of alternative tenants should the incumbent vacate.

I am pleased to say that the £5.3m valuation decrease due to CVAs was more than outweighed by a £6.4m valuation uplift from pro-active asset management.

Share price

Consistent demand for the Company's shares led to the share price showing a relatively stable premium to NAV through the year as illustrated below.

Custodian REIT's shares have continued to trade at a premium to NAV while many in its direct peer group have moved to a discount. The premium undoubtedly reflects the relatively high dividend yield coupled with a diverse, regional property strategy. However we believe that investors are increasingly recognising that a property investment company's share price also should be based on earnings potential rather than just NAV related metrics. We believe the Company's share price reflects investor awareness of the merits of diversification of tenant, lease expiry profile, spread of asset type, net gearing level, debt profile and property location, and the ability of the management team to generate future income from the assets.

The share price performance has been combined with a steadily increasing level of liquidity which now sees Custodian REIT recording an average daily trading volume of over £500k over the last 12 months.[20] This liquidity, combined with share issuance, has done much to help price stability and diminish volatility.

The Company enjoys the support of a wide range of shareholders with the majority classified as private client or discretionary wealth management investors. The Company's investment and dividend strategy is well suited to investors looking for a close proxy to direct real estate investment but in a managed and liquid structure. The structure of our shareholder base has, in turn, helped to reduce volatility as our shareholders are typically long-term holders looking for stable dividend-driven returns.

Authority to place new ordinary shares

At last year's Annual General Meeting ("AGM") held on 19 July 2018, 6.7% of eligible shareholders voted to limit the authority to issue new ordinary shares with pre-emption rights disapplied to a maximum of 10% of the Company's issued ordinary share capital ("Limit"). The Board had proposed a Limit of 20%, comprising two 10% tranches, in line with the 2017 changes to the EU Prospectus Directive which increased the maximum proportion of share capital from 10% to 20% that can be issued over a 12-month period on a non-pre-emptive basis before a company is required to publish a prospectus. Due to low voter turnout, this 6.7% represented 47.4% of votes cast and the Resolution (requiring 75% support) failed to pass.

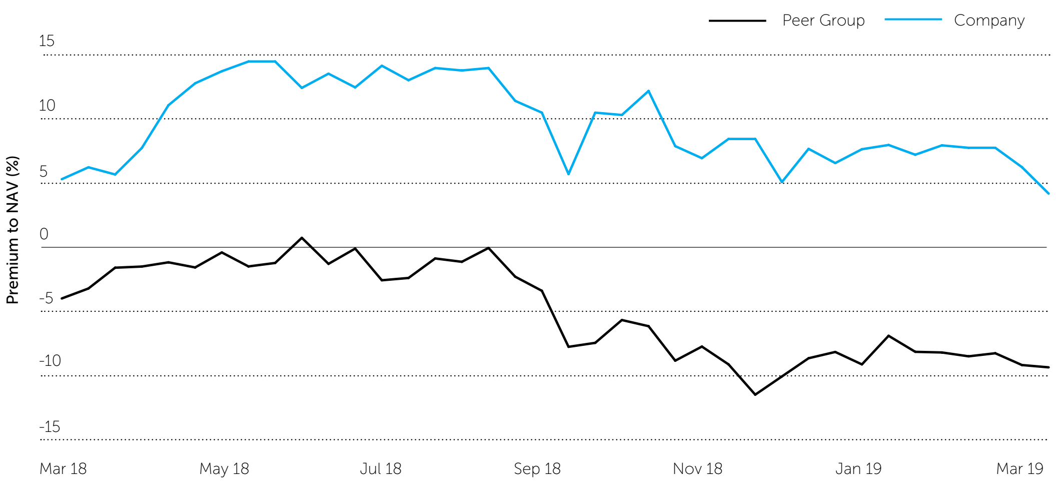
The Pre-Emption Group's Statement of Principles on Disapplying Pre-emption Rights continues to support a Limit of 10% but, in the Board's opinion, a Limit of 20% is justified to continue a programme of tap issuance allowing the Company to fund suitable property acquisitions in a cost-efficient manner by avoiding the significant costs of publishing a prospectus.

The Board believes that growing the Company efficiently through NAV accretive issuance is in the best interests of all shareholders as it reduces ongoing charges, diversifies income and increases share liquidity, and will request approval once again for a 20% Limit at the 2019 AGM.

Based on feedback from shareholders since the 2018 AGM, the Board will request approval for a 20% Limit at the 2019 AGM.

19. 0.3p per share through new issuance at a premium to NAV plus 0.1p per share notional dividend saving due to new shares being issued after the year's first ex-dividend date.
20. Numis Securities Limited.

Premium to NAV



Peers: FCPT, FCRE, PCTN, SREI, SLI, UKCM, EPIC

Borrowings
The Company's property investment activity has increased LTV from 21.0% at the start of the year to 24.1% at the year end, which contributed to an increase in dividend cover, demonstrating the benefits of prudent leverage. 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 secure further reductions in the OCR; 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 weighted average cost of the Company's agreed debt facilities at 31 March 2019 was 3.2% (2018: 3.1%) with a WAM of 7.9 years (2018: 9.1 years) and 72% (2018: 77%) of the Company's agreed debt facilities are now at fixed rates. This high proportion of fixed rate debt significantly mitigates interest rate risk for the Company and provides shareholders with a beneficial margin between the fixed cost of debt and income returns from the portfolio.

Investment Manager
Custodian Capital Limited ("the Investment Manager") is appointed under an investment management agreement ("IMA") expiring on 31 May 2020 to provide property management and administrative services to the Company. The performance of the Investment Manager is reviewed each year by the Management Engagement Committee ("MEC").

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

Dividends
Income is a major component of total return. The Company paid aggregate dividends of 6.525p per share during the year, comprising the fourth interim dividend of 1.6125p per share relating to the year ended 31 March 2018 and three interim dividends of 1.6375p per share relating to the year ended 31 March 2019.

The Company paid an interim dividend of 1.6375p per share for the quarter ended 31 March 2019 on 31 May 2019 totalling £6.5m, meeting the Company's target of paying a total dividend relating to the year of 6.55p per share (2018: 6.45p), totalling £25.8m. Dividends relating to the year ended 31 March 2019 were 110.4% covered by net recurring income of £28.5m, as calculated in the Alternative performance measure workings section of the Annual Report.

In the absence of unforeseen circumstances, the Board intends to pay quarterly interim dividends to achieve a target dividend of 6.65p per share for the year ending 31 March 2020.

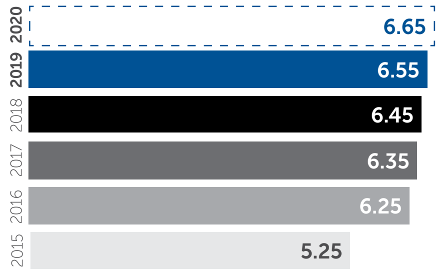
Board composition
Reflecting the growth of the Company since inception, the Nominations Committee is currently recruiting an additional Non-Executive Director with the skills and experience to complement the existing Directors and offer scope to add value to the Company, with due regard for the benefits of diversity on the Board.

Outlook
In common with many participants in the UK property market the Company has been cautious in relation to investment during the first quarter of 2019, following a period of much reduced activity in 2018, primarily due to market pricing exceeding our expectations of value and there being limited opportunities in our target sectors. At 31 March 2019 the Company had £21m of agreed, yet undrawn, debt facilities to allow for opportunistic acquisitions when market conditions allow.

Sentiment in the UK property market has moved quite quickly since the September 2018 Interim Report, most notably against retail, where the few transactions which have taken place reflect the difficulties faced by many retailers and demonstrate lower rental and capital values. We cannot rule out further falls in confidence in the property market from general economic or political turbulence, including the uncertain impact of the UK leaving the European Union ("Brexit"), the impact of which is discussed in the Investment Manager's report. However it is important to remember we are operating in a low return environment. The current arbitrage between property equivalent yields and 10 year gilts is still greater than 4.5%, well ahead of the 20 year average. We expect the UK market, even in a period of nervousness, will continue to provide the Company with opportunities to enhance shareholder value through further investment and active asset management, subject to adhering to disciplined investment criteria rooted in occupational market dynamics.

David Hunter
Independent Chairman
5 June 2019

Dividends per share (p)



Investment Manager's report

An average increase of 11% at rent review added £0.7m to the rent roll

Richard Shepherd-Cross,
Investment Manager

Operational highlights

- Custodian REIT is well positioned to weather the current political uncertainty and difficult High Street retail market
- Dividend cover increased to 110% through the deployment of debt facilities on new acquisitions to achieve target gearing
- Proactive asset management increased the portfolio valuation by £6.4m, partially offset by the impact of CVAs
- 36 lease events added a net £680k to the rent roll

The UK property market

The property market in the year ended 31 March 2019 has been marked by two significant issues: the continued debate around Brexit and the fortunes of retail.

No discussion of the performance of UK commercial property over the last financial year can ignore the negative impact of these issues, notwithstanding the positive total shareholder returns delivered by the Company over the year.

Overall, investor sentiment towards UK commercial property has been positive and in certain sectors remains so. This sentiment has supported valuations through the year but has put ever more emphasis on good quality income as the principal driver of total returns. Those factors have played well with Custodian REIT's investment strategy which has focused on income and maintaining a diversified portfolio that has proved to be robust in the face of falling retail rents and values, CVAs and Brexit uncertainty.

In the early part of 2018 investors were active in deploying new monies into commercial property and valuations were edging forwards in a market characterised by a lack of supply and healthy demand. The most active demand was for logistics and long income, but office and alternative sectors were also popular. However, a noticeable change in sentiment towards property investment was revealed by late November 2018, which coincided with a significant disinvestment well reported in the press by asset managers across other asset classes. Many investors paused in the expectation that the UK Parliament's "Meaningful Vote" on the Brexit Withdrawal Agreement would deliver some political clarity. However the ongoing lack of clarity surrounding Brexit is having an impact on confidence now and potentially for some time to come, causing many investment decisions to be put on hold.

Recent statistics reported by JLL's UK capital market research indicate that investors are adopting a 'wait and see' approach, suggesting investment activity is down 15% in Q1 2019, equating to nearly £2bn as investors reflect on the political and economic uncertainties. However, it is understood there is a significant weight of capital still targeting UK commercial property. Investors appear to want to see prices fall before they commit but, with vendors not motivated to sell at below recent valuations, this caution is contributing to low investment volumes.

There are a number of events that might change the prevailing market, the first of which could be a conclusion on Brexit, with the removal of uncertainty allowing investors to focus on economic prospects.

By contrast, continued political uncertainty unbalancing the economy could lead to a repeat of the redemptions experienced by open-ended property funds in the wake of the EU referendum in the summer of 2016. While there have been net outflows from these funds over recent months, a recent turnaround to net inflows suggests this is not an imminent danger. Nevertheless, fund managers are bolstering their cash reserves with selective sales but not at sufficiently reduced prices to tempt investors back in meaningful volumes.

A third issue could be a further deterioration in the retail trade and retail investment values, leading to a general decline in sentiment across other sectors.

The concerns for retail, while present in March 2018, really took hold in the autumn of 2018 and have deepened in 2019. This time last year we reported that we had seen some weakness in secondary retail locations and that we expected to experience some rental reductions at lease expiry. We also noted the aggressive use of CVAs by retailers keen to step away from their lease obligations or to reduce rents.

CVAs are now becoming so commonplace that even profitable retailers are consulting on whether they can put their businesses through a CVA.

While the market was aware that changing shopping habits coupled with over-leveraged retailers which had failed to adapt to modern shopping trends would have an impact on rents and values, most commentators have been surprised by the speed and depth of the impact, particularly on rents. CVAs aside, recent lease renewals and new lettings have demonstrated that retailers are no longer prepared to pay rents at prevailing levels. Many retailers are taking an aggressive position in their negotiations, particularly in secondary High Street locations. Sometimes retailers are prepared to offer landlords a choice between much lower rents and flexible lease terms or a vacant store.

It is acknowledged that the UK has too many shops and retailers are actively reducing the size of their store portfolios, albeit acknowledging that physical stores remain a very important part of their sales proposition and a key interface with the customer. This reduction in store portfolios is not all about online retailing, although online is clearly having a real impact. The UK is one of the most advanced online shopping nations in Europe, with 2018 online sales accounting for 18%[21] of all retail sales. Forecasts of 30% plus online sales do not seem unrealistic, although the adoption of online retailing varies from sector to sector. The supermarkets were early adopters of online retailing, but it is reported that the proportion of people grocery shopping online has fallen from 49% to 45% since 2016.[22] Shopping habits have evolved so, while superstores are still important for big basket shops and for dealing with local online demand, there has been huge growth in top-up shopping from smaller local convenience stores. There is an important lesson for all retailers: as shopping habits evolve, retailers need to be flexible enough to meet those changing requirements and therefore landlords may need to accept that retailers will need greater flexibility.

21. Source: Office for National Statistics.
22. Source: Thisismoney.com.

“Occupational demand driving rental growth”

Derby

» See page 22 for **Our portfolio**

Investment Manager's report continued

Multi-channel is proving to be the right answer for most retailers. Advances in, and the innovative use of, technology are allowing retailers to make the best use of their store portfolio as online distribution hubs as well as a traditional store, and the Company's out-of-town retail portfolio, with ease of access and good car parking, is well aligned to this strategy. Some retailers have identified that their physical stores have a positive impact on online sales in the locality as shoppers have both brand awareness and the ability to 'showroom' and deal easily with returns.

Retail is an unfolding story but the short-term impact on retail property investment is being felt keenly by investors. The long-term picture for retail is likely to be polarised. Prime and good secondary locations will remain popular with retailers and investors alike, although rents may need to adjust further downwards. Poor secondary locations may need to consider re-purposing former retail units into residential, leisure or other uses.

Issues in the retail market have resulted in a swift downgrade of retail valuations, driven both by falling rental values and weakening investment yields reflecting the increased risk forecast by investors. Custodian REIT has not been immune from this impact. On a like-for-like basis the Company's high street retail portfolio has witnessed a £7.9m (11%) reduction in value. Some of this negative movement may be recovered following the conclusion of lease re-negotiations which are underway or under consideration, although we cannot rule out further falls in confidence in the property market from general economic or political turbulence.

However, this reduction in value has been more than offset by the strong performance of the industrial and logistics portfolio which increased in value by £11.5m, underscoring the strength of a diversified strategy. Despite many negative predictions for the UK economy in the face of Brexit uncertainty, to date the economy has defied the sceptics. GDP continues to grow and unemployment is at a 44 year low. Both of these indicators are positive for commercial property and the occupational market.

Across all regions of the UK the industrial and logistics sector is delivering new buildings to the market. For "big box" (100,000 sq ft plus) we have witnessed an increase in speculative development as developers try to capture demand and the relative lack of supply. During 2018, up to 50% of UK big box was developed speculatively[23] and it was e-commerce, food and 'other retailers' who dominated the new lettings.

After five years of focus on big box logistics the market has identified the lack of supply of smaller buildings and, for the first time in recent years, we have started to see development focused on this sector. One area of the letting market that has not fully matured is urban logistics. Meeting the challenge of online sales fulfillment is going to see demand for in-town or suburban logistics buildings. At present such buildings are in short supply as rental levels are not high enough to bring forward new development, but the potential for rental growth in this sub-sector is very real. The Company is well positioned to take advantage of this rental growth with 19% of its assets in the industrial/logistics sub-sector which continues to be a target for selective acquisitions.

Lease events settled in the year

Sector	No. of lease events settled in the year	Impact on rent roll £m	Simple average
Industrial	16	0.46	12.8%
Retail warehouse	1	(0.01)	(12.0%)
High street retail	5	(0.03)	(7.9%)
Office	5	0.06	22.1%
Other	9	0.18	10.2%
	36	**0.68**	**10.5%**

The good news is not restricted to industrial/logistics. Regional office markets have also performed well. Again it is lack of supply combined with strength in regional economies that has driven this growth and the pipeline of new development continues to look restricted. New office lettings across all regional markets were 19%[24] above the five year average through 2018. Notwithstanding this, longer periods of vacancy remain commonplace in some office markets.

The Company has experienced a marginal increase in vacancy rate from 3.5% to 4.1% which we would still regard as within normal levels for a mature portfolio. However, we have prospective tenants in advanced negotiations to take some of the vacant space and we are taking the opportunity to improve the quality of vacant buildings with office and industrial refurbishments underway in Glasgow and Warrington respectively.

The table below illustrates the Company's rent reviews, new leases, lease renewals and re-gears settled in the year.

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 are delighted to have continued to achieve these objectives, with earnings providing 110.4% cover of the total dividend relating to the year of 6.55p per share, with a net gearing ratio of 24.1% at the year end.

We continue to consider new investment opportunities with the aim of utilising the Company's undrawn debt facilities to maintain net gearing at the target 25% LTV. At the current cost of debt, we believe this strategy can improve dividend cover.

The Board remains committed to a strategy principally focused on sub £10m lot size regional property. In the Company's retail portfolio we expect to maximise potential cash flow by taking a flexible approach to retailers' requirements, retaining tenants wherever possible and making targeted disposals. Across the rest of the portfolio we expect to see positive asset management performance as we secure rental increases and extend contractual income.

23. Source: CBRE.
24. Source: CBRE.

Portfolio balance

The portfolio is split between the main commercial property sectors, in line with the Company's objective to maintain a suitably balanced investment portfolio, with a relatively low exposure to office and high street retail combined with 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 (ie where the vacant possession value is closer to the investment value than in other sectors) and where the real estate is less exposed to obsolescence. £5.4m of the £11.5m valuation increase (before acquisition costs) in the industrial sector was driven by asset management initiatives, with occupational demand driving rental growth and generating positive returns.

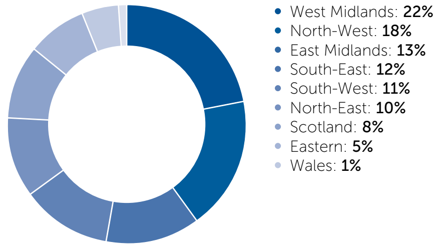
There is continued weakness in secondary high street retail locations, with rental levels still under pressure and a very real threat of vacancy. We will continue to rebalance the portfolio to focus on strong high street retail locations while working on an orderly disposal of those assets we believe are ex-growth. We believe retail warehousing, in strong locations, will remain in demand by retailers. These stores benefit from free car parking for customers and easy loading and servicing for retailers. These factors should make the stores complementary to online shopping: easy for customer returns and suitable to use as urban logistics hubs for the retailers.

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 includes the motor trade and 'casual dining' sectors, both of which have been much in the news. The motor trade has suffered from falling sales over the last two years. New car sales have dipped from an all-time high in 2017, with the confusion over the future use of diesel fuel being cited as a principal factor. New diesel car sales are down 21%[25] but petrol and alternative fuel cars are up 5% and 7.5% respectively. We are watching this position closely but with over 30m cars in the UK[26], we still believe there is a place for motor trade properties for new sales, used car trading and servicing. The Company's eight car dealerships also typically have low site coverage and affordable net rents, supporting valuations if alternative uses are required. The 'casual dining' sector has witnessed a number of recent CVAs and a slowing of the growth of many chain operators. However, there is still interest in artisan food and eating out remains popular so a selective approach can still yield investment opportunities.

