Custodian
REIT PLC

Interim Report 2019/20

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

The Company offers investors the opportunity to access a diversified portfolio of UK commercial real estate through a closed-ended fund. The Company seeks to provide investors with an attractive level of income and the potential for capital growth, becoming the REIT of choice for private and institutional investors seeking high and stable dividends from well-diversified UK real estate.

For more information visit www.custodianreit.com.

Normanton

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

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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.

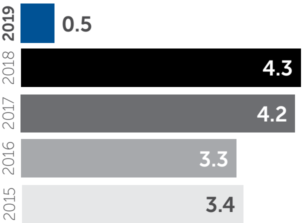
Financial highlights and performance summary

Return

NAV per share total return[1]

0.5%

2018: 4.3% (-3.8%)

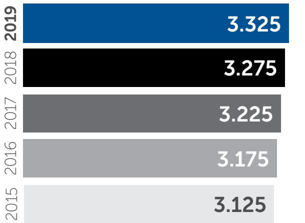


- NAV per share total return of **0.5%** (2018: 4.3%) comprising 3.1% income (2018: 3.1%) and a 2.6% capital decrease (2018: 1.2% capital increase)
- Profit before tax decreased to **£0.7m** (2018: £16.6m), primarily due to property valuation decreases largely offsetting a steady trading result with EPRA earnings per share of **3.4p** (2018: 3.5p)

Six month dividends

3.325p

2018: 3.275p (+1.5%)

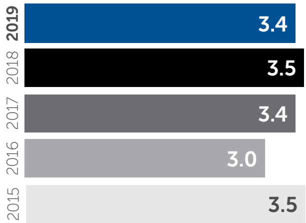


- Dividends per share of **3.325p** (2018: 3.275p) paid and approved for the six-month period
- Basic and diluted earnings per share[2] **0.2p** (2018: 4.3p)

EPRA[3] EPS[4]

3.4p

2018: 3.5p (-2.9%)



- Share price **117.6p** (2018: 121.4p)
- Share price total return[5] **8.7%** (2018: 10.3%)

1. Net Asset Value ("NAV") movement including dividends paid and approved relating to the period on shares in issue at 31 March 2019.
2. Profit after tax divided by weighted average number of shares in issue.
3. The European Public Real Estate Association.
4. Profit after tax excluding net loss on investment property divided by weighted average number of shares in issue.
5. Share price movement including dividends paid and approved for the six-month period.
6. Before costs and expenses of £0.2m.
7. Before disposal costs of £0.1m.
8. Before rental top-ups and cost guarantees of c. £0.3m.
9. Gross borrowings less cash (excluding tenant rental deposits and retentions) divided by property valuation.
10. Before acquisition costs relating to post Period-end acquisitions of £0.2m.
11. ERV of let property divided by total property ERV.
12. Before acquisition costs and completion balance sheet adjustments.

Capital

NAV
£428.5m
2018: £427.5m (+0.2%)

NAV per share
104.3p
2018: 108.6p (-4.0%)

Market capitalisation
£483.0m
2018: £478.1m (+1.0%)

- **£14.7m**[6] of new equity raised at an average premium of 11.4% to dividend adjusted NAV
- Property portfolio value of **£547.2m** (31 March 2019: 572.7m, 2018: £547.0m)
- Disposal of two properties at valuation[7] for aggregate headline consideration of **£15.7m**[8]
- Net gearing[9] **20.5%** (2018: 20.5%)
- Premium to NAV per share **12.8%** (2018: 11.8%)

- **£12.9m** valuation[10] decrease (2.3% of property portfolio value), primarily due to decreases in the estimated rental value ("ERV") of high street retail properties and negative market sentiment for retail assets
- EPRA occupancy[11] **95.5%** (2018: 96.9%)
- Continued focus on active asset management

- Since the period end **£24.65m**[12] invested in the acquisition of eight distribution units
- Increase in the Company's revolving credit facility ("RCF") from £35m to **£50m** for a three year term plus a two year extension option, with the interest rate margin above three-month LIBOR reduced from 2.45% to between 1.5% and 1.8%

Alternative performance measures

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

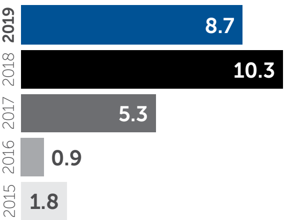
APMs are among the key performance indicators used by the Board to assess the Company's performance and are used by research analysts covering the Company. Certain other APMs may not be directly comparable with other companies' adjusted measures, and APMs are not intended to be a substitute for, or superior to, any IFRS measures of performance. Supporting calculations for APMs and reconciliations between APMs and their IFRS equivalents are set out in the Additional disclosures section of the Interim Report.