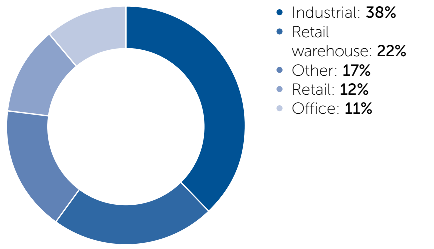
Office rents in regional markets are growing and supply remains constrained by a lack of development, with the extensive conversion of secondary offices to residential making returns very attractive. However, we are conscious that obsolescence and lease incentives can be a real cost of office ownership which can hit cash flow and be at odds with the Company's relatively high target dividend. While we are experiencing rental growth in our office portfolio, we remain a cautious investor but open to opportunities that offer the potential rental growth.

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

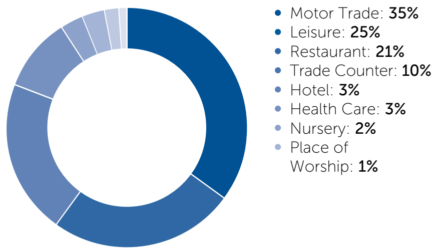
Regional split



Sector split



Other sub-sector split



25. Source: The Society of Motor Manufacturers & Traders ("SMMT").
26. Source: SMMT.
27. Current passing rent plus ERV of vacant properties.
28. Includes car showrooms, petrol filling stations, children's day nurseries, restaurants, health and fitness units, hotels and healthcare centres.

Portfolio balance

Sector	**Valuation 31 March 2019 £m**	**Weighting by income[27] 31 March 2019**	Valuation 31 March 2018 £m	Weighting by income 31 March 2018	Valuation movement before acquisition costs £m	Valuation movement including acquisition costs £m	**Weighting by value 31 March 2019**	Weighting by value 31 March 2018
Industrial	**224.3**	**38%**	209.8	39%	11.5	11.0	**39%**	40%
Retail warehouse	**123.4**	**22%**	107.5	20%	(7.7)	(9.3)	**21%**	20%
Other[28]	**95.7**	**17%**	80.4	15%	(1.2)	(2.2)	**17%**	15%
High street retail	**68.6**	**12%**	75.3	14%	(7.9)	(8.0)	**12%**	14%
Office	**60.7**	**11%**	55.9	12%	(0.2)	(0.4)	**11%**	11%
Total	**572.7**	**100%**	528.9	100%	(5.5)	(8.9)	**100%**	100%

Investment Manager's report continued

WAULT

At 31 March 2019 the portfolio's weighted average unexpired lease term to first break or expiry ("WAULT") was 5.6 years (2018: 5.9 years) with the completion of asset management initiatives substantially offsetting the natural one year decline due to the passage of time.

Disposals

Owning the right properties at the right time is one key element of effective portfolio management, which necessarily involves periodically selling some properties 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 year for a total of £15.4m, realising a profit on disposal of £4.3m at an aggregate NIY of 4.1%, with gross proceeds circa 40% ahead of aggregate valuation:

- An industrial unit in Southwark sold 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 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 sold for £2.25m, in line with valuation, as we did not anticipate future rental growth; and
- A town centre retail unit in Dumfries sold for £1.125m, in line with valuation, as we did not anticipate future rental growth.

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

Acquisitions

We were delighted to make the 11 acquisitions shown below which have contributed to strengthening the portfolio profile in terms of diversification of tenant, sector and lease break/expiry, and which enhanced the portfolio's rental growth potential.

Location	Sector	Tenant	WAULT (Years)	NIY	Agreed purchase price (£m)
Evesham	Retail warehouse	Next, M&S, Boots, Argos and Poundstretcher	6.8	6.00%	14.2
Weymouth	Retail warehouse	B&Q, Halfords and Sports Direct	7.8	6.97%	10.8
Hilton	Industrial	Daher Aerospace	3.0	6.72%	5.6
Stafford	Other	VW Group UK	6.4	6.29%	4.6
Lincoln	Other	Total Fitness Health Clubs	17.1	7.64%	4.3
Bellshill	Industrial	Yodel	2.3	6.94%	3.7
Sheffield	Office	Secretary of State for Communities	1.8	9.79%	3.6
Shrewsbury	Other	VW Group UK	6.4	6.58%	2.8
Loughborough	Other	Listers	10.0	6.37%	2.4
Stratford	High street retail	Foxtons and Universal Church of the Kingdom of God	8.6	6.78%	2.1
Shrewsbury	Other	TJ Vickers	7.2	6.75%	1.7
				6.8%	55.8[29]

29. Agreed purchase price before rent-free top-ups of £0.3m and acquisition costs of £3.4m.

Lincoln

1 Teleperformance

2 ICT Express

Investment Manager's report continued


3 Revlon


4 Next


5 MTS Logistics


6 Age Scotland


7 Synergy Health

Asset management

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 £6.4m valuation increase in the year. Key asset management initiatives completed during the year include:

1. 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;
2. 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;
3. Agreeing a new 10 year reversionary lease with Revlon International Corporation for an industrial unit in Stone, increasing the annual rent by 24% and the valuation by £0.7m;
4. Agreeing a new 10 year lease with Next plc for an industrial unit on Eurocentral in Scotland, with annual rent increasing by 10%, which increased the valuation by £0.6m;
5. Extending the lease with MTS Logistics for an industrial unit in Coalville, with annual rent increasing by 30%, which increased valuation by £0.4m;
6. Agreeing a new 10 year lease with Age Scotland at Causewayside House, Edinburgh where the tenant expanded its letting to take the whole first floor office suite, increasing the annual rent by 44% and the valuation by £0.4m;
7. 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;
8. Documenting a 10 year reversionary lease with Synertec at Leacroft Road, Warrington, extending the lease expiry from July 2022 to July 2032 and increasing the valuation by £0.2m;
9. Letting a unit on a retail park in Carlisle to The Gym Group on a 15 year lease without break, which increased the valuation by £0.1m; and
10. Agreeing a new lease for additional external seating with Chokdee Limited (t/a Giggling Squid) at a restaurant in Bath, increasing the annual rent by 12% and the valuation by £0.1m.

8 Synertec

9 The Gym Group

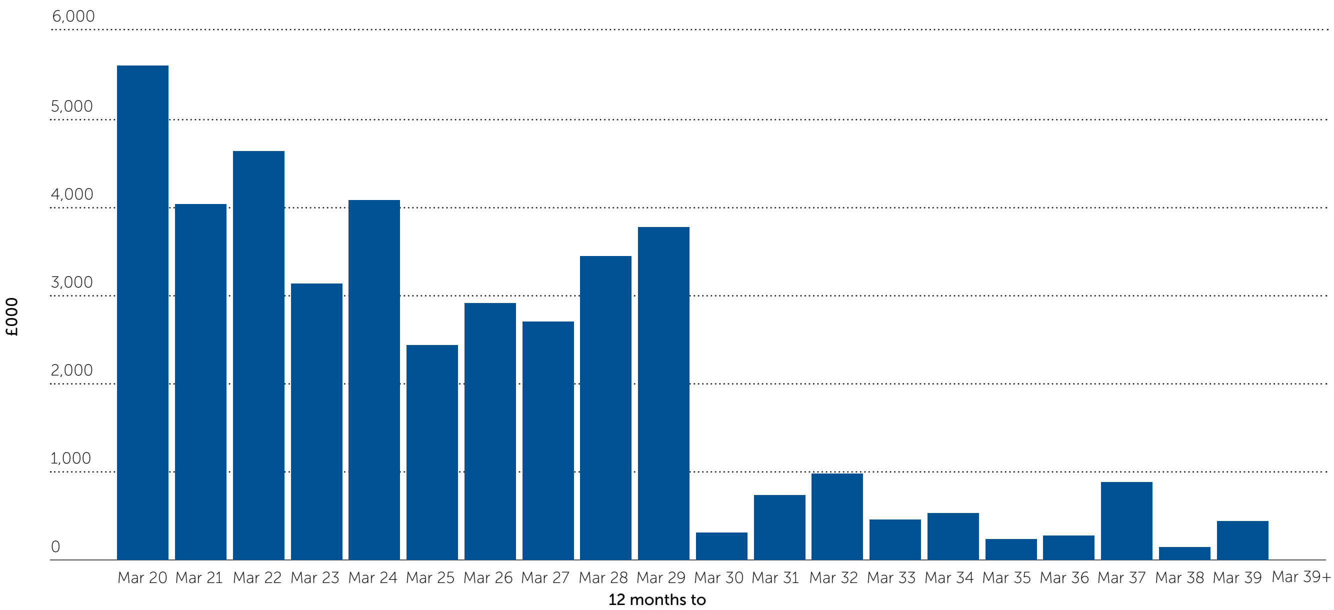
10 Chokdee

The positive impact of growth in rents and active asset management outcomes in the year ended 31 March 2019 was tempered by the following events which contributed a £6.2m reduction to the portfolio valuation:

- The CVA of Homebase resulted in the Company experiencing a £183k (35%) annual rent reduction at its Leighton Buzzard unit, which decreased the valuation by £2.9m;
- 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 to £209k, which decreased the valuation by £1.7m. Office Outlet subsequently went into administration but continues to trade from the unit;
- The CVA of Paperchase resulted in a £68k (45%) annual rent reduction at the Company's Shrewsbury unit, which decreased the valuation by £0.4m;
- The CVA of Carpetright resulted in a £25k (25%) annual rent reduction at the Company's Grantham unit, which decreased the valuation by £0.3m; and
- 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, which decreased the valuation by £0.9m.

Rental increases on rent reviews, new lettings and re-gears with a simple average of 4% have been secured across 15 properties since the year end, illustrating that rental growth continues. Further asset management initiatives are expected to complete over the coming months including new lettings, lease renewals, rent reviews and lease re-gears.

Lease expiry profile

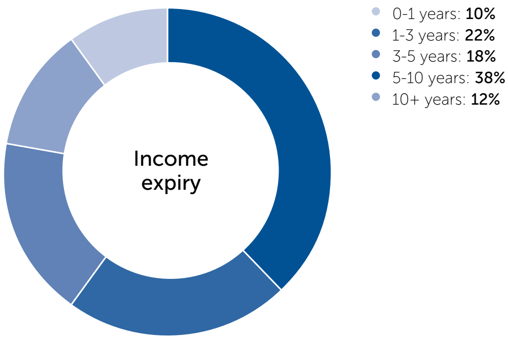


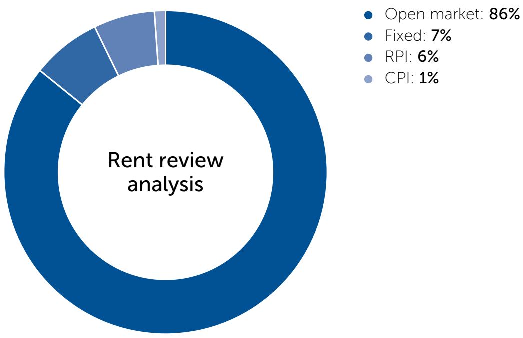
Investment Manager's report continued

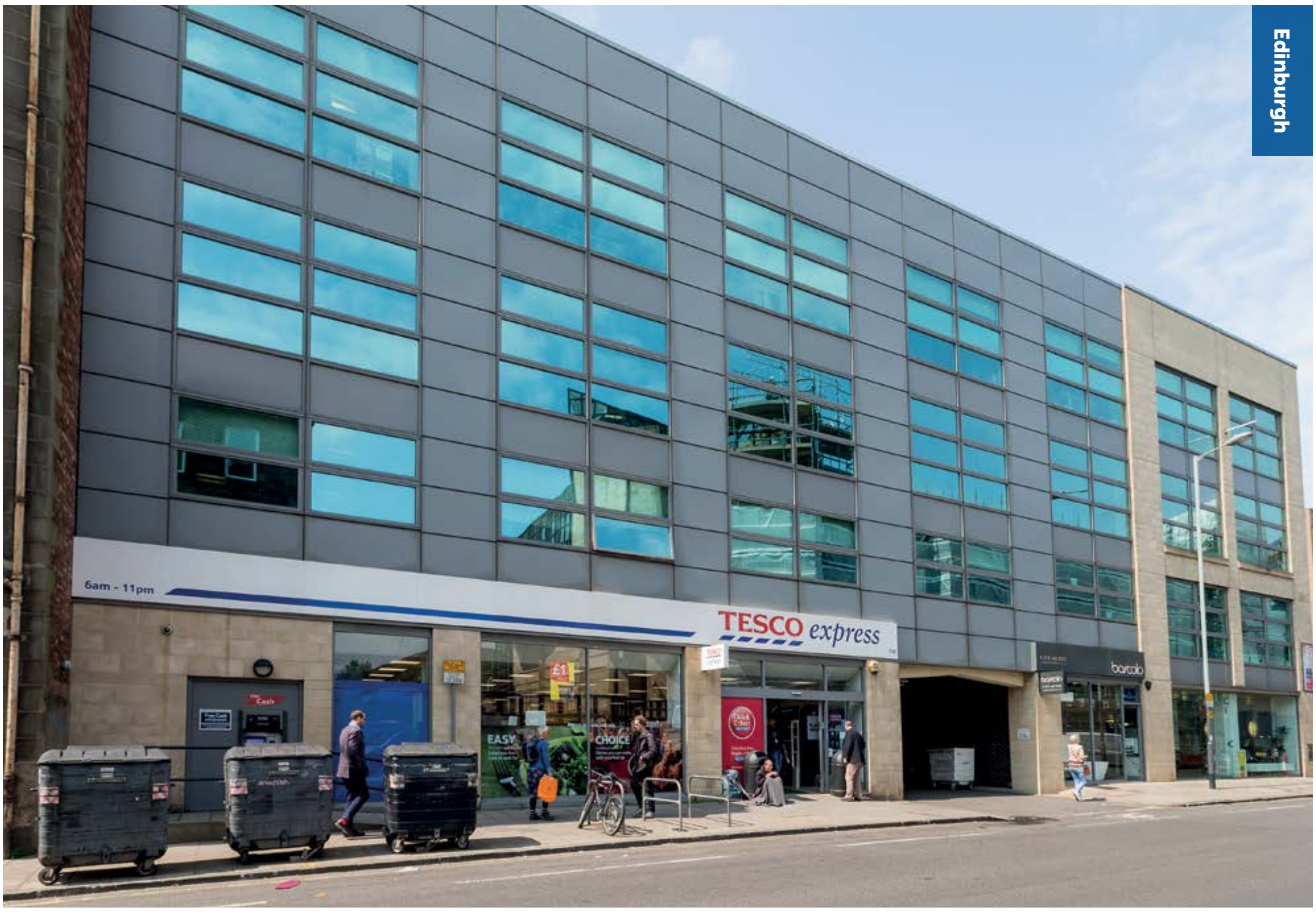
Portfolio risk

We have managed the portfolio's income expiry profile through successful asset management activities with only 50% of aggregate income expiring within five years at 31 March 2019 (2018: 48%). Short-term income at risk is a relatively low proportion of the portfolio's income, with only 32% expiring in the next three years (2018: 28%) and our experience suggests that even in the current uncertain climate, the majority of tenants do not exit at break or expiry.

Aggregate income expiry	**31 March 2019**	31 March 2018
0-1 years	**10%**	8%
1-3 years	**22%**	20%
3-5 years	**18%**	20%
5-10 years	**38%**	36%
10+ years	**12%**	16%
Total	**100%**	100%







Outlook
Custodian REIT's performance over our first five years has demonstrated that income can be the principal driver of total return and we believe this is likely to be ever more important in the year ahead. Asset management aimed at extending contractual income and enhancing rents where possible, while ensuring the underlying real estate remains fit for purpose and aligned with market demand, will remain fundamental to our management of Custodian REIT.

We expect that further turmoil amongst retailers in the year ahead will continue to impact all property investors with a retail component in the shape of increased vacancies and reduced rents and values. Custodian REIT is not immune although our mitigating efforts are explained earlier.

Despite the generally positive indicators in office and industrial markets, it seems clear that economic uncertainty will prevail until the Brexit situation is resolved and markets are able to assess the likely consequences, meaning maintaining occupancy levels and a diversified portfolio are an important and defensive strategy for Custodian REIT.

In the year ended 31 March 2019 new investment by the Company was some 50% below the previous year, largely reflecting limited opportunities and a cautious approach to sectors with more volatile prices. While we do not expect the flow of new opportunities to change imminently, we do expect market pricing to be better suited to Custodian REIT's investment strategy in the year ahead. One benefit of a nationwide, diverse investment strategy is the ability to take advantage of opportunities in all sub-sectors or sub-markets and we believe there may be the potential to make contra-cyclical acquisitions where short-term market weakness can unlock long-term value for the Company.

Richard Shepherd-Cross
for and on behalf of
Custodian Capital Limited
Investment Manager
5 June 2019

Diverse tenants

Industrial

> Read more on this portfolio sector on page 24

Tenant	Location	Income
Teleperformance	Ashby	1.3%
Assa Abloy	Wolverhampton	1.2%
Kings Road Tyres	Burton	1.2%
JTF Wholesale	Warrington	1.1%
Restore	Salford	1.1%
Daher Aerospace	Hilton	0.9%
H&M	Winsford	0.9%
Next	Eurocentral	0.9%
ICT Express	Tamworth	0.8%
Silgan Closures	Doncaster	0.8%
Amco Services	Redditch	0.8%
Yesss Electrical	Normanton	0.8%
Royal Mail	**Coventry**/Kilmarnock	0.8%
Revlon International	Stone	0.8%
Hydro Extrusions	Redditch	0.7%
Turpin Distribution	Biggleswade	0.7%
HellermannTyton	Cannock	0.7%
Massmould	Milton Keynes	0.7%
OyezStraker	West Bromwich	0.7%
Worthington Armstrong	Gateshead (Team Valley)	0.7%
Yodel	Bellshill	0.6%
DX Network Service	Nuneaton	0.6%
Saint-Gobain Building Distribution	Milton Keynes	0.6%
Sherwin-Williams	Plymouth	0.6%
Superdrug	Avonmouth	0.6%
Heywood Williams Components	Bedford	0.6%
BSS	Bristol	0.6%
Elma Electronics	**Bedford**	0.5%
Morrison Utility Services	**Stevenage**	0.5%
Cummins	**Daventry**	0.5%
A Share & Sons (t/a SCS)	Livingston	0.5%
Unilin Distribution	Manchester	0.5%
Sytner	Oldbury	0.5%
Vertiv Infrastructure	Bedford	0.5%
DHL Supply Chain	Aberdeen	0.5%
Interserve Project Services	Christchurch	0.5%
Brenntag	Cambuslang	0.5%
Procurri Europe	Warrington	0.5%
Dinex Exhausts	Warrington	0.4%
Semcon	Warwick	0.4%
Ichor Systems	Hamilton	0.4%
MTS Logistics	Coalville	0.4%
West Midlands Ambulance Service NHS Trust	Erdington	0.4%
Warburtons	Langley Mill	0.4%
Northern Commercials	Irlam	0.4%
389Log	Gateshead	0.4%
VP Packaging	Kettering	0.4%
Bunzl	Castleford	0.3%
Synergy Health	Sheffield Parkway	0.3%
DHL International	Speke	0.3%
Triumph Structures	Farnborough	0.3%
Powder Systems	Speke	0.3%
WHP Engineering	Gateshead	0.3%
Aqualisa Products	Westerham	0.3%
Sealed Air	Kettering	0.3%
North Warwickshire Borough Council	Atherstone	0.3%
Arkote	Sheffield	0.3%
PHS	Huntingdon	0.3%
Synertec	Warrington	0.3%
Acorn Web Offset	Normanton	0.3%
DHL Global Forwarding	Glasgow	0.2%
Sovereign Air Movement	Leeds	0.2%
Boots	Gateshead	0.2%
Rapid Vehicle Repairs	Kettering	0.2%
Rexel	Gateshead	0.1%
The Human Office	Gateshead	0.1%
Equinox Aromas	Kettering	0.1%
Nital Training Academy	Kettering	0.1%
River Island	Sheffield	0.1%
Other smaller tenancies		0.1%
VACANT		1.4%

Bold denotes image below

Elma Electronics Bedford

Morrison Utility Services Stevenage

Royal Mail Coventry

Cummins Daventry

Retail warehouse

> Read more on this portfolio sector on page 36

Tenant	Location	Income
B&Q	Banbury/Galashiels/**Weymouth**	**3.3%**
B&M	**Ashton-under-Lyne**/Carlisle Plymouth/Swindon	**3.0%**
Wickes	**Burton**/Winnersh	**1.9%**
Matalan	**Leicester**	**1.2%**
Halfords	**Carlisle**/Sheldon/ Weymouth	**0.9%**
Homebase	Leighton Buzzard	**0.8%**
Go Outdoors	Swindon	**0.8%**
JB Global (t/a Oak Furniture Land)	Carlisle/ Plymouth	**0.7%**
Smyths Toys	Gloucester	**0.6%**
A Share & Sons (t/a SCS)	Plymouth	**0.6%**
M&S	Evesham	**0.6%**

Tenant	Location	Income
Poundstretcher	Evesham/Grantham	**0.5%**
Sainsburys	Torpoint	**0.5%**
Magnet	Gloucester/ Plymouth	**0.5%**
SUK Retail (t/a Staples)	Milton Keynes	**0.5%**
Pets at Home	Sheldon/**Winnersh**	**0.5%**
Boots	Evesham	**0.5%**
CDS (t/a)	Burton	**0.5%**
Argos	Evesham	**0.4%**
Next	Evesham	**0.4%**
Dreams	Sheldon	**0.4%**
TJ Morris (t/a Home Bargains)	Portishead	**0.4%**

Tenant	Location	Income
Laura Ashley	Grantham	**0.3%**
Iceland	Carlisle	**0.3%**
Sports Direct	Weymouth	**0.3%**
The Gym Group	Carlisle	**0.3%**
Possfund	Carlisle	**0.2%**
Poundland	Carlisle	**0.2%**
Carpetright	Grantham	**0.2%**
Majestic Wine	Portishead	**0.1%**
VACANT		**0.1%**

Bold denotes image below


Wickes Burton

Matalan Leicester

Halfords Carlisle


B&Q Weymouth


B&M Ashton-under-Lyne

Pets at Home Winnersh

Diverse tenants continued

Other

> Read more on this portfolio sector on page 42

Tenant	Location	Income
VW Group	**Derby**/Shrewsbury/Stafford	2.0%
Benham (Specialist Cars) (t/a Williams BMW and Mini)	**Stockport**	1.8%
Total Fitness	Lincoln	0.9%
Nuffield Health	**Stoke**	0.8%
MKM Buildings Supplies	Castleford/Lincoln	0.8%
Tai Pan Buffet Restaurants	Liverpool	0.7%
Co-Op	Gillingham	0.6%
Pizza Hut	Crewe/Leicester/**Watford**	0.6%
Magnet	Leicester	0.6%
Bannatyne Fitness	**Perth**	0.6%
Pendragon	York	0.6%
Travelodge	Portishead	0.5%
Liverpool Community Health NHS Trust	Liverpool	0.5%
Parkwood Health & Fitness	**Salisbury**	0.5%

Tenant	Location	Income
Listers Group	Loughborough	0.4%
Mecca Bingo	Crewe	0.4%
Honda Motor Europe	Redhill	0.3%
Chokdee (t/a Giggling Squid)	Bath	0.3%
Stonegate Pub Co	High Wycombe	0.3%
Bright Horizons Family Solutions	Basingstoke/Chesham	0.3%
Starbucks	Maypole	0.3%
TJ Vickers & Sons	Shrewsbury	0.3%
Mecca Bingo (sublet to Odeon Cinemas)	Crewe	0.3%
Las Iguanas	Torquay	0.3%
The Restaurant Group (t/a Frankie & Benny's)	Perth	0.2%
Azzurri Restaurants (t/a ASK)	Shrewsbury	0.2%
Le Bistrot Pierre	Torquay	0.2%
McDonald's	Plymouth	0.2%

Tenant	Location	Income
Scotco Eastern (t/a KFC)	Perth	0.2%
JD Wetherspoon	Portishead	0.2%
Multi Tile (t/a Tile Giant)	Crewe	0.2%
Loungers	Torquay	0.1%
The Universal Church of the Kingdom of God	Stratford	0.1%
Knutsford Day Nursery	Knutsford	0.1%
F1 Autocentres	Crewe	0.1%
Sam's Club (t/a House of the Rising Sun)	Shrewsbury	0.1%
Edmundson Electrical	Crewe	0.1%
Jurassic Coast Coffee (t/a Costa Coffee)	Torquay	0.1%
Autoclenz	Crewe	0.1%
Clydesdale Bank	Liverpool	0.1%
VACANT		0.1%

Bold denotes image below


VW Group Derby

Pizza Hut Watford


Benham (Specialist Cars) Stockport


Nuffield Health Stoke


Bannatyne Fitness Perth

Parkwood Health & Fitness Salisbury

Retail

> Read more on this portfolio sector on page 50

Tenant	Location	Income
Superdrug	Southsea/ Worcester/ Weston-super-Mare/	1.3%
Specsavers	Cardiff/Norwich	1.0%
Poundland	Colchester/Portsmouth	0.9%
Sportswift (t/a Card Factory)	Cardiff/ Portsmouth	0.5%
URBN	**Southampton**	0.5%
Reiss	**Guildford**	0.5%
The Works	Bury St Edmunds/ Portsmouth	0.5%
Waterstones	Bedford Scarborough	0.4%
Outdoor and Cycle Concepts (t/a Cotswold Outdoor)	Shrewsbury	0.4%
Tesco	Birmingham/Edinburgh	0.4%
WH Smith	Llandudno	0.3%
The White Company	Nottingham	0.3%
Laura Ashley	Colchester	0.3%
Phase Eight	Edinburgh	0.2%

Tenant	Location	Income
Portsmouth City Council	Southsea	0.2%
Game	Portsmouth	0.2%
Holland & Barrett	Shrewsbury	0.2%
Foxtons	Stratford	0.2%
The Edinburgh Woollen Mill	Shrewsbury	0.2%
Wilko Retail	Taunton	0.2%
Signet Trading (t/a Ernest Jones)	Chester	0.2%
Paperchase	Shrewsbury	0.2%
TCCT Retail (t/a Thomas Cook)	Shrewsbury	0.2%
Greggs	Birmingham/Shrewsbury	0.2%
H Samuel	Colchester	0.2%
Kruidvat Real Estate (t/a Savers)	Colchester	0.2%
Lush	Colchester	0.2%
Der Touristik (t/a Kuoni Travel)	Chester	0.2%
Ciel (Concessions) (t/a Chesca)	Chester	0.1%

Tenant	Location	Income
TSB	Chester	0.1%
Savers Health & Beauty	Bury St Edmunds	0.1%
Your Phone Care	Portsmouth	0.1%
Felldale Retail (t/a Lakeland)	Chester	0.1%
Aslan Jewellery	Chester	0.1%
Done Brothers (t/a Betfred)	Cheltenham	0.1%
Framemakers Galleries	Cirencester	0.1%
Leeds Building Society	Colchester	0.1%
The Danish Wardrobe (t/a Noa Noa)	Cirencester	0.1%
Coral	Birmingham	0.1%
Moda Fashions	Shrewsbury	0.1%
R Scott Bathrooms (t/a Boscolo Bathrooms)	Edinburgh	0.1%
Other smaller tenancies		0.1%
VACANT		0.7%

Bold denotes image below

URBN Southampton

Reiss Guildford

Office

> Read more on this portfolio sector on page 58

Tenant	Location	Income
Regus (Maidstone West Malling)	**West Malling**	1.5%
First Title (t/a Enact)	Leeds	1.5%
The Secretary of State for Communities and Local Government	Sheffield	0.9%
National Grid	Castle Donington	0.8%
Wienerberger	**Cheadle**	0.7%
Edwards Geldards	Derby	0.6%
Countryside Properties	Leicester	0.5%
Lyons Davidson	Solihull	0.4%
Digby Brown	Edinburgh	0.4%
Regus (Leicester Grove Park)	Leicester	0.4%
Metaswitch Networks	Edinburgh	0.3%

Tenant	Location	Income
Age Scotland	Edinburgh	0.2%
Cognizant Technology Solutions	Glasgow	0.2%
Erskine Murray	Leicester	0.2%
Dakeyne Emms Gilmore Liberson	Birmingham	0.1%
KWB Property Management	Birmingham	0.1%
Systra	Birmingham	0.1%
Copeland Wedge Associates	Birmingham	0.1%
Stoford Properties	Birmingham	0.1%
Workers Educational Association	Birmingham	0.1%

Tenant	Location	Income
Quantem Consulting	Birmingham	0.1%
Naismiths	Birmingham	0.1%
Reward Gateway	Birmingham	0.1%
Bell Cornwall Associates	Birmingham	0.1%
Bradley & Cuthbertson	Birmingham	0.1%
Safe Deposits	Glasgow	0.1%
ENSCO 1078	Birmingham	0.1%
Other smaller tenancies		0.1%
VACANT		1.4%

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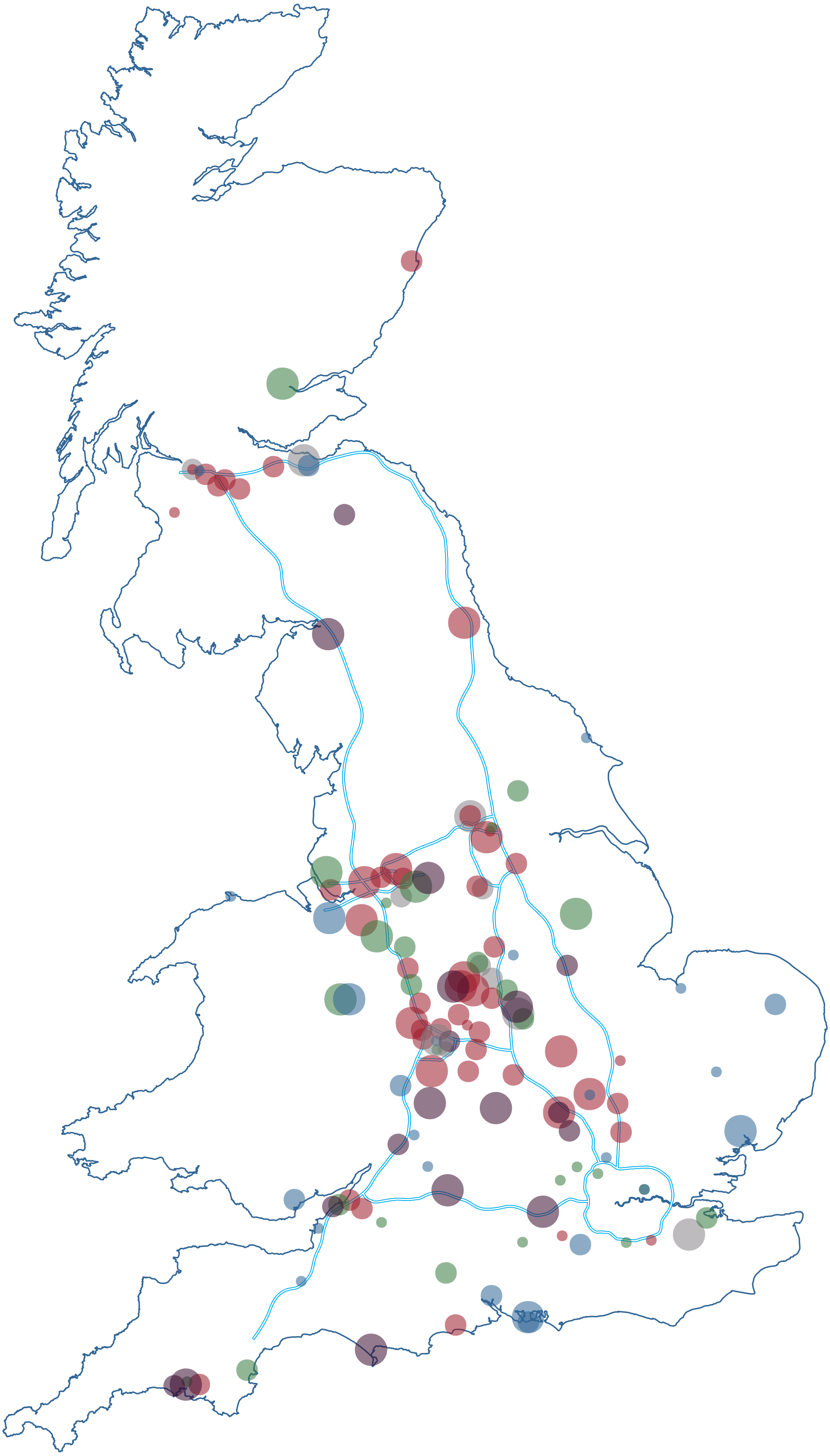
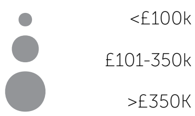
Regus West Malling


Wienerberger Cheadle

Our portfolio



PROPERTY INCOME



Industrial

> Read more on this portfolio sector on page 24

Retail warehouse

> Read more on this portfolio sector on page 36

Other

> Read more on this portfolio sector on page 42

Retail

> Read more on this portfolio sector on page 50

Office

> Read more on this portfolio sector on page 58

Portfolio facts

Value
£572.7m
2018: £528.9m

Separate tenancies
269
2018: 254

EPRA occupancy rate
95.9%
2018: 96.5%

Assets
155
2018: 147

WAULT
5.6 years
2018: 5.9 years

Net initial yield[30]
6.6%
2018: 6.6%

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

Our portfolio by sector
Industrial

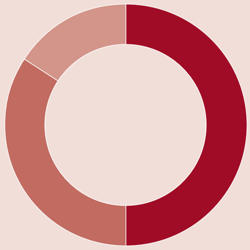
Gateshead

Industrial at a glance

Portfolio weighting by income and sub sector

38%

2018: 39%



- Distribution: **19%**
- Warehouse: **13%**
- Manufacturing: **6%**

Number of properties

62

2018: 61

Valuation

£224.3m

2018: £209.8m

Our portfolio by sector continued

Industrial

1. **Ashby**
   Teleperformance
2. **Wolverhampton**
   Assa Abloy
3. **Burton**
   Kings Road Tyres
4. **Gateshead**
   Multi-let
5. **Warrington**
   JTF Wholesale
6. **Salford**
   Restore
7. **Bedford**
   Elma Electronics
   Vertiv Infrastructure
8. **Hilton**
   Daher Aerospace
9. **Winsford**
   H&M
10. **Eurocentral**
    Next
11. **Tamworth**
    ICT Express
12. **Doncaster**
    Silgan Closures
13. **Redditch**
    Amco Services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Our portfolio by sector continued

Industrial

14. Normanton
Yesss Electrical

15. Stone
Revlon International

16. Warrington
Procurri Europe
Synertec

17. Kettering
Multi-let

18. Warrington
VACANT

19. Redditch
Hydro Extrusions

20. Biggleswade
Turpin Distribution

21. Cannock
HellermannTyton

22. Milton Keynes
Massmould

23. West Bromwich
OyezStraker

24. Gateshead (Team Valley)
Worthington Armstrong

25. Bellshill
Yodel


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Our portfolio by sector continued

Industrial

26. Nuneaton
DX Network Service

27. Milton Keynes
Saint - Gobain Building Distribution

28. Plymouth
Sherwin-Williams

29. Avonmouth
Superdrug

30. Bedford
Heywood Williams Components

31. Bristol
BSS

32. Coventry
Royal Mail

33. Stevenage
Morrison Utility Services

34. Daventry
Cummins

35. Livingston
A Share & Sons (t/a SCS)

36. Manchester
Unilin Distribution

37. Oldbury
Sytner

38. Aberdeen
DHL Supply Chain

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Our portfolio by sector continued

Industrial

39. Christchurch
Interserve Project Services

40. Leeds
Sovereign Air Movement

41. Cambuslang
Brenntag

42. Warrington
Dinex Exhausts

43. Warwick
Semcon

44. Hamilton
Ichor Systems

45. Coalville
MTS Logistics

46. Erdington
West Midlands Ambulance Service NHS Trust

47. Langley Mill
Warburton

48. Irlam
Northern Commercials

49. Castleford
Bunzl

50. Sheffield Parkway
Synergy Health

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Our portfolio by sector continued

Industrial

51. Farnborough
Triumph Structures

52. Speke
Powder Systems

53. Westerham
Aqualisa Products

54. Sheffield
River Island

55. Kettering
Sealed Air

56. Atherstone
North Warwickshire Borough Council

57. Sheffield
Arkote

58. Speke
DHL International

59. Huntingdon
PHS

60. Normanton
Acorn Web Offset

61. Kilmarnock
Royal Mail

62. Glasgow
DHL Global Forwarding


56


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62

Our portfolio by sector
Retail warehouse

Carlisle

Retail warehouse at a glance

Portfolio weighting by income

22%

2018: 20%

Number of properties

19

2018: 18

Valuation

£123.4m

2018: £107.5m

Our portfolio by sector continued

Retail warehouse

1. **Evesham**
   Next
   Boots
   Argos
   M&S
   Poundstretcher
2. **Carlisle**
   Multi-let
3. **Weymouth**
   B&Q
   Sports Direct
   Halfords
4. **Burton**
   Wickes
   CDS (t/a The Range)
5. **Winnersh**
   Wickes
   Pets at Home
6. **Swindon**
   Go Outdoors
   B&M
7. **Leicester**
   Matalan
8. **Banbury**
   B&Q
9. **Plymouth**
   JB Global (t/a Oak Furniture Land)
   A Share & Sons (t/a SCS)
10. **Ashton-under-Lyne**
    B&M

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GO
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MATALAN
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B&Q
8