Chairman's statement

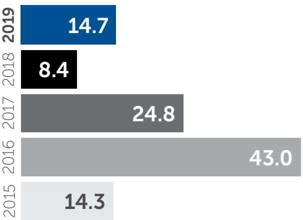
> Positive returns despite a struggling retail sector and political uncertainty

David Hunter,
Chairman

Share price total return (%)



New equity raised (£m)



I am pleased to report that the Company delivered a further positive total return for the six months ended 30 September 2019 ("the Period") despite a struggling retail sector, which contributed to the £12.9m property valuation decrease during the Period and continued UK political uncertainty.

EPRA earnings per share remained relatively flat at 3.4p (2018: 3.5p). During the Period £14.7m was raised from the issue of new shares and £15.7m was raised from disposals. These sums funded the £24.65m acquisition of a portfolio of eight distribution units ("the Menzies Portfolio") through a sale and leaseback to Menzies Distribution Limited.

The purchase of the Menzies Portfolio was facilitated by a corporate acquisition which reduced purchase costs such that the agreed price of £24.65m reflected a net initial yield[13] ("NIY") of 6.4%, supporting our objective to deliver strong income returns from a property portfolio principally of sub £10m lots in strong, regional markets.

Further details on the Company's most recent transactions are set out in the Investment Manager's report.

We continue to target sustainable growth to realise the potential economies of scale offered by the Company's relatively fixed administrative cost base and the reducing scale of management charges. The Company continues to adhere to its investment policy and seeks to maintain the quality of both properties and income.

At the same time as growing the property portfolio, we have continued to pay fully covered dividends in line with target and minimised 'cash drag' on the issue of new shares by taking advantage of the flexibility offered by the Company's RCF. During the Period the Company increased the RCF to £50m, agreeing a new three year term and a reduction in margin above three month LIBOR from 2.45% to between 1.5% and 1.8%. The revised facility will reduce net finance costs, providing additional capacity to exploit new acquisition opportunities whilst maintaining the flexibility to minimise cash drag from equity issuance.

13. Passing rent divided by property valuation plus purchaser's costs.

Net asset value

The Company delivered NAV per share total return of 0.5% for the Period:

	Pence per share	£m
NAV at 31 March 2019	107.1	426.6
Issue of equity (net of costs)	0.3	14.5
	107.4	441.1
Gross valuation decrease	(3.2)	(12.9)
Impact of acquisition costs relating to post Period-end acquisitions	(0.1)	(0.2)
Net valuation decrease	(3.3)	(13.1)
Loss on disposal of investment property	(0.0)	(0.1)
Net loss on investment property	(3.3)	(13.2)
Income	5.0	20.6
Expenses and net finance costs	(1.6)	(6.7)
Dividends paid[14]	(3.2)	(13.3)
NAV at 30 September 2019	**104.3**	**428.5**

14. Dividends of 3.3p per share were paid on shares in issue throughout the Period. Dividends paid on shares in issue at the end of the Period averaged 3.2p per share due to new shares being issued after the Period's first ex-dividend date.

Chairman's statement continued

Investor demand has seen the Company's shares continue to trade at a premium to NAV allowing the Board to issue £14.7m of equity at an average premium of 11.4% above dividend adjusted NAV, more than covering the costs of issue and deployment.

Market

The investment market has been notably quiet over the last quarter with transaction volumes down nearly 20% from 2018 according to Lambert Smith Hampton research. Although overseas investors still make up a significant proportion of buyers, domestic investors have increased activity to account for 53% of the market, demonstrating confidence in the underlying case for property investment.

While these reduced transaction volumes partly reflect low investor demand, it is also the case that opportunities that meet the investment criteria of Custodian REIT have been in very short supply. This Period has been our first half-year since IPO in 2014 where the Company made no property acquisitions.