ScS
SOFA • CARPET • SPECIALIST
Welcome to ScS
Oak furnitureland
9


b&m home store
& Garden Centre
10

Our portfolio by sector continued

Retail warehouse

11. Plymouth
B&M
Magnet

12. Gloucester
Smyths Toys
Magnet

13. Sheldon
Dreams
Halfords
Pets at Home

14. Leighton Buzzard
Homebase

15. Grantham
Laura Ashley
Poundstretcher
Carpetright

16. Galashiels
B&Q

17. Torpoint
Sainsburys

18. Milton Keynes
Suk Retail (t/a Staples)

19. Portishead
TJ Morris (t/a Home Bargains)
Majestic Wine


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B&Q
B&Q

16


Sainsbury's

17


STAPLES
The Office Superstore
STAPLES
READSOFT

18


home bargains

19

Our portfolio by sector
Other

Other at a glance

Portfolio weighting by income

17%

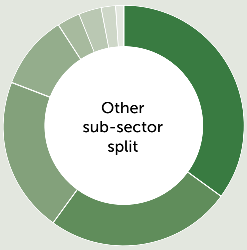
2018: 15%

Number of properties

33

2018: 27

Sub sector splits



- Motor Trade: **35%**
- Leisure: **25%**
- Restaurant: **21%**
- Trade Counter: **10%**
- Hotel: **3%**
- Health Care: **3%**
- Nursery: **2%**
- Place of Worship: **1%**

Valuation

£95.7m

2018: £80.4m

Our portfolio by sector continued

Other

1. **Stockport**
   Benham (Specialist Cars) (t/a Williams BMW and Mini)
2. **Crewe**
   Multi-let
3. **Liverpool**
   Tai Pan Buffet Restaurants
   Liverpool Community Health NHS Trust
   Clydesdale Bank
4. **Perth**
   Bannatyne Fitness
   The Restaurant Group (t/a Frankie & Benny's)
   Scotco Eastern (t/a KFC)
5. **Lincoln**
   Total Fitness
6. **Stoke**
   Nuffield Health
7. **Derby**
   VW Group
8. **Stafford**
   VW Group
9. **Torquay**
   Multi-let
10. **Gillingham**
    Co-Op
11. **Leicester**
    Magnet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COSTA
COSTA COFFEE
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ENTRANCE
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Magnet
UNITED CARPETS
WOODFLOOR & BEDS
11

Our portfolio by sector continued

Other

12. York
Pendragon

13. Portishead
Travelodge

14. Salisbury
Parkwood Health & Fitness

15. Shrewsbury
VW Group

16. Lincoln
MKM Building Supplies

17. Loughborough
Listers Group

18. Crewe
Multi-let

19. Redhill
Honda Motor Europe

20. Bath
Chokdee (t/a Giggling Squid)

21. Shrewsbury
Azzurri Restaurants (t/a ASK)
Sam's Club (t/a House of the Rising Sun)

22. Castleford
MKM Building Supplies


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Our portfolio by sector continued

Other

23. High Wycombe
Stonegate Pub Co

24. Maypole
Starbucks

25. Shrewsbury
TJ Vickers & Sons

26. Leicester
Pizza Hut

27. Watford
Pizza Hut

28. Plymouth
McDonald's

29. Basingstoke
Bright Horizons Family Solutions

30. Portishead
JD Wetherspoon

31. Stratford
The Universal Church of the Kingdom of God

32. Chesham
Bright Horizons Family Solutions

33. Knutsford
Knutsford Day Nursery

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Our portfolio by sector
Retail

King's Lynn

Retail at a glance

Portfolio weighting by income

12%

2018: 14%

Number of properties

33

2018: 33

Valuation

£68.6m

2018: £75.3m

Our portfolio by sector continued

Retail

1. **Portsmouth**
   Multi-let
2. **Shrewsbury**
   Multi-let
3. **Worcester**
   Superdrug
4. **Cardiff**
   Multi-let
5. **Colchester**
   Multi-let
6. **Colchester**
   Poundland
   Kruidvat Real Estate (t/a Savers)
7. **Southampton**
   URBN
8. **Norwich**
   Specsavers
9. **Guildford**
   Reiss
10. **Shrewsbury**
    Outdoor and Cycle Concepts
    (t/a Cotswold Outdoor)
11. **Southsea**
    Portsmouth City Council
    Superdrug

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savers
savers
Poundland
6


URBAN OUTFITTERS
Superdrug
7


Opticians
Specsavers
Opticians
Opticians
8


REISS
REISS
REISS
9


COTSWOLD
outdoor | action | travel
10


Southsea library
and customer service centre
Superdrug
11

Our portfolio by sector continued

Retail

12. Llandudno
WH Smith

13. Birmingham
Multi-let

14. Chester
Signet Trading (t/a Ernest Jones)
Felldale Retail (t/a Lakeland)

15. Nottingham
The White Company

16. Chester
Ciel (Concessions)
(t/a Chesca)
TSB

17. Weston-super-Mare
Superdrug

18. Glasgow
VACANT

19. Chester
Der Touristik (t/a Kuoni Travel)
Aslan Jewellery

20. Edinburgh
Phase Eight

21. Portsmouth
The Works

22. Stratford
Foxtons


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Our portfolio by sector continued

Retail

23. Scarborough
Waterstones

24. Taunton
Wilko Retail

25. Bury St Edmunds
The Works

26. Edinburgh
Tesco
R Scott Bathrooms (t/a Boscolo Bathrooms)

27. Bedford
Waterstones

28. St Albans
VACANT

29. Cirencester
Framemakers Galleries
The Danish Wardrobe (t/a Noa Noa)

30. King's Lynn
VACANT

31. Bury St Edmunds
Savers Health & Beauty

32. Cheltenham
Done Brothers (t/a Betfred)

33. Chester
VACANT

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Our portfolio by sector
Office

Birmingham

Office at a glance

Portfolio weighting by income

11%

2018: 12%

Number of properties

13

2018: 12

Valuation

£60.7m

2018: £55.9m

Our portfolio by sector continued

Office

1. **West Malling**
   Regus (Maidstone West Malling)
2. **Birmingham**
   Multi-let
3. **Edinburgh**
   Multi-let
4. **Leicester**
   Regus (Leicester Grove Park)
5. **Sheffield**
   The Secretary of State for Communities and Local Government
6. **Castle Donington**
   National Grid
7. **Leeds**
   First Title (t/a Enact)
8. **Cheadle**
   Wienerberger
9. **Leeds**
   First Title (t/a Enact)
10. **Leicester**
    Countryside Properties
    Erskine Murray
11. **Derby**
    Edwards Geldards
12. **Glasgow**
    Multi-let
13. **Solihull**
    Lyons Davidson


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Principal risks and uncertainties

The Board has overall responsibility for reviewing the effectiveness of the system of risk management and internal control which is operated by the Investment Manager. The Company's risk management process is designed to identify, evaluate and mitigate the significant risks the Company faces.

At least annually, the Board undertakes a risk review, with the assistance of the Audit Committee, to assess the effectiveness of the Investment Manager's risk management and internal control systems.

During this review, no significant failings or weaknesses have been identified in respect of risk management, internal control and related financial and business reporting.

The Company holds a portfolio of high quality property let to institutional grade tenants and is primarily financed by long-term, fixed rate debt. It does not undertake speculative development.

There are a number of potential risks and uncertainties which could have a material impact on the Company's performance over the forthcoming financial year and could cause actual results to differ materially from expected and historical results. The Directors have assessed the principal risks facing the Company, including those that would threaten the business model, future performance, solvency or liquidity. The table below outlines the risk factors identified, but does not purport to be exhaustive as there may be additional risks that materialise over time that the Company has not yet identified or has deemed not likely to have a potentially material adverse effect on the business.

RISK TYPE	LIKELIHOOD	IMPACT	RISK
1. Loss of revenue	↑ High	↔ Moderate	• An increasing number of tenants exercising contractual breaks or not renewing at lease expiry. • Tenant default or enforced reduction in contractual rents through a CVA. • Expiries or breaks concentrated in a specific year. • Unable to re-let void units. • Low UK economic growth impacting the commercial property market.
2. Decreases in portfolio valuation	↑ High	↔ Moderate	• Market pricing affecting value. • Change in demand for space. • Properties concentrated in a specific geographical location or sector. • Reduced property market sentiment and investor demand.
3. Financial	↔ Low	↔ High	• Reduced availability or increased cost of arranging or servicing debt. • Breach of borrowing covenants. • Significant increases in interest rates.
4. Operational	↔ Low	↔ High	• Inadequate performance, controls or systems operated by the Investment Manager.
5. Regulatory and legal	↔ Low	↔ High	• Adverse impact of new or revised legislation or regulations, or by changes in the interpretation or enforcement of existing government policy, laws and regulations. • Non-compliance with the REIT regime[31] or changes to the Company's tax status.
6. Business interruptions	↔ Low	↔ High	• Cyber-attack results in the Investment Manager being unable to use its IT systems and/or losing data. • Terrorism interrupts the Company's operations through impact on either the Investment Manager or the Company's assets or tenants.
7. Acquisitions	↔ Low	↔ High	• Unidentified liabilities associated with the acquisition of new properties (whether acquired directly or via a corporate structure).

31. As defined by the Corporation Tax Act 2010.

Key
↑ Increased from prior year ↔ No change from prior year
↓ Decreased

MITIGATING FACTORS

- Company's largest tenant accounts for 3.2% of the rent roll.
- Investment policy limits the Company's rent roll to no more than 10% from a single tenant.
- Target institutional grade tenants.
- Focused on established business locations for investment.
- Active management of lease expiry profile and impact on WAULT considered in forming acquisition decisions.
- Building specifications typically not tailored to one user.

- Active portfolio diversification between office, industrial (distribution, manufacturing and warehousing), retail warehousing, high street retail and other.
- Investment policy limits the Company's portfolio to no more than 50% in any specific sector or geographical region.

- Target net gearing of 25% LTV on property portfolio.
- 72% of agreed debt facilities at a fixed rate of interest.
- Existing facilities sufficient for spending commitments and agreed until 2020.
- Ongoing monitoring and management of the forecast liquidity and covenant position.

- Ongoing review of performance by independent Board of Directors.
- Outsourced internal audit function reporting directly to the Audit Committee.
- External depositary with responsibility for safeguarding assets and performing cash monitoring.

- Strong compliance culture.
- External professional advisers are engaged to review and advise upon control environment and ensure regulatory compliance.
- Business model and culture embraces FCA principles.
- REIT regime compliance is considered by the Board in assessing the Company's financial position and by the Investment Manager in making operational decisions.

- Data is regularly backed up and replicated and the Investment Manager's IT systems are protected by anti-virus software and firewalls that are regularly updated.
- Fire protection and access/security procedures are in place at all of the Company's managed properties.
- Comprehensive property damage and business interruption insurance is held, including three years' lost rent, and terrorism.
- At least annually, a fire risk assessment and health and safety inspection is performed for each property in the Company's managed portfolio.

- Comprehensive due diligence is undertaken in conjunction with professional advisers and the provision of insured warranties and indemnities are sought from vendors where appropriate.

Emerging risks

The Board has considered emerging risks and their potential impact on the Company.

The Board is continuing to monitor the potential risks associated with Brexit. Discussions are ongoing and the final outcome regarding the UK's future trading relationship with the EU remains unclear, making it too early to understand fully the impact Brexit will have on our business and our sector. As a result the Board does not consider Brexit to be a principal risk. The main potential negative impact of Brexit is a deterioration of the macro-economic environment, potentially leading to further political uncertainty and volatility in interest rates, but it could also impact our investment and occupier market, our ability to execute our investment strategy and our income sustainability in the long term. However, the Board believes the Company is well placed to weather any short-term impact of Brexit because:

- The Company has a diverse portfolio by sector and location with an institutional grade tenant base;
- The Company's operational focus is on income which is less likely to experience volatility in an uncertain market; and
- Dividend cover has increased to 110.4% this year, and the Company has significant valuation headroom on its borrowing covenants.

No other emerging risks have been added to the Company's Risk Register during the year.

Longer-term viability statement

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

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

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

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

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

Current debt and associated covenants are summarised in Note 15, with no covenant breaches during the year. The Company's dividend policy is set out in Business model and strategy. The principal and emerging risks and uncertainties faced by the Company, together with the steps taken to mitigate them, are highlighted above and in the Audit Committee report. The Board seeks to ensure that risks are mitigated appropriately and managed within its risk appetite at all times.

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

STRATEGIC REPORT
Governance
Financial statements

Business model and strategy

Investment objective and policy

The Company's investment objective is to provide shareholders with an attractive level of income together with the potential for capital growth from investing in a diversified portfolio of commercial real estate properties in the UK.

The Company's investment policy

1. To invest in a portfolio of UK commercial real estate properties, principally characterised by individual values of less than £10m at acquisition.
2. The portfolio should be diversified by sector, location, tenant and lease term, but not exceed a maximum weighting to any one property sector, or to any geographic region, of greater than 50%.
3. To focus on areas with high residual values, strong local economies and an imbalance between supply and demand. Within these locations the objective is to acquire modern buildings or those that are considered fit for purpose by occupiers.
4. No one tenant or property should account for more than 10% of the total rent roll of the Company's portfolio at the time of purchase, except:
   - In the case of a single tenant which is a governmental body or department for which no percentage limit to proportion of the total rent roll shall apply; or
   - In the case of a single tenant rated by Dun & Bradstreet as having a credit risk score higher than two, where the exposure to such single tenant may not exceed 5% of the total rent roll (a risk score of two represents "lower than average risk").
5. To seek to minimise rental voids and enhance the WAULT of the portfolio by managing lease expiries and targeting property acquisitions which will in aggregate be accretive to WAULT at the point of acquisition, on a rolling 12-month basis.
6. The Company will not undertake speculative development (that is, development of property which has not been leased or pre-leased), save for refurbishment of existing holdings, but may invest in forward funding agreements or forward commitments (these being arrangements by which the Company may acquire pre-development land under a structure designed to provide the Company with investment rather than development risk) of pre-let developments where the Company intends to own the completed development.
7. The Company may use gearing, including to fund the acquisition of property and cash flow requirements, provided that the maximum LTV shall not exceed 35%. Over the medium term the Company is expected to target net gearing of 25% LTV.
8. The Company reserves the right to use efficient portfolio management techniques, such as interest rate hedging and credit default swaps, to mitigate market volatility.
9. Uninvested cash or surplus capital or assets may be invested on a temporary basis in:
   - cash or cash equivalents, money market instruments, bonds, commercial paper or other debt obligations with banks or other counterparties having a single-A (or equivalent) or higher credit rating as determined by an internationally recognised rating agency; or
   - any "government and public securities" as defined for the purposes of the rules of the Financial Conduct Authority ("FCA").

The Board reviews the Company's investment objectives at least annually to ensure they remain appropriate to the market in which the Company operates and in the best interests of shareholders.

Stevenage

3 To focus on areas with high residential values, strong local economies and an imbalance between supply and demand.

Key performance indicators

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

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

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

Bedford

Alternative performance measures

Alternative performance measures, including EPRA Best Practice Recommendations, assist stakeholders in assessing performance and are used by research analysts covering the Company in addition to the key performance indicators and comprise:

- New equity raised – a measure of growth of the Company;
- Target dividend per share – an expectation of the Company's ability to deliver an income stream to shareholders for the forthcoming year;
- Share price total return – reflects the movement in share price and dividends payable to shareholders;
- NAV per share, share price and market capitalisation – reflect various measures of shareholder value at a point in time;
- EPRA NAV per share – a measure of NAV excluding any adjustments to IFRS NAV not expected to crystallise in normal circumstances such as fair value adjustments to borrowings, giving a better indication of NAV of a real estate investment company with a long-term investment strategy;
- EPRA NIY and 'topped up' NIY – alternative measures of portfolio valuation based on cash passing rents at the reporting date and once lease incentive periods have expired, net of ongoing property costs;
- EPRA cost ratios – alternative measures of ongoing charges based on expenses (excluding operating expenses of rental property recharged to tenants) compared to gross rental income;
- EPRA capital expenditure – capital expenditure incurred on the Company's property portfolio during the year; and
- EPRA like-for-like rental growth – a measure of rental growth of the portfolio by sector, excluding acquisitions and disposals.

Financing

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

Debt

The Company has the following facilities available:

- A £45m RCF with Lloyds Bank plc with annual interest of 2.45% above three-month LIBOR on advances drawn down under the agreement from time to time;
- A £20m term loan facility with Scottish Widows Limited ("SWIP") repayable in August 2025, with fixed annual interest of 3.935%;
- A £45m term loan facility with SWIP repayable in June 2028, with fixed annual interest of 2.987%; and
- A £50m term loan facility with Aviva comprising:
  - A £35m tranche repayable on 6 April 2032, with fixed annual interest of 3.02%; and
  - A £15m tranche repayable on 3 November 2032 with fixed annual interest of 3.26%.

The Company's borrowing facilities all require minimum interest cover of 250% of the net rental income of the security pool. The maximum LTV of the Company combining the value of all property interests (including the properties secured against the facilities) must be no more than 30%.

Equity

During the year the Company raised £13.4m (before costs and expenses) through the placing of 11,350,000 new ordinary shares.

Dividends

The Company paid dividends totalling 6.525p per share during the year, comprising the fourth interim dividend of 1.6125p per share relating to the year ended 31 March 2018 and three interim dividends of 1.6375p per share relating to the year ended 31 March 2019.

The Company paid an interim dividend of 1.6375p per share for the quarter ended 31 March 2019 on 31 May 2019, meeting its target of paying an annual dividend per share for the financial year of 6.55p (2018: 6.45p).

In the absence of unforeseen circumstances, the Board intends to pay quarterly dividends to achieve a target dividend of 6.65p per share for the year ending 31 March 2020. The Board's objective is to grow the dividend on a sustainable basis, at a rate which is fully covered by projected net rental income and does not inhibit the flexibility of the Company's investment strategy.

Employees

The Company has four Non-Executive Directors and no employees. Non-Executive Directors are paid fixed salaries set by the Remuneration Committee and participate in the performance of the Company through their shareholdings. All Non-Executive Directors are white males.

The Nominations Committee is currently recruiting an additional Non-Executive Director. The Board is conscious of the increased focus on diversity and recognises the value and importance of diversity in the boardroom. The Board supports the recommendations of the Hampton-Alexander and Parker Reports but does not consider it appropriate or in the interests of the Company and its shareholders to set prescriptive diversity targets for the Board.

Corporate social responsibility

The Company is committed to delivering its strategic objectives in an ethical and responsible manner and meeting its corporate responsibilities towards society, human rights and the environment. The Company's environmental and social policies address the importance of these issues in the day-to-day running of the business, as detailed below.

Environmental policy

The Board's responsibility to society is broader than simply generating financial returns for shareholders and the Board encourages the Investment Manager to act responsibly in the areas it can influence as a landlord, for example by working with customers to improve environmental performance of the Company's assets and minimise their impact on climate change. The Board believes that following this strategy will ultimately be to the benefit of shareholders through enhanced rent and asset values.