We believe that abstaining from acquisitions when prevailing pricing is considered expensive is a key advantage of the closed-ended structure.

Net asset value

The valuation decrease of £12.9m was primarily driven by high street retail and retail warehouse valuations falling by £8.8m and £7.7m respectively, further detailed in the Investment Manager's report, due to a reduction in high street retail ERVs, a worsening of investment market sentiment towards retail and two company voluntary arrangements ("CVAs") impacting the valuation of assets in Shrewsbury.

I am pleased to report that the retail valuation declines were partially offset by industrial asset valuations increasing due to latent rental growth and continued investor demand, demonstrating the benefit of a diversified property portfolio. Custodian REIT's investment strategy has always been weighted towards regional industrial and logistics assets, which has stood the Company in good stead again this Period, with valuation gains of £6.8m (3.15%) in this sector pointing to both underlying rental growth and continued investment demand. We expect the Menzies Portfolio will prove to be an excellent addition to this sector of the Company's property portfolio.

Share price

Share price total return for the first half of the financial year was 8.7%, with a closing price of 117.6p per share on 30 September 2019 representing a 12.8% premium to NAV. During the Period the Company's shares traded at a premium to NAV with low share price volatility compared to its peers offering shareholders relatively stable returns. I believe the Company's record of maintaining a share price premium to NAV has been a function of the attractive level of income offered by the Company's dividend policy, strong demand for closed-ended property funds, the daily liquidity of the Company's shares, our regional property investment strategy and the Investment Manager's focused asset management.

Issue of new ordinary shares

The Company issued 12.5m new shares during the Period at an average premium to the prevailing dividend adjusted NAV of 11.4% which was accretive to NAV. The positive and steady investor demand for the Company's shares has been a testament to the successful implementation of our strategy to date. The Board has actively restricted share issuance during the Period to ensure new monies are only raised where there is sufficient pipeline visibility to facilitate prompt deployment on earnings accretive acquisitions.

Bellshill

Chairman's statement continued

Borrowings and cash

As at 30 September 2019 net gearing equated to 20.5% loan-to-value ("LTV"). The Board's strategy is to:

- Increase debt facilities in line with property portfolio growth targeting net gearing of 25% LTV;
- Facilitate expansion of the property portfolio to take advantage of expected rental growth and reduce ongoing charges; and
- Reduce shareholders' exposure to risk by:
  - Taking advantage of low interest rates to secure long-term, fixed rate borrowing; and
  - Managing the weighted average maturity ("WAM") of the Company's debt facilities.

During the Period the Company increased total funds available under the RCF from £35m to £50m for a term of three years, with an option to extend the term by a further two years. The Company operates the following debt facilities:

- A £50m RCF with Lloyds Bank plc with interest of between 1.5% and 1.8% above three-month LIBOR, determined by reference to the prevailing LTV ratio and expiring on 17 September 2022;
- A £20m term loan with Scottish Widows plc with interest fixed at 3.935% and is repayable on 13 August 2025;
- A £45m term loan with Scottish Widows plc with interest fixed at 2.987% and is repayable on 5 June 2028; and:
- A £50m term loan with Aviva Real Estate Investors comprising:
  - a) £35m Tranche 1 repayable on 6 April 2032 attracting fixed annual interest of 3.02%; and
  - b) £15m Tranche 2 repayable on 3 November 2032 attracting fixed annual interest of 3.26%.

The weighted average cost of the Company's agreed debt facilities is 3.0% (2018: 3.1%) with a WAM of 8 years (2018: 9 years). 70% (2018: 77%) of the Company's debt facilities are at a fixed rate of interest, significantly mitigating interest rate risk.

Cash and cash equivalents at the Period-end of £41.7m (2018: £8.2m) include £23.6m held in the Company's solicitor's client account relating to the acquisition of the Menzies Portfolio and £15.2m disposal proceeds held in a charged account pending the securitisation of replacement assets.

Investment Manager

Custodian Capital Limited ("the Investment Manager") is appointed under an investment management agreement ("IMA") to provide property management and administrative services to the Company. During the Period the Investment Manager charged the Company £2.0m (2018: £1.9m) in respect of annual management charges and administration fees. Further details of fees payable to the Investment Manager are set out in Note 16.