The majority of the Company's investment properties are let on full repairing and insuring leases, meaning its day-to-day environmental responsibilities are limited as properties are controlled by the tenants. However, the Board wishes to adopt sustainable principles where possible and the key elements of the Company's environmental policy are:

- We want our properties to minimise their impact on the local and wider environment and carefully consider the environmental performance of assets before we acquire them, including obtaining an independent environmental report and energy performance certificate ("EPC") for all potential acquisitions, which considers, amongst other matters, the historical and current usage of the site and the extent of any contamination present. This report may lead to further enquiries of the vendor, surveyor or legal teams and is considered by the Investment Committee of the Investment Manager when approving the acquisition;
- An ongoing examination of existing and new tenants' business activities is carried out to assess the risk of pollution occurring. The Company monitors all incoming tenants through its insurance programme to identify potential risks. Activities deemed to be high-risk are avoided. As part of the active management of the portfolio, any change in tenant business practices considered to be an environmental hazard is reported and suitably dealt with;
- Sites are visited periodically and any obvious environmental issues are reported to the Board; and
- All leases prepared after the adoption of the policy commit occupiers to observe any environmental regulations. Any problems would be referred to the Board.

In order to monitor energy consumption across the portfolio as well as identify opportunities to make energy reductions, CREIT has engaged with specialist consultants Pick Everard to provide strategic advice on the process. This collaboration promotes the ethos of investing responsibly and has ensured statutory compliance with the Energy Savings Opportunity Scheme (ESOS) Regulations 2014 and The Companies (Director's report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

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

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

David Hunter
Independent Chairman
5 June 2019

Lancaster House, Birmingham

During the year the Company completed a £2.2m refurbishment of Lancaster House, Birmingham, a multi-let office building located in Birmingham's central business district arranged over basement, ground and six upper floors totalling 37,000 sq ft. The refurbishment works comprised:

- Replacing the original single-glazed windows with triple-glazed Crittal equivalents;
- Updating the internal heating works by replacing two antiquated oil-fired boilers with a modern variable refrigerant flow system, which delivers both heating and cooling to all office suites; and
- Internal mechanical and electrical improvements.

The refurbishment has significantly improved the energy efficiency of the building, reducing occupational costs for the office tenants. The removal of the oil-fired boilers is the principal contributing factor in the reported reduction in carbon emissions across the Company's estate and has also meant that the EPC rating of the office suites has improved to a 'B' rating from an 'E' rating at acquisition in 2015. The works have increased the ERV of the property resulting in the works having a positive net impact on valuation.

Board of Directors

The Board comprises four Non-Executive Directors. A short biography of each Director is set out below:

David Hunter
Role: Independent Chairman, Age: 65

David is a professional non-executive director and strategic adviser focused principally on UK and international real estate. He chairs the Company and its Nominations Committee and is on the boards of both listed and unlisted companies in the UK and overseas, as well as holding corporate advisory roles. He qualified as a chartered surveyor in 1978 and has over 25 years' experience as a fund manager, including as Managing Director of Aberdeen Asset Management's property fund business. David is a former President of the British Property Federation and was actively involved in the introduction of REITs to the UK. He is also Honorary Swedish Consul to Glasgow and an Honorary Professor of real estate at Heriot-Watt University. On 1 May 2019 David was appointed as Non-Executive Director of GCP Student Living plc.

David's other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

> Read more from David on **page 4**

Committee membership

Chair **N**
Member **A M R**

Barry Gilbertson PPRICS
Role: Senior Independent Director, Age: 67

Barry is the designated Senior Independent Director, chairing the Management Engagement and Remuneration Committees. He is an international consultant with a focus on real estate, strategy and risk, with more than 45 years' experience advising on property.

An adviser to the Bank of England from 2003 to 2014 and the 123rd President of the Royal Institution of Chartered Surveyors in 2004/5, Barry instigated President's Commissions on Sustainability and, separately, on Disaster Management, following the 2004 Boxing Day Tsunami. During RICS' 150th anniversary celebrations, Barry was voted one of the 65 Greatest Chartered Surveyors of all time (and a 'Top Five' Innovative Chartered Surveyor). From 1996 (until 2011), Barry was a full equity partner in Coopers & Lybrand (now PricewaterhouseCoopers). Formerly a non-executive consultant to Knight Frank LLP, Barry has held advisory appointments with the United Nations and the UK Government. His previous public company independent non-executive directorships include Granite REIT, RONA Incorporated (both in Canada) and Chairman of conwert Immobilien Invest SE (in Austria). Barry has chaired or served on various committees in these companies, including Audit, Governance, Nominations, Strategy and Remuneration.

Barry has served on the Council of The University of Bath since 2014, serving on the Finance Committee and now Chairs the new Remuneration Committee; holds Visiting Professor appointments at two UK universities and was awarded Honorary Membership of four international professional bodies. Among his voluntary roles, Barry is Chairman of The City of Bath UNESCO World Heritage Site.

Barry's other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

Committee membership

Chair **M R**
Member **A N**

Matthew Thorne MA, FCA
Role: Independent Director, Age: 66

Matthew chairs the Company's Audit Committee. Matthew qualified as a chartered accountant in 1978 with Price Waterhouse. He was an independent non-executive director for nine years of Bankers Investment Trust plc, retiring in 2018 having chaired the Audit Committee. Since May 2007 Matthew has been an adviser to Consensus Business Group (led by Vincent Tchenguiz). Matthew is also Audit Committee chair and the finance member of the Advisory Board and Advisory Panel of Greenwich Hospital, the Naval Charity. Matthew's previous executive roles have included Group Finance Director of McCarthy & Stone plc from 1993 to 2007, Finance Director of Ricardo plc from 1991 to 1992 and Investment Director of Beazer plc from 1983 to 1991.

Matthew's other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

Committee membership

Chair **A**
Member **M R N**

Committee key

A Audit Committee

M Management Engagement Committee

R Remuneration Committee

N Nominations Committee

Key Investment Manager personnel

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

Ian Mattioli MBE
Role: Director, Age: 56

Ian is CEO of Mattioli Woods plc ("Mattioli Woods") with over 35 years' experience in financial services, wealth management and property businesses and is the founder director of Custodian REIT. Together with Bob Woods, Ian founded Mattioli Woods, the AIM-listed wealth management and employee benefits business which is the parent company of the Investment Manager. Mattioli Woods now has over £8.7bn of assets under management, administration and advice. Ian is responsible for the vision and operational management of Mattioli Woods and instigated the development of its investment proposition, including the syndicated property initiative that developed into the seed portfolio for the launch of Custodian REIT. Ian and family own circa 1% of the Company as part of their long-term investment planning. His personal achievements include winning the London Stock Exchange AIM Entrepreneur of the Year award and CEO of the year in the 2018 City of London wealth management awards.

Ian was awarded an MBE in the Queen's 2017 New Year's Honours list for his services to business and the community in Leicestershire. Ian is also Non-Executive Chairman of K3 Capital Group plc, which is listed on AIM and specialises in business transfer, business brokerage and corporate finance across the UK.

Ian's other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

Committee membership
Member **N**

Richard Shepherd-Cross BSc MRICS
Role: Managing Director, Age: 48

Richard qualified as a Chartered Surveyor in 1995 and until 2008 worked for Jones Lang LaSalle, latterly running its national portfolio investment team.

Since joining Mattioli Woods in 2009, Richard has established Custodian Capital as the Property Fund Management subsidiary to Mattioli Woods and in 2014 was instrumental in the establishment of Custodian REIT plc from Mattioli Woods' syndicated property portfolio and its 1,200 investors. Following the successful IPO of the Company, Richard has overseen the growth of the Company to its current portfolio of over £0.5bn.

> Read more from Richard on **page 8**

Nathan Imlach CA FCSI CF
Role: Chief Financial Officer, Age: 49

Nathan qualified as a Chartered Accountant in 1993 with Ernst & Young, specialising in providing mergers and acquisitions advice to a broad range of quoted and unquoted clients in the UK and abroad. He is Chief Financial Officer of Mattioli Woods, responsible for all financial aspects of its financial operations and leads its acquisition activity.

Nathan is the Company Secretary of Custodian REIT and Chief Financial Officer of the Investment Manager and, together with Ian Mattioli and Richard Shepherd-Cross, led the admission of Custodian REIT to the Main Market of London Stock Exchange in 2014. He is a Fellow of the Chartered Institute for Securities & Investment and holds the Corporate Finance qualification from the Institute of Chartered Accountants in England and Wales. Nathan is also Non-Executive and Senior Independent Director of AIM-listed Mortgage Advice Bureau (Holdings) plc, chairing the audit committee, and a trustee of Leicester Grammar School.

Ian Mattioli MBE
(Founder and Chairman)
Ian's biography is set out opposite.

Other senior members of the Investment Manager's property team include:

Alex Nix
Role: Assistant Fund Manager

Alex graduated from Nottingham Trent University with a degree in Real Estate Management before joining Lambert Smith Hampton, where he spent eight years and qualified as a Chartered Surveyor in 2006.

Alex is Assistant Fund Manager to Custodian REIT having joined Custodian Capital in 2012. Alex heads the Company's property management and asset management initiatives, assists in sourcing and executing new investments and is a member of the Investment Manager's Investment Committee.

Tom Donnachie
Role: Portfolio Manager

Tom graduated from Durham University with a degree in Geography before obtaining an MSc in Real Estate Management from Sheffield Hallam University. Tom worked in London for three years where he qualified as a Chartered Surveyor with Workman LLP before returning to the Midlands first with Lambert Smith Hampton and then CBRE.

Tom joined Custodian Capital in 2015 as Portfolio Manager with a primary function to maintain and enhance the existing portfolio and assist in the selection and due diligence process regarding new acquisitions.

Javed Sattar
Role: Portfolio Manager

Javed joined Custodian Capital in 2011 after graduating from Birmingham City University with a degree in Estate Management Practice. Whilst working as a trainee surveyor on Custodian REIT's portfolio for Custodian Capital he completed a PGDip in Surveying via The College of Estate Management and qualified as a Chartered Surveyor in 2017.

Javed now operates as Portfolio Manager managing properties predominantly located in the North-West of England.

Governance report

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

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

The areas of non-compliance with the Code since admission to trading on the London Stock Exchange in 2014 ("Admission") are:

- There is no chief executive position within the Company, which is not in accordance with provision A.2.1 of the Code. As an investment company, the Company has no employees and therefore no requirement for a chief executive;
- The Company's succession policy allows for a tenure of longer than nine years, in line with the 2019 Association of Investment Companies Code of Corporate Governance ("the AIC Code"); and
- The Chairman is a member of the Audit Committee in line with the AIC Code.

Role of the Board

The Board is responsible to shareholders, tenants and other stakeholders for promoting the long-term sustainable success of the Company and generating shareholder value. Good governance is fundamental to the long-term success of the Company and the Board and Investment Manager work together to ensure the highest standards of governance are maintained by the Company and are central to every Board decision.

The Board comprises four Directors, all of whom have wide experience, are non-executive and, save for Ian Mattioli, are independent of the Investment Manager. Biographical information on each Director is set out earlier in the Governance Report. The Directors are responsible for managing the Company's business in accordance with its Articles of Association ("the Articles") and the Investment Policy (as set out in the Strategic report), and have overall responsibility for the Company's activities. The Directors may delegate certain functions to other parties and in particular the Directors have delegated responsibility for management of the Company's property portfolio to the Investment Manager. The Board retains responsibility for reviewing the engagement of the Investment Manager and exercising overall control of the Company, reserving the following key matters:

- Setting the Company's values, standards, investment strategy, strategic aims and objectives;
- Approving the annual operating and capital expenditure budgets and external financial reporting;
- Approving valuations of the Company's property portfolio;
- Approving the Company's dividend policy and the interim dividends;
- Ensuring a satisfactory dialogue with shareholders and approving AGM resolutions and shareholder circulars;
- Reviewing and approving changes to the structure, size and composition of the Board, including succession planning, following recommendations from the Nominations Committee;
- Determining the remuneration policy for the Directors, following the recommendations of the Remuneration Committee;
- Undertaking a formal and rigorous annual review of its own performance, that of its committees and individual Directors, and the division of responsibilities and independence;
- Considering the balance of interests between shareholders, employees, customers and the community; and
- Approving the appointment of the Company's principal professional advisers.

Chairman

David Hunter is the Chairman and is responsible for the leadership of the Board and ensuring its effectiveness on all aspects of its role. The Chairman is responsible for setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. The Chairman also promotes a culture of openness and debate by facilitating the effective contribution of other Non-Executive Directors.

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

Senior Independent Director

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

Governance report continued

Board performance and evaluation

The Directors have annual appraisals as part of a Board Effectiveness Review. In line with the AIC Code, this review is externally facilitated at least every three years. The Board appointed PricewaterhouseCoopers to undertake an external review of Board effectiveness in 2018 and Deloitte LLP in 2019.

The 2018 Board Effectiveness Review took the form of a questionnaire sent to the Directors, the Key Investment Manager Personnel and the Company's Corporate Brokers, and for both the Board and Audit Committee, considered: composition; meeting effectiveness; mix of skills, experience, knowledge and diversity; succession planning; appointment process; time commitment; induction and training; timeliness and quality of papers; tone from the top; strategy; quality of decision making; stewardship; role of the Chair and Secretary; interaction with internal and external audit; and external reporting.

The Board as a whole considers its performance and the performance of its committees. The Chairman reviews the performance of the Non-Executive Directors and the Non-Executive Directors review the Chairman's performance. The questions set out in the Higgs guidance are considered at each appraisal, where relevant to the Company. As part of the annual performance appraisal process, the training needs for Board members are considered and, where necessary, acted upon.

The priority identified from the Board Effectiveness Review was around Board composition with a view to increasing the number, breadth of skills and diversity of non-executive directors. The Nomination Committee is currently recruiting an additional Non-Executive Director.

Audit Committee

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

Management Engagement Committee

The Management Engagement Committee comprises the independent Directors and is chaired by Barry Gilbertson. Its responsibilities are set out in the Management Engagement Committee report.

Nominations Committee

The Board as a whole is responsible for ensuring adequate succession planning to maintain an appropriate balance of skills on the Board to ensure it functions effectively and promotes the long-term sustainable success of the Company, whilst generating shareholder value. Changes to the structure, size and composition of the Board may be made following recommendations from the Nominations Committee, which operates under written terms of reference which are available on the Company's website. This includes the selection of the Chairman of the Board, the Senior Independent Director and the Company Secretary. The letter of appointment of new Directors sets out the expected time commitment and the Directors must undertake that they will have sufficient time to meet what is expected of them. Their other significant commitments are disclosed to the Board before appointment, with a broad indication of the time involved, and the Board is required to be informed of subsequent changes.

The Nominations Committee comprises the Directors and is chaired by David Hunter. Its responsibilities are set out in the Nominations Committee report.

Remuneration Committee

The Remuneration Committee comprises the independent Directors and is chaired by Barry Gilbertson. Its responsibilities are set out in the Remuneration Committee report.

Meeting attendance

The attendance of the Directors at scheduled Board and Board committee meetings held during the year were as follows:

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

Directors' interests are set out in the Remuneration Committee report.

The Investment Manager

The Company has appointed Custodian Capital Limited as Investment Manager and Alternative Investment Fund Manager ("AIFM") under an IMA. Under the IMA, the Investment Manager is due an annual fund and asset management fee and an annual administration fee. The IMA fee structure was varied during the prior year as detailed in Note 18.

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

Ian Mattioli is CEO of Mattioli Woods and is beneficially interested in the share capital of Mattioli Woods, the parent company of the Investment Manager, and therefore has an indirect interest in the Investment Manager. As a result, Ian Mattioli is not independent.

Key personnel

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

AIFM Directive

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

Non-mainstream pooled investments

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

Directors' share dealings

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

Shareholders

The Board is responsible for ensuring a satisfactory dialogue with shareholders based on the mutual understanding of objectives. It approves the resolutions and corresponding documentation to be put forward to shareholders at the AGM, together with any circulars, prospectuses, listing particulars and press releases concerning matters decided by the Board.

The Company reports to shareholders at least twice each year in its interim and annual reports, and makes announcements, where any price sensitive or other information requires disclosure, to the London Stock Exchange and on the Company's website. Any material presentations to investors are made available on the Company's website. Where there has been contact with shareholders, feedback is presented to the Board by the Investment Manager and the Company's broker, Numis Securities Limited, to ensure it is aware of any issues raised by investors. The Company's shareholder profile and any material changes in shareholdings are reviewed by the Board at least quarterly and more often as appropriate.

All members of the Board are available to meet with investors as and when required. The Board considers that the provision of independent feedback to the Board through the Company's brokers and, where appropriate, directly from investors ensures that the whole Board remains well informed of investors' views.

Board members, including members of the Audit, Nominations and Remuneration Committees, and representatives of the Investment Manager are available to meet with investors and to answer any questions at the Company's AGM. All shareholders have at least 20 clear working days' notice of the AGM, where all Directors and committee members are available to answer questions. At the AGM all votes are dealt with on a poll and the number of proxy votes cast is indicated. Votes on separate issues are proposed as separate resolutions.

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

Conflicts of interest

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

Governance report continued

Internal control

The Investment Manager is responsible for operating the Company's system of internal control and reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss. During the year the Investment Manager outsourced its internal audit function to RSM which will undertake an assessment of the design effectiveness of internal controls during the year ended 31 March 2020.

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

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

Bribery, money laundering, slavery and human trafficking

The Board has considered the requirements of the Bribery Act 2010, the Criminal Finances Act 2017 and the Modern Slavery Act 2015 and has taken steps to ensure that it has adequate procedures in place to comply with their requirements.

The Board has a zero tolerance policy towards unethical behaviour and is committed to carrying out business fairly, honestly and openly and it expects the same of its business partners. The Investment Manager actively reviews and is responsible for monitoring perceived risks and responsibility for anti-bribery and corruption. The Investment Manager maintains a risk register where perceived risks and associated actions are recorded and this is shared annually with the Board for approval.

We believe that all efforts should be made to eliminate unethical behaviour from our supply chains. We seek to mitigate our exposure to any unethical activity by engaging with reputable third-party professional service firms based in the United Kingdom. We request formal governance information from our current or potential suppliers if there is a perceived risk of unethical behaviour to assess overall supply chain risk and conduct due diligence and risk assessment on potential new suppliers where considered necessary. We will continue to monitor and collaborate with our suppliers and tenants to ensure that they continue to adopt systems and controls that reduce the risk of facilitating bribery, money laundering, modern slavery and human trafficking.

Approval

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

David Hunter
Independent Chairman
5 June 2019

Audit Committee report

Composition
The Audit Committee ("the Committee") comprises Matthew Thorne as Chairman, David Hunter and Barry Gilbertson, all of whom are independent Non-Executive Directors.

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

The Committee operates under written terms of reference which are available on the Company's website.

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

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

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

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

During the year the Committee considered the impact of the Investment Manager outsourcing its internal audit function to RSM and concluded this change had no negative impact on the Company's control environment.

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

Audit Committee report continued

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

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

The Committee also reviewed the reports of the internal auditor and considered how best to resource the internal audit function resulting in the appointment of RSM as internal auditor from December 2018.

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

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

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

The external audit, review of its effectiveness, auditor reappointment and audit tendering
The Committee reviews annually the external auditor's:

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

The Committee agreed a framework to assess the effectiveness of the audit approach and considered the views of the Investment Manager. The audit of the year ended 31 March 2019 marked the first audit of the new lead audit partner, Jim Wright, following the rotation after a fifth audit by the preceding partner. Following its review, the Committee was satisfied that the external auditor, Deloitte LLP ("Deloitte"), continued to perform effectively. Fees incurred by the Company from Deloitte during the year were as follows:

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Audit of the Company's Annual Report	**85**	80
Total audit related fees	**85**	80
Review of the Company's Interim Report	**17**	15
Total non-audit fees	**17**	15
Total fees	**102**	95

Audit continued

Non-audit fees

A non-audit fee policy has been adopted by the Committee, which considers the appointment of the external auditor for non-audit work, after taking into account their suitability to perform the services, the potential impact on their independence and objectivity and the relationship of non-audit to audit fees. Fees for permissible non-audit fees payable to the external auditor are capped at 70% of the average audit fee over the three preceding financial years (or from appointment, if later) in line with best practice and EU Regulations introduced in June 2016. Where there are any doubts as to whether the external auditor has a conflict of interest, Committee approval is required in advance of the engagement.

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

Other than the review of the Interim Report, the Committee will not normally allow the external auditor to be used for the following: tax services; compiling accounting records; payroll services; work on internal controls; valuation work; legal services; internal audit services; corporate finance services; share brokerage or human resources.

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

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

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

Approval

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

Matthew Thorne
Chairman of the Audit Committee
5 June 2019

Management Engagement Committee report

Composition

The Management Engagement Committee ("the Committee") comprises Barry Gilbertson as Chairman, Matthew Thorne and David Hunter, all of whom are independent Non-Executive Directors.

Meetings

The Committee meets at least once a year and otherwise as required.

Responsibilities

The key responsibilities of the Committee are:

- Monitor and annually review the performance and independence of the Investment Manager and other key service providers; and
- Ensure the terms of the IMA and engagements with key service providers comply with all relevant regulatory requirements, conform with market practice and remain in the best interests of shareholders.

During the year, the Management Engagement Committee has considered:

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

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

Approval

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

Barry Gilbertson
Chairman of the Management Engagement Committee
5 June 2019

Nominations Committee report

Composition
The Nominations Committee ("the Committee") consists of the four Directors and is chaired by David Hunter.

Meetings
The Committee meets at least once a year and otherwise as required.

Responsibilities
The key responsibilities of the Committee are:

- Review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes;
- Consider succession planning for Directors, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in the future;
- Keep under review the leadership needs of the organisation, with a view to ensuring the continued ability of the Company to compete effectively in the marketplace; and
- Identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

Before any appointment is made by the Board, the Committee is required to evaluate the balance of skills, knowledge, experience and diversity on the Board, and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the Committee shall:

- Use open advertising or the services of external advisers to facilitate the search;
- Consider candidates from a wide range of backgrounds; and
- Consider candidates on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including gender, taking care that appointees have enough time available to devote to the position.

The Committee also makes recommendations to the Board concerning:

- Formulating plans for succession for the Non-Executive Directors;
- Suitable candidates for the role of senior independent director;
- Membership of the Audit Committee, Remuneration Committee and the Management Engagement Committee, and any other Board committees as appropriate and formed in due course, in consultation with the chair of those committees;
- The re-appointment of any Non-Executive Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of knowledge, skills and experience required; and
- The annual re-election by shareholders of Directors or the retirement by rotation provisions in the Company's articles of association, having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required and the need for progressive refreshing of the Board.

Policy on tenure and succession planning
The Committee considers the ongoing independence of each of the Non-Executive Directors, their respective skills and experience and whether each Non-Executive Director is able to commit sufficient time to the Company, as well as any other external appointments held. We consider that each Non-Executive Director has contributed an appropriate amount of time during the year.

Pursuant to the Articles of Association of the Company, at every AGM of the Company, one third of the Non-Executive Directors who are subject to the requirement to retire by rotation (not including any Non-Executive Director who was appointed by the Board since the last AGM and is standing for election) will retire from office and may offer themselves for re-election. However, notwithstanding the provisions of the Articles, all the Non-Executive Directors will offer themselves for re-election at each AGM in accordance with the provisions of the AIC Code.

Non-Executive Directors are appointed for an initial period of three years. It is the Company's policy of tenure to review individual appointments after six years of service to consider whether the Non-Executive Director is still independent and still fulfils the role. However, in accordance with the principles of the AIC Code, we do not consider it necessary to mandatorily replace a Director, including the Chair, after a predetermined period of tenure.

Reflecting the growth of the Company since inception, the Committee is currently recruiting an additional Non-Executive Director with the skills and experience to complement the existing Board and offer scope to add value to the Company. Trust Associates was appointed with this mandate in March 2019 and the Committee hopes to be able to make a recommendation to the Board before the July 2019 AGM.

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

David Hunter
Chairman of the Nominations Committee
5 June 2019

Remuneration Committee report

Composition

The Remuneration Committee ("the Committee") was constituted in April 2018 and comprises Barry Gilbertson as Chairman, Matthew Thorne and David Hunter, all of whom are independent Non-Executive Directors.

Meetings

The Committee meets at least once a year and otherwise as required.

Responsibilities

The key responsibilities of the Committee are:

- To set the remuneration policy for all the Directors taking into account relevant legal and regulatory requirements and the provisions and recommendations of the Code and the AIC Code;
- To review the on going appropriateness and relevance of the remuneration policy; and
- Within the terms of the agreed policy, determine the total individual remuneration package of each Director, taking into account information about remuneration in other companies of comparable scale and complexity.

The Committee operates under written terms of reference which are available on the Company's website.

Directors

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

Under the terms of their appointment, each Director is required to retire by rotation and seek re-election at least every three years. The Company's Articles require one third of Directors to retire and seek re-election each year, however, notwithstanding the provisions of the Articles, all the Non-Executive Directors will offer themselves for re-election at each AGM in accordance with the provisions of the AIC Code. Each Director's appointment under their respective letter of appointment is terminable immediately by either party (the Company or the Director) giving written notice and no compensation or benefits are payable upon termination of office as a Director of the Company becoming effective.

Remuneration policy

The Company's objective is to have a simple and transparent remuneration structure, aligned with the Company's strategy and comparable with similar companies. The Company aims to provide remuneration packages with no variable element which will retain Non-Executive Directors with the skills and experience necessary to maximise shareholder value on a long-term basis. This remuneration policy is also applicable when agreeing the salary of any new Directors.

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

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

At the AGM of the Company held on 19 July 2018, an ordinary resolution to approve the Directors' remuneration report was passed, with 100% of votes cast for the resolution, 0% of votes cast against the resolution and no votes withheld.

The Committee will take into account any views in respect of Directors' remuneration expressed by shareholders in the formulation of the remuneration policy.

Directors' remuneration (audited)

	Year ended 31 March 2019				Year ended 31 March 2018		
	Salary £	**Expenses £**	**Er's NIC £**	**Total £**	Salary £	Er's NIC £	Total £
David Hunter	**50,000**	**991**	**6,625**	**57,616**	48,000	6,362	54,362
Matthew Thorne	**40,000**	**412**	**5,194**	**45,606**	38,000	4,965	42,965
Barry Gilbertson	**38,000**	**549**	**4,900**	**43,449**	33,500	4,397	37,897
Ian Mattioli	**33,500**	**—**	**4,236**	**37,736**	28,500	3,558	32,058
	161,500	**1,952**	**20,955**	**184,407**	148,000	19,282	167,282

Expenses relate to the re-imbursal of certain travel expenses. In May 2019 the Committee approved the following annual salaries with effect from 1 April 2019: David Hunter £51,500; Matthew Thorne £41,200; Barry Gilbertson £40,000; and Ian Mattioli £34,500.

No pension benefits were accruing to any of the Directors during the year (2018: £nil).

Directors' remuneration (audited) continued

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

Directors' interests (audited)

The Directors had the following interests in the ordinary shares of the Company:

	2019		2018	
	No. shares	% holding	No. shares	% holding
David Hunter	29,000	0.01%	29,000	0.01%
Matthew Thorne	29,000	0.01%	29,000	0.01%
Barry Gilbertson	49,000	0.01%	39,000	0.01%
Ian Mattioli[32]	2,446,883	0.61%	2,445,259	0.63%
	2,553,883	0.64%	2,542,259	0.66%

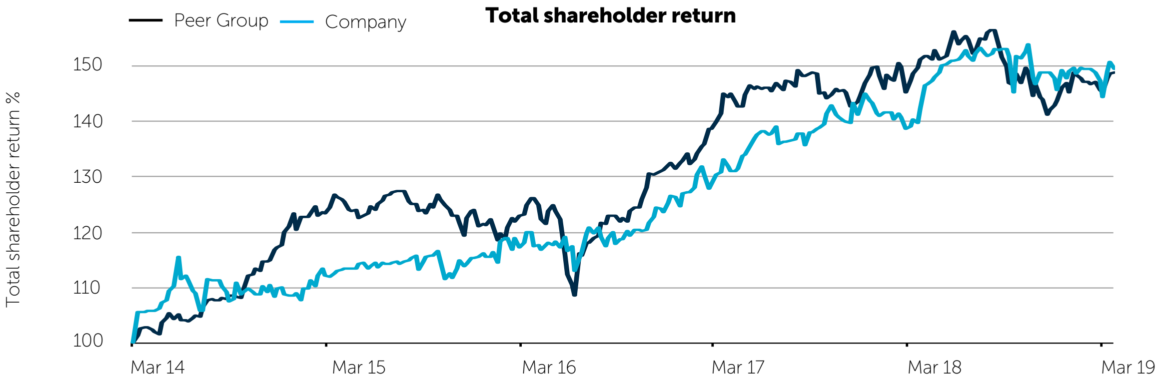
There have been no changes in Directors' interests since the year end.

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

There are no requirements or guidelines for the Directors to own shares in the Company.

Total shareholder return

The graph below illustrates the total shareholder return from Admission to 31 March 2019 in terms of the change in value of an initial investment of £100 invested on 26 March 2014 in a holding of the Company's shares against the corresponding total shareholder returns from a hypothetical basket of shares in similar listed property investment companies.[33]



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

Approval

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

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

Barry Gilbertson
Chairman of the Remuneration Committee
5 June 2019

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

Directors' report

Report and financial statements
The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 March 2019. The Governance report forms part of this report. For the purposes of this report, the Directors' responsibilities statement and the Independent auditor's report, the expression 'Company' means Custodian REIT plc and the expression 'Group' means the Company and its subsidiaries.

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

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

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

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

The Company paid a fourth quarterly dividend of 1.6735p per share (totalling £6.5m) in respect of the quarter ended 31 March 2019 on 31 May 2019, resulting in total dividends relating to the year ended 31 March 2019 achieving the target of 6.55p per share.

The Company's dividend policy is set out in the Business model and strategy section of the Strategic report.

Going concern
At 31 March 2019 the Company had net assets of £426.6m and had undrawn debt facilities of £21.0m. The Investment Manager intends to deploy the Company's cash and debt facilities to achieve its dividend targets, while ensuring it has sufficient liquidity to cover its short-term liabilities and that financial projections indicate ongoing compliance with the Company's borrowing covenants. Therefore, the Directors consider preparing the financial statements on a going concern basis to be appropriate.

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

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

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

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

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

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

Donations
No political or charitable donations were made during the year.

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

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

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

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

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

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

Substantial shareholdings
At 5 June 2019 the Directors were aware that the following shareholders each owned[34] 3% or more of the issued share capital:

Shareholder	Number of ordinary shares	Percentage holding[35]
Mattioli Woods	25,037,897	6.3%
BlackRock	13,906,302	3.5%

No other changes in substantial shareholding were disclosed between 31 March 2019 and 5 June 2019.

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

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

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

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

Sources of greenhouse gas emissions	**31 March 2019 tCO_2e[36]**	31 March 2018 tCO_2e
Scope 1		
Gas, refrigerants and fuel	**–**	–
Scope 2		
Landlord controlled electricity	**407.3**	805.5
Intensity measure		
Emissions per £1m of rent	**11.1**	21.8
Emissions per 1,000 sq ft of internal area	**0.084**	0.179

34. Ownership incorporates the control of voting rights through acting as discretionary investment manager on behalf of retail investors holding the beneficial interest.
35. Based on the issued share capital on 5 June 2019.
36. Tonnes of carbon dioxide equivalent.

Directors' report continued

Greenhouse gas continued

The operational control method has been used to reflect influence over energy consumption. The decrease in landlord controlled electricity during the year is primarily due to the removal of two oil-fired boilers at Lancaster House, Birmingham which previously accounted for one fifth of the landlord-controlled energy output across the portfolio year. Tenants' usage or emissions are not included as the Company does not have control over those items. Emissions from vacant space have been included.

Financial risk management

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

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

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

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

Auditor

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

Directors' statement as to disclosure of information to the auditor

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

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

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

Annual General Meeting

The AGM of the Company will be held at Canaccord Genuity Limited, 88 Wood Street, London, EC2V 7QR on 31 July 2019 at 1:00pm.

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

Events since 31 March 2019

Details of significant events occurring after the end of the reporting year are given in Note 20 to the financial statements.

Approval

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

David Hunter
Independent Chairman
5 June 2019

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement
We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Approval
This responsibility statement was approved by the Board of Directors on 5 June 2019 and is signed on its behalf by:

David Hunter
Independent Chairman
5 June 2019

Independent auditor's report to the members of Custodian REIT plc

For the year ended 31 March 2019

Opinion

In our opinion:

- The financial statements of Custodian REIT plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2019 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- The Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

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

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB), as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Valuation of the Investment Property Portfolio This key audit matter is consistent with that identified in the prior year. Revenue recognition risk and compliance with the REIT regime were removed from the list of key audit matters for this financial year.
Materiality	The materiality that we used for the Group financial statements was £8.7m, which was determined on the basis of 1.5% of gross assets. This was applied in our testing of the Statement of Financial Position. A lower focused materiality of £2.7m was used to test the Statement of Comprehensive Income, which was determined on the basis of 10% of EPRA earnings, being the earnings from core operational activities, excluding investment property valuation movements and gains or losses on asset disposals.
Scoping	All audit procedures were performed directly by the Group audit team.
Significant changes in our approach	In the absence of substantive changes to the Group's business model or activities our audit approach is consistent with the previous period. There were no new key audit matters identified. In the previous year we used 2% of net assets to determine materiality. In the current year we have changed our basis for determining materiality to 1.5% of gross assets. The reason for this change in basis was to align our approach with that applied to similar real estate audits.

Conclusions relating to going concern, principal risks and viability statement

Going concern We have reviewed the Directors' statement in note 2.4 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements. We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment. We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.	We confirm that we have nothing material to report, add or draw attention to in respect of these matters.
Principal risks and viability statement Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: • The disclosures on pages 62-63 that describe the principal risks and explain how they are being managed or mitigated; • The Directors' confirmation on page 67 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or • The Directors' explanation on page 99 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Independent auditor's report to the members of Custodian REIT plc continued

For the year ended 31 March 2019

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have removed REIT regime compliance from our key audit matters given the historical record of the business, the levels of headroom achieved and the limited judgement involved in this area moving forward; this is consistent with other REIT companies.

We have removed revenue recognition from our key audit matters due to decreasing judgements and estimates involved in the area as well as the improvement of internal controls.

Valuation of the investment property portfolio

Key audit matter description	As disclosed in Note 10, the Group's investment property portfolio is valued at £572.7m (31 March 2018: £528.9m). The Group's accounting policy in Note 2 states that investment property is held at fair value and Note 2.5 describes key judgements made in valuation of investment properties. In determining the fair value, the external valuers make a number of key estimates and assumptions, in particular assumptions in relation to market comparable yields and estimates in relation to future rental income increases or decreases. Certain of these estimates and assumptions require input from management. Some of these estimates and assumptions are subject to market forces and will change over time. Valuation of investment property is an area of judgement which could materially affect the financial statements. The Audit Committee report on pages 75-77 discloses this as a primary area of judgement.
How the scope of our audit responded to the key audit matter	Together with our real estate experts, who are Chartered Surveyors, we met with the third party valuer appointed by those charged with governance with the aim of understanding the valuation methodology adopted. We assessed the competence, capabilities and objectivity of the external valuer. We selected a sample of investment properties for further investigation (based on value, absolute and percentage movement and some further properties selected at random from the residual population). We assessed and challenged the reasonableness of the significant judgements and assumptions applied in the valuation model for each property in our sample, focusing in particular on the yields assumed and assessing the sensitivity of the valuation to changes in assumptions. We assessed the completeness and accuracy of the data provided by the Group to the valuers for the purposes of their valuation exercise. With the assistance of members of our audit team who are Chartered Surveyors, we reviewed the significant assumptions in the valuation process, tested a sample of properties by benchmarking against external appropriate property indices and understood the valuation methodology and the wider market analysis. We reviewed the information provided by the valuers both in the meeting and contained in the detailed valuation report; and we undertook our own research into the relevant markets to evaluate the reasonableness of the valuation inputs and the resulting fair values.
Key observations	The results of our tests were satisfactory and we concluded that the key assumptions applied in determining the property valuations were appropriate. The testing performed in relation to the final property valuations proved satisfactory.

Our application of materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£8.7m (2018: £8.3m)	£8.69m (2018: £8.29m)
Basis for determining materiality	1.5% of gross assets (2018: 2% of net assets) for the Statement of financial position testing. This percentage takes into account our knowledge of the Group, our assessment of audit risks and the reporting requirements for the financial statements.	1.5% of gross assets (2018: 2% of net assets) for the Statement of financial position testing. This percentage takes into account our knowledge of the parent company, our assessment of audit risks and the reporting requirements for the financial statements.
Rationale for the benchmark applied	We have used the gross assets value as at 31 March 2019 as the benchmark for determining materiality, as this benchmark is deemed to be one of the key drivers of business value, is a critical component of the financial statements and is a focus for users of those financial statements for property companies. In addition to gross assets, we consider EPRA earnings as a critical performance measure for the Group that is applied to underlying earnings. We have also benchmarked these percentages and our approach to materiality to other listed REITs based on information publicly disclosed in the audit reports and found them to be consistent.	

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.44m (2018: £0.39m) for the Group, and all misstatements in excess of £0.14m for the Statement of Comprehensive Income (2018: £0.13m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

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

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

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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

Independent auditor's report to the members of Custodian REIT plc continued

For the year ended 31 March 2019

Other information continued

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

Fair, balanced and understandable

The statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

Audit Committee reporting

The section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or

Directors' statement of compliance with the UK Corporate Governance Code

The parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- Enquiring of management and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - Identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - Detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - The internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- Discussing among the engagement team and involving relevant internal specialists, including industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: valuation of the investment property portfolio and revenue recognition; and
- Obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included Companies Act 2006, requirements contained in the Listing Rules of the London Stock Exchange and AIFM Directive 2013. In addition, compliance with the REIT regime requirements and Investments Trust Regulations 2011 were fundamental to the Group's ability to continue as a going concern.