The Board is pleased with the performance of the Investment Manager, particularly the prompt deployment of the proceeds from property disposals and new equity which took place shortly after the Period-end on eight high quality industrial assets. The Board is also pleased to record the Investment Manager's continuing successful asset management which has secured the earnings required to fully cover the target dividend.

Dividends

Income is a major component of total return. The Company paid aggregate dividends of 3.30p per share during the six-month Period, all classified as property income distributions, comprising interim dividends of 1.6375p per share and 1.6625p per share relating to the quarters ended 31 March 2019 and 30 June 2019 respectively.

The Board approved an interim dividend of 1.6625p per share for the quarter ended 30 September 2019 which was paid on 29 November 2019. In the absence of unforeseen circumstances the Board believes the Company is well placed to meet its target[15] of paying further quarterly dividends, fully covered by income, to achieve an annual dividend per share for the year ending 31 March 2020 of 6.65p (2019: 6.55p).

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.

Board composition

Reflecting the growth of the Company since inception, we are in the process of recruiting an additional Non-Executive Director. The Directors believe the new appointee's skills and experience complement the existing Directors and her appointment will add value to the Company.

Environmental policy

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 because properties are controlled by their tenants. However, the Board adopts sustainable principles where possible and the key elements of the Company's current environmental policy are:

- We want our properties to minimise their impact on the environment and the Investment Committee of the Investment Manager carefully considers the historical and current usage and environmental performance of assets before acquisition;
- An ongoing examination of existing and new tenants' business activities allows assessment of the risk of pollution occurring, and tenants with high-risk activities are avoided;
- Sites are visited periodically and any observable environmental issues are reported to the Investment Committee of the Investment Manager; and
- All leases prepared after the adoption of the policy commit occupiers to observe any environmental regulations.

The Company has recently engaged Carbon Credentials, specialist environmental consultants to review the Company's environmental policy, identify and prioritise opportunities for improvements and recommend how best risks might be managed.

Outlook

The challenges to physical retail compared to online retail have yet to reach a conclusion, but across other sectors of the commercial property market, there remain supply and demand imbalances that should continue relatively low vacancy rates and further rental growth. These conditions are positive for the income focused strategy of Custodian REIT.

The outlook for the UK economy has been uncertain for some time, with the political backdrop increasingly dominating decision making. It is not unreasonable to presume, if we have more settled times ahead, that UK commercial property will again come into focus for investors seeking income. It seems we are almost certainly destined for an extended period of low interest rates and in a low return environment the income returns offered by property look very attractive.

David Hunter
Chairman
11 December 2019

15. This is a target only and not a profit forecast. There can be no assurance that the target can or will be met and it should not be taken as an indication of the Company's expected or actual future results. Accordingly, shareholders or potential investors in the Company should not place any reliance on this target in deciding whether or not to invest in the Company or assume that the Company will make any distributions at all and should decide for themselves whether or not the target dividend yield is reasonable or achievable.

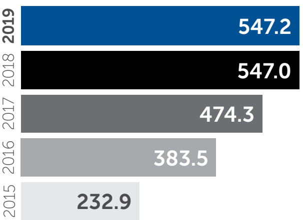
Investment Manager's report

> A continued focus on maintaining occupancy whilst securing cash flow

Richard Shepherd-Cross,
Investment Manager

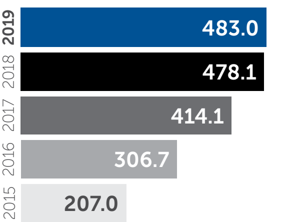
Portfolio value

£547.2m



Market capitalisation

£483.0m



Property market

Custodian REIT benefits from a balanced and diverse property portfolio. There has been much focus in the press on the woes of retailers and the resulting impact on real estate. There is no doubt that the over-supply of shops on the high street needs to be addressed and, while a number of CVAs have reduced rents on specific assets, there remains widespread rental value decline as a result of this over-supply.

Notwithstanding these falls in rental values, Custodian REIT has continued to focus on maintaining occupancy and securing cash flow. We have worked with tenants to retain them in occupation following CVAs and at lease expiry or break, resulting in 96.0% occupancy across our high street retail property portfolio.

We have previously forecast greater resilience in the out of town retail market, which benefits from a restricted supply, generally free parking and the convenience that is complementary to online sales for both 'click & collect' and customer returns. We believe this forecast remains robust, although the read-across from the impact on high street retailers and investors generally turning away from the retail sector has had some negative impact on retail warehouse values.