Audit response to risks identified

As a result of performing the above, we identified valuation of investment property portfolio as a key audit matter. The key audit matter section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

To respond to identified potential for fraud in revenue recognition we updated our understanding of revenue recognition policies adopted and assessed key relevant controls for accounting for lease incentives and revenue cut-off, as well as performed substantive testing of a sample of new tenancy agreements and revenue cut-off.

Audit response to risks identified continued

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal & regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: • We have not received all the information and explanations we require for our audit; or • Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • The parent company financial statements are not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed as auditor by the Directors in 2014 to audit the financial statements for the period ended 24 March 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years, covering the periods ended 24 March 2014 to 31 March 2019.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

James Wright (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Crawley, UK
5 June 2019

Consolidated statement of comprehensive income

For the year ended 31 March 2019

	Note	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Revenue	4	**39,974**	34,813
Investment management		**(3,486)**	(3,124)
Operating expenses of rental property			
– rechargeable to tenants		**(866)**	(758)
– directly incurred		**(1,530)**	(852)
Professional fees		**(624)**	(433)
Directors' fees		**(183)**	(167)
Administrative expenses		**(626)**	(653)
Expenses		**(7,315)**	(5,987)
Operating profit before financing and revaluation of investment property		**32,659**	28,826
Unrealised (losses)/gains on revaluation of investment property:			
– relating to property revaluations	10	**(5,499)**	11,859
– relating to costs of acquisition	10	**(3,391)**	(6,212)
Valuation (decrease)/increase		**(8,890)**	5,647
Profit on disposal of investment property		**4,250**	1,606
Net (loss)/gain on investment property		**(4,640)**	7,253
Operating profit before financing		**28,019**	36,079
Finance income	6	**27**	99
Finance costs	7	**(4,400)**	(3,758)
Net finance costs		**(4,373)**	(3,659)
Profit before tax		**23,646**	32,420
Income tax expense	8	**—**	–
Profit for the year and total comprehensive income for the year, net of tax		**23,646**	32,420
Attributable to:			
Owners of the Company		**23,646**	32,420
Earnings per ordinary share:			
Basic and diluted (p per share)	3	**6.0**	8.9
EPRA (p per share)	3	**7.3**	6.9

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

Consolidated and Company statements of financial position

As at 31 March 2019
Registered number: 08863271

		Group		Company	
	Note	**31 March 2019 £000**	31 March 2018 £000	**31 March 2019 £000**	31 March 2018 £000
Non-current assets					
Investment property	10	**572,745**	528,943	**572,745**	528,943
Investments	11	**—**	—	**501**	7,610
Total non-current assets		**572,745**	528,943	**573,246**	536,553
Trade and other receivables	12	**3,674**	7,883	**3,674**	7,883
Cash and cash equivalents	14	**2,472**	5,059	**2,472**	5,059
Total current assets		**6,146**	12,942	**6,146**	12,942
Total assets		**578,891**	541,885	**579,392**	549,495
Equity					
Issued capital	16	**3,982**	3,869	**3,982**	3,869
Share premium	16	**225,680**	212,534	**225,680**	212,534
Retained earnings	16	**196,961**	198,799	**196,961**	198,799
Total equity attributable to equity holders of the Company		**426,623**	415,202	**426,623**	415,202
Non-current liabilities					
Borrowings	15	**137,532**	113,357	**137,532**	113,357
Other payables		**576**	571	**576**	571
Total non-current liabilities		**138,108**	113,928	**138,108**	113,928
Current liabilities					
Trade and other payables	13	**6,851**	5,870	**7,352**	13,480
Deferred income		**7,309**	6,885	**7,309**	6,885
Total current liabilities		**14,160**	12,755	**14,661**	20,365
Total liabilities		**152,268**	126,683	**152,769**	134,293
Total equity and liabilities		**578,891**	541,885	**579,392**	549,495

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company. The profit for the financial year dealt with in the financial statements of the parent company was £23,646,000 (2018: £32,420,000).

These consolidated and Company financial statements of Custodian REIT plc were approved and authorised for issue by the Board of Directors on 5 June 2019 and are signed on its behalf by:

David Hunter
Independent Chairman

Consolidated and Company statements of cash flows

For the year ended 31 March 2019

Group and Company	Note	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Operating activities			
Profit for the year		**23,646**	32,420
Net finance costs		**4,373**	3,659
Valuation decrease/(increase) of investment property	10	**8,890**	(5,647)
Impact of rent free	10	**(2,237)**	(1,547)
Profit on disposal of investment property		**(4,250)**	(1,606)
Cash flows from operating activities before changes in working capital and provisions		**30,422**	27,279
Increase in trade and other receivables		**4,209**	985
Increase in trade and other payables and deferred income		**1,404**	250
Cash generated from operations		**36,035**	28,514
Interest and other finance charges		**(4,225)**	(3,553)
Net cash flows from operating activities		**31,810**	24,961
Investing activities			
Purchase of investment property		**(55,523)**	(103,796)
Capital expenditure and development		**(2,530)**	(2,498)
Acquisition costs		**(3,391)**	(6,212)
Disposal of investment property		**15,375**	6,622
Costs of disposal of investment property		**(130)**	(126)
Interest received	6	**27**	32
Net cash used in investing activities		**(46,172)**	(105,978)
Financing activities			
Proceeds from the issue of share capital	16	**13,420**	54,670
Costs of share issue		**(161)**	(758)
New borrowings net of origination costs	15	**24,000**	49,364
Dividends paid	9	**(25,484)**	(23,007)
Net cash from financing activities		**11,775**	80,269
Net decrease in cash and cash equivalents		**(2,587)**	(748)
Cash and cash equivalents at start of the year		**5,059**	5,807
Cash and cash equivalents at end of the year		**2,472**	5,059

Consolidated and Company statements of changes in equity

For the year ended 31 March 2019

	Note	Issued capital £000	Share premium £000	Retained earnings £000	Total equity £000
As at 1 April 2017		**3,390**	**159,101**	**189,386**	**351,877**
Profit for the year		—	—	32,420	32,420
Total comprehensive income for year		—	—	32,420	32,420
Transactions with owners of the Company, recognised directly in equity					
Dividends	9	—	—	(23,007)	(23,007)
Issue of share capital	16	479	53,433	—	53,912
As at 31 March 2018		**3,869**	**212,534**	**198,799**	**415,202**
Profit for the year		—	—	23,646	23,646
Total comprehensive income for year		—	—	23,646	23,646
Transactions with owners of the Company, recognised directly in equity					
Dividends	9	—	—	(25,484)	(25,484)
Issue of share capital	16	113	13,146	—	13,259
As at 31 March 2019		**3,982**	**225,680**	**196,961**	**426,623**

Notes to the financial statements
for the year ended 31 March 2019

1. Corporate information
The Company is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the London Stock Exchange plc's main market for listed securities. The consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of investment property, and are presented in pounds sterling with all values rounded to the nearest thousand pounds (£000), except when otherwise indicated. The consolidated financial statements were authorised for issue in accordance with a resolution of the Directors on 5 June 2019.

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

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

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

2.3. Application of new and revised International Financial Reporting Standards
The Company adopted IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers' on 1 April 2018. The impact of the application of these new standards is shown below:

IFRS 9
IFRS 9 introduces changes to the classification of financial assets and a new impairment model for financial assets. Under the 'simplified approach' to the expected credit loss model, loss allowances equal to the lifetime expected credit losses are recognised on initial recognition of financial assets, depending on assessed credit risk. Additional requirements include both quantitative and qualitative disclosures supporting the basis and recognition of loss allowances, and the recognition of the loss allowance within provisions.

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 £5k additional impairment provision has been required as a result of this change, which has been recognised in the year as the Company has elected not to restate comparatives on initial application of IFRS 9.

IFRS 15
IFRS 15 has changed the timing of when revenue from customer contracts is recognised. Customer contracts are broken down in to separate performance obligations, with contractual revenues being allocated to each performance obligation and revenue recognised on a basis consistent with the transfer of control of goods or services.

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 year as the Company has elected not to restate comparatives on initial application of IFRS 15.

At the date of authorisation of these financial statements, the following new and revised IFRSs which have not been applied in these financial statements were in issue but not yet effective:

- Annual Improvements to IFRSs 2015-2017 Cycle;
- IFRS 16 'Leases'; and
- IFRS 17 'Insurance Contracts'.

2. Basis of preparation and accounting policies continued

2.3. Application of new and revised International Financial Reporting Standards continued

IFRS 16

IFRS 16 'Leases' was issued in January 2016 and is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Company on 1 April 2019.

IFRS 16 removes the distinction between operating and finance leases for lessees and replaces them with the concept of 'right-of-use' assets and associated financial liabilities which will result in almost all leases being recognised on the balance sheet. A leasee's rent expense under IAS 17 for operating leases will be removed and replaced with depreciation and finance costs.

Additional disclosure requirements include presenting:

- Depreciation expense;
- Carrying value of right-of-use assets;
- Additions to right-of-use assets;
- Interest expense on lease liabilities;
- Variable lease payments not included in the lease liability; and
- Total cash outflow for leases.

Additional qualitative and quantitative disclosures will also be necessary about the entity's leasing activities if they are considered necessary to meet the overall disclosure objective.

The Company has assessed the impact of the accounting and disclosure changes that will arise under IFRS 16 and anticipates in the year ending 31 March 2020 a £38k impact on income statement categorisation of headlease costs and a £7k reduction in profit after tax, with no impact on bank covenants.

IFRS 17

IFRS 17 was published in May 2017 and is effective for periods commencing on or after 1 January 2021. The Company has not completed its review of the impact of this new standard but does not anticipate it having a significant impact.

2.4. Significant accounting policies

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

Going concern

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

Income recognition

Contractual revenues are allocated to each performance obligation of a contract and revenue is recognised on a basis consistent with the transfer of control of goods or services. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duties.

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

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

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

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

Taxation

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

Notes to the financial statements continued

for the year ended 31 March 2019

2. Basis of preparation and accounting policies continued

2.4. Significant accounting policies continued

Investment property

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

Group undertakings

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

Financial assets

The Company's financial assets include cash and cash equivalents and trade and other receivables. Interest resulting from holding financial assets is recognised in profit or loss on an accruals basis.

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

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

Cash and cash equivalents

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

Cash proceeds held in charged bank accounts from the disposal of investment property on which bank borrowings are secured are recognised within other receivables.

Financial liabilities and equity

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

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

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

Bank borrowings

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

Trade payables

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

Leases

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

2. Basis of preparation and accounting policies continued

2.4. Significant accounting policies continued

Segmental reporting

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

2.5. Key sources of judgements and estimation uncertainty

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

Judgements

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

- *Valuation of investment property* – Investment property is valued at the reporting date at fair value. Where an investment property is being redeveloped the property continues to be treated as an investment property. Surpluses and deficits attributable to the Company arising from revaluation are recognised in profit or loss. Valuation surpluses reflected in retained earnings are not distributable until realised on sale. In making its judgement over the valuation of properties, the Company considers valuations performed by the independent valuer in determining the fair value of its investment properties. The valuations are based upon assumptions including future rental income, anticipated maintenance costs and appropriate discount rates. The valuer also makes reference to market evidence of transaction prices for similar properties.

Estimates

There are no areas where accounting estimates are significant to the financial statements.

3. Earnings per ordinary share

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

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

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

	Year ended 31 March 2019	Year ended 31 March 2018
Net profit and diluted net profit attributable to equity holders of the Company (£000)	**23,646**	32,420
Net loss/(gain) on investment property (£000)	**4,640**	(7,253)
One-off costs (£000)	**170**	–
EPRA net profit attributable to equity holders of the Company (£000)	**28,456**	25,167
Weighted average number of ordinary shares:		
Issued ordinary shares at start of the year (thousands)	**386,853**	339,013
Effect of shares issued during the year (thousands)	**5,015**	23,380
Basic and diluted weighted average number of shares (thousands)	**391,868**	362,393
Basic and diluted EPS (p)	**6.0**	8.9
EPRA EPS (p)	**7.3**	6.9

Notes to the financial statements continued

for the year ended 31 March 2019

4. Revenue

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Gross rental income from investment property	**39,108**	34,055
Income from recharges to tenants	**866**	758
	39,974	34,813

5. Operating profit

Operating profit is stated after charging/(crediting):

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Profit on disposal of investment property	**(4,250)**	(1,606)
Investment property valuation decrease/(increase)	**8,890**	(5,647)
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	**85**	80
Fees payable to the Company's auditor and its associates for other services	**17**	15
Administrative fee payable to the Investment Manager	**427**	493
Directly incurred operating expenses of vacant rental property	**630**	236
Directly incurred operating expenses of let rental property	**862**	616
Lease and sublease expenses	**38**	37

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

6. Finance income

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Bank interest	**27**	32
Finance income	**—**	67
	27	99

7. Finance costs

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Amortisation of arrangement fees on debt facilities	**175**	205
Other finance costs	**141**	157
Bank interest	**4,084**	3,396
	4,400	3,758

8. Income tax

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

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Profit before income tax	**23,646**	32,420
Tax charge on profit at a standard rate of 19.0% (2018: 19.0%)	**4,493**	6,160
Effects of:		
REIT tax exempt rental profits and gains	**(4,493)**	(6,160)
Income tax expense	**—**	—
Effective income tax rate	**0.0%**	0.0%

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

9. Dividends

Group and Company	**Year ended 31 March 2019 £100**	Year ended 31 March 2018 £000
Interim dividends paid on ordinary shares relating to the quarter ended:		
Prior year		
– 31 March 2018: 1.6125p (2017: 1.5875p)	**6,238**	5,398
Current year		
– 30 June 2018: 1.6375p (2017: 1.6125p)	**6,335**	5,609
– 30 September 2018: 1.6375p (2017: 1.6125p)	**6,449**	5,899
– 31 December 2018: 1.6375p (2017: 1.6125p)	**6,462**	6,101
	25,484	23,007

The Company paid a fourth interim dividend relating to the quarter ended 31 March 2019 of 1.6375p per ordinary share (totalling £6.5m) on 31 May 2019 to shareholders on the register at the close of business on 26 April 2019. This dividend has not been included as a liability in these financial statements.

Notes to the financial statements continued

for the year ended 31 March 2019

10. Investment property

Group and Company	£000	£000
At 31 March 2017		418,548
Impact of rent free		1,547
Additions		110,008
Capital expenditure and development		2,498
Disposals		(9,305)
Valuation increase before acquisition costs	11,859	
Acquisition costs	(6,212)	
Valuation increase including acquisition costs		5,647
At 31 March 2018		528,943
Impact of rent free		2,237
Additions		58,914
Increase in headlease liabilities		6
Capital expenditure and development		2,530
Disposals		(10,995)
Valuation decrease before acquisition costs	(5,499)	
Acquisition costs	(3,391)	
Valuation decrease including acquisition costs		(8,890)
At 31 March 2019		**572,745**

£371.4m (2018: £362.8m) of investment property has been charged as security against the Company's borrowings.

The carrying value of investment property at 31 March 2019 comprises £462.3m freehold (2018: £446.9m) and £110.4m leasehold property (2018: £82.0m).

Investment property is stated at the Directors' estimate of its 31 March 2019 fair value. Lambert Smith Hampton Group Limited ("LSH"), a professionally qualified independent valuer, valued the property as at 31 March 2019 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 property 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 year end valuation, the equivalent yields used ranged from 4.8% to 9.3%. Valuation reports are based on both information provided by the Company e.g. current rents and lease terms, which are derived from the Company's financial and property management systems and are subject to the Company's overall control environment, and assumptions applied by the valuer e.g. ERVs and yields. These assumptions are based on market observation and the valuer's professional judgement. In estimating the fair value of each property, the highest and best use of the properties is their current use.

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

11. Investments

Shares in subsidiaries

Company name	Company number	Country of registration and incorporation	Principal activity	Ordinary shares held	31 March 2019 £000	31 March 2018 £000
Custodian Real Estate Limited	08882372	England and Wales	Dormant	100%	–	–
Custodian Real Estate GP Limited	07631899	England and Wales	Dissolved	100%	–	7
Custodian Real Estate Luxembourg S.à.r.l.	B8162.013	Luxembourg	Dissolved	100%	–	7,102
Custodian Real Estate BL Limited	09270501	England and Wales	Dormant – in liquidation	100%	–	–
Custodian Real Estate (Beaumont Leys) Limited*	04364589	England and Wales	Dormant – in liquidation	100%	4	4
Custodian Real Estate (Leicester) Limited*	04312180	England and Wales	Dormant – in liquidation	100%	497	497
					501	7,610

* Held indirectly.

The Company's dormant UK subsidiaries have claimed the audit exemption available under Section 479A of the Companies Act 2006. The Company's registered office is also the registered office of each UK subsidiary.

During the year, Custodian Real Estate GP Limited and Custodian Real Estate Luxembourg S.à.r.l. were liquidated and amounts due to the subsidiaries were settled by way of distribution out of liquidation.

12. Trade and other receivables

Group and Company	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Falling due in less than one year:		
Trade receivables	2,447	2,137
Other receivables	708	5,194
Prepayments and accrued income	519	552
	3,674	7,883

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before amounts become past due.

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Available information indicates the debtor is unlikely to pay its creditors.

Irrespective of the above analysis the Company considers that default has occurred when a financial asset is more than 180 days past due, based on historical receipt profiles, unless the Company has reasonable and supportable information to demonstrate an alternative criteria is more appropriate.

Trade receivables include £0.2m (2018: £0.2m) which are past due as at 31 March 2019 for which no provision has been made because the amounts are considered recoverable.

Included in other receivables is £nil (2018: £4.4m) cash proceeds held in charged bank accounts from the disposal of investment property on which bank borrowings were secured.

The provision for doubtful debts at the year end was £0.0m (2018: £0.0m).

Tenant rent deposits of £1.2m (2018: £1.2m) are held as collateral against certain trade receivable balances.

Notes to the financial statements continued

for the year ended 31 March 2019

13. Trade and other payables

	Group		Company	
	31 March 2019 £000	31 March 2018 £000	**31 March 2019 £000**	31 March 2018 £000
Falling due in less than one year:				
Trade and other payables	**1,231**	937	**1,231**	937
Social security and other taxes	**1,464**	1,226	**1,464**	1,226
Accruals	**2,911**	2,490	**2,911**	2,490
Rental deposits	**1,245**	1,217	**1,245**	1,217
Amounts due to subsidiary undertakings	**—**	—	**501**	7,610
	6,851	5,870	**7,352**	13,480

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

Amounts payable to subsidiary undertakings are due on demand.

14. Cash and cash equivalents

Group and Company	**31 March 2019 £000**	31 March 2018 £000
Cash and cash equivalents	**2,472**	5,059

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

15. Borrowings

Group and Company	Bank borrowings £000	Costs incurred in the arrangement of bank borrowings £000	Total £000
Falling due in more than one year:			
At 31 March 2018	115,000	(1,643)	113,357
New borrowings	24,000	—	24,000
Amortisation of arrangement fees	—	175	175
At 31 March 2019	**139,000**	**(1,468)**	**137,532**

The Company has the following facilities available:

- A £45m RCF with Lloyds Bank plc with £10m expiring in June 2019 and £35m expiring in November 2020. Annual interest is payable of 2.45% above three-month LIBOR on advances drawn down under the RCF from time to time;
- A £20m term loan facility with Scottish Widows Limited ("SWIP") repayable in August 2025 with fixed annual interest of 3.935%;
- A £45m term loan facility with SWIP repayable in June 2028, with fixed annual interest of 2.987%; and
- A £50m term loan facility with Aviva comprising:
  a) A £35m tranche repayable on 6 April 2032, with fixed annual interest of 3.02%; and
  b) A £15m tranche repayable on 3 November 2032 with fixed annual interest of 3.26%.

At 31 March 2019, the RCF was drawn at £24m (2018: £nil).

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

16. Share capital

Group and Company

Issued share capital	Ordinary shares of 1p	£000
At 31 March 2017	339,013,345	3,390
Issue of share capital	47,839,999	479
At 31 March 2018	386,853,344	3,869
Issue of share capital	11,350,000	113
At 31 March 2019	**398,203,344**	**3,982**

During the year, the Company raised £13.4m (before costs and expenses) through the placing of 11,350,000 new ordinary shares.

Rights, preferences and restrictions on shares

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

At the AGM of the Company held on 19 July 2018, the Board was given authority to issue up to 128,951,115 shares, pursuant to section 551 of the Companies Act 2006 ("the Authority"). The Authority is intended to satisfy market demand for the ordinary shares and raise further monies for investment in accordance with the Company's investment policy. 11,350,000 ordinary shares have been issued under the Authority since 19 July 2018, leaving an unissued balance of 117,601,115 at 31 March 2019. The Authority expires on the earlier of 15 months from 19 July 2018 and the subsequent AGM, due to take place on 31 July 2019.

In addition, the Company was granted authority to make market purchases of up to 38,685,334 ordinary shares under section 701 of the Companies Act 2006. No market purchases of ordinary shares have been made.

Group and Company

Other reserves	Share premium account £000	Retained earnings £000
At 31 March 2017	159,101	189,386
Shares issued during the year	54,191	–
Costs of share issue	(758)	–
Profit for the year	–	32,420
Dividends paid	–	(23,007)
At 31 March 2018	212,534	198,799
Shares issued during the year	13,307	–
Costs of share issue	(161)	–
Profit for the year	–	23,646
Dividends paid	–	(25,484)
At 31 March 2019	**225,680**	**196,961**

The nature and purpose of each reserve within equity are:

- 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 financial statements continued

for the year ended 31 March 2019

17. Commitments and contingencies

Company as lessor

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

Group and Company	31 March 2019 £000	31 March 2018 £000
Not later than one year	**37,631**	36,085
Later than one year but not later than five years	**106,696**	107,264
Later than five years	**83,367**	85,597
	227,694	228,946

Company as lessee

The Company owns long-leasehold property and has non-cancellable payments due under headlease liabilities of:

Group and Company	31 March 2019 £000	31 March 2018 £000
Not later than one year	**38**	37
Later than one year but not later than five years	**151**	149
Later than five years	**3,658**	3,306
	3,847	3,492

The Company's lease obligations contain no contingent rent, renewal or purchase options, escalation clauses or restrictions on dividends, additional debt, and further leasing.

18. Related party transactions

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

Transactions with Directors

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

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

Investment Management Agreement

On 25 February 2014 the Company entered into a three-year IMA with the Investment Manager, under which the Investment Manager was appointed as AIFM with responsibility for the property management of the Company's assets, subject to the overall supervision of the Directors. The Investment Manager manages the Company's investments in accordance with the policies laid down by the Board and the investment restrictions referred to in the IMA. The Investment Manager also provides day-to-day administration of the Company and acts as secretary to the Company, including maintenance of accounting records and preparing the annual financial statements of the Company.

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

- 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.

18. Related party transactions continued

Investment Management Agreement continued

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

- 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. 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% (2018: 0.25%) of the aggregate gross proceeds from any issue of new shares in consideration of the marketing services it provides to the Company.

During the year the Investment Manager charged the Company £3.95m (2018: £3.75m) comprising £3.49m (2018: £3.12m) in respect of annual management charges, £0.43m (2018: £0.49m) in respect of administrative fees and £0.03m (2018: £0.14m) in respect of marketing fees.

During the year Mattioli Woods charged the Company £nil (2018: £0.01m) in respect of corporate transaction support.

Properties

The Company owns 1, Penman Way, Leicester (formerly MW House) and Gateway House located at Grove Park, Leicester, which were partially let to Mattioli Woods for part of the year. On 31 October 2018 Mattioli Woods surrendered one lease and terminated its other lease over parts of Gateway House, paying the remaining 13 months' rent in full, and on 26 November 2018 Mattioli Woods assigned its lease over MW House for the remainder of its term. Mattioli Woods paid the Company rentals of £0.26m (2018: £0.35m) and £0.56m (2018: £nil) in dilapidation settlements during the year.

19. Financial risk management

Capital risk management

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

Net gearing ratio

The Board reviews the capital structure of the Company on a regular basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Company has a target net gearing ratio of 25% determined as the proportion of debt (net of unrestricted cash) to investment property. The net gearing ratio at the year end was 24.1% (2018: 21.0%).

Externally imposed capital requirements

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

Financial risk management

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

Interest rate risk management

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

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

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

Interest rate sensitivity analysis

Interest rate risk arises on interest payable on the RCF only, as interest on all other debt facilities is payable on a fixed rate basis.
At 31 March 2019, the RCF was drawn at £24m. Assuming this amount was outstanding for the whole year and based on the exposure to interest rates at the reporting date, if three-month LIBOR had been 0.5% higher/lower and all other variables were constant, the Company's profit for the year ended 31 March 2019 would decrease/increase by £0.1m due to its variable rate borrowings.

Notes to the financial statements continued

for the year ended 31 March 2019

19. Financial risk management continued

Market risk management

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

Market risk sensitivity

Market risk arises on the valuation of the Company's property portfolio in complying with its bank loan covenants (Note 15). The Company would breach its overall borrowing covenant if the valuation of its property portfolio fell by 31% (2018: 40%).

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company's credit risk is primarily attributable to its trade receivables and cash balances. The amounts included in the statement of financial position are net of allowances for bad and doubtful debts. An allowance for impairment is made where a debtor is in breach of its financial covenants, available information indicates a debtor can't pay or where balances are significantly past due.

The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The maximum credit risk on financial assets at 31 March 2019 was £2.5m (2018: £2.2m).

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

Liquidity risk management

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

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

Group	Weighted average effective interest rate %	31 March 2019 0-3 months £000	31 March 2019 3 months-1 year £000	31 March 2019 1-5 years £000	31 March 2019 5 years + £000
Trade and other payables		6,851	–	151	425
Borrowings:					
Variable rate	3.143	189	566	24,473	–
Fixed rate	3.935	197	590	3,148	21,082
Fixed rate	2.987	336	1,008	5,377	50,623
Fixed rate	3.020	264	793	4,228	43,476
Fixed rate	3.260	122	367	1,956	19,205
		7,959	**3,324**	**39,333**	**134,811**

Company	Weighted average effective interest rate %	31 March 2019 0-3 months £000	31 March 2019 3 months-1 year £000	31 March 2019 1-5 years £000	31 March 2019 5 years + £000
Trade and other payables		7,352	–	151	425
Borrowings:					
Variable rate	3.143	189	566	24,473	–
Fixed rate	3.935	197	590	3,148	21,082
Fixed rate	2.987	336	1,008	5,377	50,623
Fixed rate	3.020	264	793	4,228	43,476
Fixed rate	3.260	122	367	1,956	19,205
		8,460	**3,324**	**39,333**	**134,811**

19. Financial risk management continued

Liquidity risk management continued

Group	Weighted average effective interest rate %	31 March 2018 0-3 months £000	31 March 2018 3 months-1 year £000	31 March 2018 1-5 years £000	31 March 2018 5 years + £000
Trade and other payables	–	2,154	–	146	425
Borrowings:					
Variable rate	–	–	–	–	–
Fixed rate	3.935	197	590	3,148	21,867
Fixed rate	2.987	336	1,008	5,377	51,967
Fixed rate	3.020	264	793	4,228	44,533
Fixed rate	3.260	122	367	1,956	19,694
		3,073	2,758	14,855	138,486

Company	Weighted average effective interest rate %	31 March 2018 0-3 months £000	31 March 2018 3 months-1 year £000	31 March 2018 1-5 years £000	31 March 2018 5 years + £000
Trade and other payables	–	9,764	–	146	425
Borrowings:					
Variable rate	–	–	–	–	–
Fixed rate	3.935	197	590	3,148	21,867
Fixed rate	2.987	336	1,008	5,377	51,967
Fixed rate	3.020	264	793	4,228	44,533
Fixed rate	3.260	122	367	1,956	19,694
		10,683	2,758	14,855	138,486

Fair values

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

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

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

Investment property – level 3

Fair value is based on valuations provided by an independent firm of chartered surveyors and registered appraisers, which uses the inputs set out in Note 10. These values were determined after having taken into consideration recent market transactions for similar properties in similar locations to the investment properties held by the Company. The fair value hierarchy of investment property is level 3. At 31 March 2019, the fair value of the Company's investment properties was £572.7m (2018: £528.9m).

Interest bearing loans and borrowings – level 3

As at 31 March 2019 the value of the Company's loans was £137.5m (2018: £113.4m) and the amortised cost of the Company's loans with Lloyds Bank plc, SWIP 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 their fair value.

Notes to the financial statements continued
for the year ended 31 March 2019

19. Financial risk management continued

Impact of Brexit

As set out in the Principal risks and uncertainties section of the Strategic report, the Board believes it too early to understand fully the impact of Brexit, but notes the main potential negative impact of Brexit is further political uncertainty negatively impacting our investment and occupier market, our ability to execute our investment strategy and our income sustainability in the long term. However, the Board believes the Company is well placed to weather any short-term impact of Brexit because of its diverse portfolio by sector, location and tenant base, its operational focus is on income which is less likely to experience volatility in an uncertain market, its dividend cover has increased to 110.4% this year, and the Company has significant valuation headroom on its borrowing covenants.

The Board does therefore not consider it necessary or possible to carry out sensitivity analysis on its valuation or cash flow assumptions.

20. Events after the reporting date

Since the reporting date the Company raised £9.4m (before costs and expenses) through the issue of 8,000,000 new ordinary shares of 1p each in the capital of the Company.

Alternative performance measure workings

NAV per share total return

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

	Year ended 31 March 2019	Year ended 31 March 2018
Net assets (£000)	**426,623**	415,202
Shares in issue at 31 March (thousands)	**398,203**	386,853
NAV per share at the start of the year (p)	**107.3**	103.8
Dividends per share for the year (p)	**6.55**	6.45
NAV per share at the end of the year (p)	**107.1**	107.3
NAV per share total return	**5.9%**	9.6%

Share price total return

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

	Year ended 31 March 2019	Year ended 31 March 2018
Share price at the start of the year (p)	**113.0**	112.0
Dividends per share for the year (p)	**6.55**	6.45
Share price at the end of the year (p)	**111.2**	113.0
Share price total return	**4.2%**	6.7%

Dividend cover

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

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Dividends paid relating to the year	**19,246**	17,609
Dividends approved relating to the year	**6,521**	6,238
	25,767	23,847
Profit after tax	**23,646**	32,420
One-off costs	**170**	–
Net loss/(gains) on investment property	**4,640**	(7,253)
	28,456	25,167
Dividend cover	**110.4%**	105.5%

Alternative performance measure workings continued

Premium of share price to NAV per share

The difference between the Company's share price and NAV, shown as a percentage at the end of the year.

	Year ended 31 March 2019	Year ended 31 March 2018
NAV per share (p)	**107.1**	107.3
Share price at the end of the year (p)	**111.2**	113.
Premium	**3.8%**	5.3%

Net gearing

Gross borrowings less unrestricted cash, divided by portfolio value.

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Gross borrowings	**139,000**	115,000
Cash	**(2,472)**	(5,059)
Restricted cash	**1,369**	1,341
Net borrowings	**137,897**	111,282
Investment property	**572,745**	528,943
Net gearing	**24.1%**	21.0%

Ongoing charges

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

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Average quarterly NAV during the year	**422,574**	381,562
Expenses	**7,315**	5,987
Operating expenses of rental property rechargeable to tenants	**(866)**	(758)
	6,319	5,229
Operating expenses of rental property directly incurred	**(1,400)**	(852)
One-off costs	**(170)**	–
	4,749	4,377
OCR	**1.53%**	1.37%
OCR excluding direct property expenses	**1.12%**	1.15%

EPRA performance measures

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

EPRA earnings per share

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

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Profit for the year after taxation	**23,646**	32,420
Net loss/(gain) on investment property	**4,640**	(7,253)
One-off abortive acquisition costs	**170**	–
EPRA earnings	**28,456**	25,167
Weighted average number of shares in issue (thousands)	**391,868**	362,393
EPRA earnings per share (p)	**7.3**	6.9

EPRA NAV per share

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

	31 March 2019 £000	31 March 2018 £000
Net assets	**426,623**	415,202
Fair value of financial instruments	**–**	–
Deferred tax	**–**	–
EPRA NAV	**426,623**	415,202
Closing number of shares in issue (thousands)	**398,203**	386,853
EPRA NAV per share (p)	**107.1**	107.3

EPRA NNNAV per share

The EPRA triple NAV is the EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation on revaluations.

	31 March 2019 £000	31 March 2018 £000
EPRA NAV	**426,623**	415,202
Fair value of debt	**–**	–
Deferred tax	**–**	–
EPRA NNNAV	**426,623**	415,202
Closing number of shares in issue (thousands)	**398,203**	386,853
EPRA NNNAV per share (p)	**107.1**	107.3

Alternative performance measure workings continued

EPRA NNNAV per share continued

There is no difference between the carrying value of the Company's interest-bearing loans included in the balance sheet at amortised cost and their fair value. Fair value excludes 'break' costs chargeable should the Company settle loans ahead of their contractual expiry.

EPRA NIY and EPRA 'topped-up' NIY

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

	31 March 2019 £000	31 March 2018 £000
Investment property	**572,745**	528,943
Allowance for estimated purchasers' costs[37]	**37,228**	34,381
Gross up property portfolio valuation	**609,973**	563,324
Annualised cash passing rental income	**38,977**	34,589
Property outgoings	**(914)**	(483)
Annualised net rents	**38,063**	34,106
Impact of expiry of current lease incentives	**1,274**	2,500
	39,337	36,606
EPRA NIY	**6.2%**	6.1%
EPRA 'topped-up' NIY	**6.4%**	6.5%

EPRA vacancy rate

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

	31 March 2019 £000	31 March 2018 £000
Annualised potential rental value of vacant premises	**1,728**	1,332
Annualised potential rental value for the property portfolio	**42,012**	38,420
EPRA vacancy rate	**4.1%**	3.5%

37. Assumed at 6.5% of investment property valuation.

EPRA cost ratios

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

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Directly incurred operating expenses and administrative fees	**6,319**	5,229
Ground rent costs	**(37)**	(37)
EPRA costs (including direct vacancy costs)	**6,282**	5,192
Property void costs	**(609)**	(236)
EPRA costs (excluding direct vacancy costs)	**5,673**	4,956
Gross rental income	**39,108**	33,956
Ground rent costs	**(37)**	(37)
Rental income net of ground rent costs	**39,071**	33,919
EPRA cost ratio (including direct vacancy costs)	**16.1%**	15.3%
EPRA cost ratio (excluding direct vacancy costs)	**14.5%**	14.6%

EPRA capital expenditure

Capital expenditure incurred on the Company's property portfolio during the year.

	31 March 2019 £000	31 March 2018 £000
Acquisitions	**—**	—
Development	**693**	509
Like-for-like portfolio	**1,837**	1,989
EPRA capital expenditure	**2,530**	2,498

EPRA like-for-like rental growth

Like-for-like rental growth of the portfolio by sector.

	2019					
	Industrial £000	Retail warehouse £000	Retail £000	Other £000	Office £000	**Total £000**
Like-for-like rent	14,714	7,362	5,060	5,568	4,045	**36,749**
Acquired properties	516	591	64	780	197	**2,148**
Sold properties	193	18	—	—	—	**211**
EPRA like-for-like rent	15,423	7,971	5,124	6,348	4,242	**39,108**

	2018					
	Industrial £000	Retail warehouse £000	Retail £000	Other £000	Office £000	Total £000
Like-for-like rent	9,274	2,447	3,568	3,098	3,382	21,769
Acquired properties	4,885	3,527	1,228	1,756	626	12,022
Sold properties	182	—	82	—	—	264
EPRA like-for-like rent	14,341	5,974	4,878	4,854	4,008	34,055

Five year performance summary (unaudited)

Income statement	2019 £000	2018 £000	2017 £000	2016 £000	2015 £000
Revenue	**39,974**	34,813	27,610	19,012	11,570
Expenses and net finance costs	**(11,688)**	(9,646)	(7,917)	(5,124)	(3,331)
One-off costs	**170**	—	165	—	219
Tax	**—**	—	—	—	(2)
EPRA profit	**28,456**	25,167	19,858	13,888	8,456
Property (losses)/gains and one-off costs	**(4,810)**	7,253	4,347	(2,681)	289
Profit after tax	**23,646**	32,420	24,205	11,207	8,745
Statement of financial position					
Investment property	**572,745**	528,943	418,548	318,966	207,287
Net borrowings	**(137,897)**	(111,282)	(60,500)	(61,035)	(23,811)
Other assets and liabilities	**(8,225)**	(2,459)	(6,171)	(2,871)	(3,490)
NAV	**426,623**	415,202	351,877	255,060	179,986
Financial highlights					
NAV per share total return (%)	**5.9**	9.6	8.5	6.4	8.5
NAV per share (p)	**107.1**	107.3	103.8	101.5	101.3
EPRA earnings per share (p)	**7.3**	6.9	6.6	6.8	5.6
Dividends per share (p)	**6.55**	6.45	6.35	6.25	5.25
Dividend cover (%)	**110.4**	105.5	101.0	100.8	103.6
Share price total return (%)	**4.2**	6.7	10.3	3.5	13.3
Gearing (%)	**24.1**	21.0	14.5	19.1	11.4
OCR (excluding direct property expenses) (%)	**1.12**	1.15	1.20	1.30	1.40

Financial calendar

25 April 2019	**Ex-dividend date for Q4 dividend**
26 April 2019	**Record date for Q4 dividend**
31 May 2019	**Payment of Q4 dividend**
6 June 2019	**Announcement of results for the year ended 31 March 2019**
31 July 2019	**AGM**

Company information

Directors

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

Company Secretary
Nathan Imlach

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