Regional offices have provided fairly stable returns over the Period. Sustained demand coupled with low levels of development and restricted supply of Grade A offices in regional markets has led to rental growth, which is most apparent in the major regional cities where Grade A rents are hitting new headline peaks. Although the costs of office ownership (through landlord's capital expenditure and tenant lease incentives) remain higher for offices than other sectors, we expect to see a relatively steady market ahead.

Aberdeen


Menzies
DISTRIBUTION
Menzies
DISTRIBUTION
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DISTRIBUTION

Investment Manager's report continued

WeWork is a relatively new entrant into the regional office market but continues to make headlines both corporately and in new office lettings. Time will tell whether it will be complementary or competitive to the Custodian REIT strategy but at present it has had minimal impact on the regional markets in which we operate.

Custodian REIT derives 17% of its income from 'other' assets, which are broadly showing occupational resilience and continued demand from investors seeking to diversify out of retail. This diversification successfully mitigates some of the challenges in retail, whilst the continued asset management of the property portfolio is supporting the Company's NAV.

Across the property portfolio we agreed 21 rent reviews (excluding electric charging points), new lettings or lease renegotiations during the Period. In the industrial portfolio this led to an annual rental increase of £268k. This increase has countered a decline of £169k across the retail portfolio over and above the impact of CVAs which are discussed below. The net increase in rent demonstrates the continuing opportunities to enhance earnings across Custodian REIT's diverse regional property portfolio.

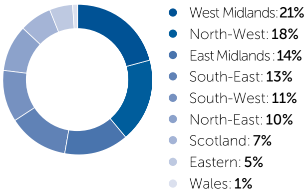
Property portfolio performance

At 30 September 2019 the Company's property portfolio comprised 153 assets, 210 tenants and 262 tenancies with an aggregate net initial yield of 6.7%. The property portfolio is split between the main commercial property sectors, in line with the Company's objective to maintain a suitably balanced portfolio, with a relatively low exposure to office and a relatively high exposure to industrial, retail warehouse and alternative sectors, often referred to as 'other' in property market analysis. The current sector weightings are:

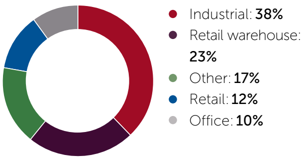
Sector	**Valuation 30 Sept 2019 £m**	**Weighting by income[16] 30 Sept 2019 %**	Valuation 31 March 2019 £m	Weighting by income 31 Mar 2019 %	Valuation movement before acquisition costs £m	Valuation movement including acquisition costs £m	**Weighting by value 30 Sept 2019 %**	Weighting by value 31 Mar 2019 %
Industrial	**226.6**	**38%**	224.3	38%	6.8	6.6	**41%**	39%
Retail warehouse	**117.2**	**23%**	123.4	22%	(7.7)	(7.7)	**21%**	21%
Other[17]	**92.5**	**17%**	95.7	17%	(2.7)	(2.7)	**17%**	17%
High street retail	**58.3**	**12%**	68.6	12%	(8.8)	(8.8)	**11%**	12%
Office	**52.6**	**10%**	60.7	11%	(0.5)	(0.5)	**10%**	11%
Total	**547.2**	**100%**	572.7	100%	(12.9)	(13.1)	**100%**	100%

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

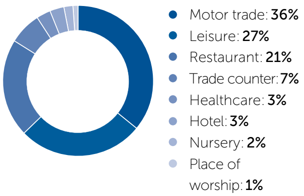
Regional split by income



Sector split by income



Other sector – subsector split



Disposals

After focused pre-sale asset management, the following two properties were sold at valuation during the Period for a headline consideration of £15.7m:

- In Wolverhampton, a 119,600 sq ft industrial unit was sold for £6.6m, in line with the 30 June 2019 valuation. The property was purchased in June 2016 for £4.5m as part of a three-property portfolio; and
- In Edinburgh, a 39,279 sq ft city centre office and retail unit in Edinburgh sold for £9.1m, in line with the 30 June 2019 valuation, having been acquired as part of a portfolio in January 2016 for £9.0m.

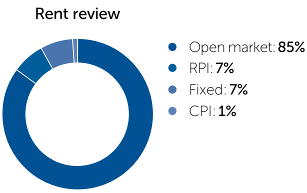
Investment objective

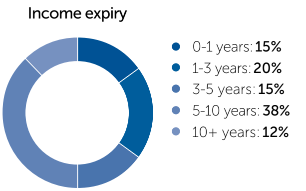
The Company's key objective is to provide shareholders with an attractive level of income by maintaining a high level of dividend, fully covered by earnings, with a conservative level of net gearing.

We continue to pursue a pipeline of new investment opportunities with the aim of deploying the Company's undrawn debt facilities up to the net gearing target of 25% LTV. We have terms agreed to fund the development of a drive-through coffee shop in Nottingham. We believe a selective approach to acquisitions can still yield investment opportunities in the current market and consider the Company well positioned with long-term debt facilities and low net gearing to take advantage of opportunities as they arise.

We remain committed to a strategy principally focused on sub £10m lot-size regional property, diversified across sector, geography and with a broad tenant mix which should stand the property portfolio in good stead against market shocks.

Investment Manager's report continued





Property portfolio risk

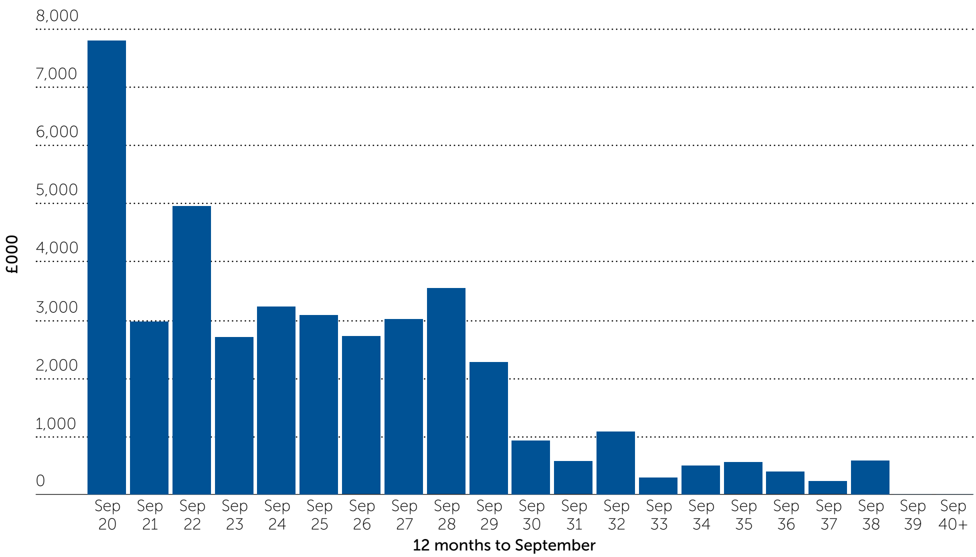
The property portfolio's security of income is enhanced by 15.2% of income benefitting from either fixed or indexed rent reviews.

Short-term income at risk is a relatively low proportion of the property portfolio's total income, with 35% (2018: 33%) expiring in the next three years and 15% within one year (2018: 8%).

The Investment Manager does not anticipate any changes to the principal risks and uncertainties set out in the Company's Annual Report for the year ended 31 March 2019 over the remainder of the financial year.

The Board considers it is too early to understand the full impact of 'Brexit' on revenues and the property portfolio valuation while the terms of the UK's future trading arrangement with the EU remain unclear. However, subject to there not being a 'no deal' Brexit, this political risk is not considered likely to have a material impact on the Company's performance due to the 'Mitigating Factors' set out on pages 62-63 of the 2019 Annual Report. If appropriate, the Board will review strategy following the General Election, but the Company's focus on diversified and income producing assets is intended to be resilient to political change.

Lease expiry profile



Asset management
Owning the right properties at the right time is one key element of effective portfolio management, which necessarily involves some periodic selling to balance the portfolio. While Custodian REIT is not a trader, identifying opportunities to dispose of assets to take a profit or that no longer fit within the Company's investment strategy is necessary. Importantly, we promptly reinvested the proceeds from the two disposals into the Menzies Portfolio, which is better aligned with the Company's long-term investment strategy.

A continued focus on active asset management including rent reviews, new lettings, lease extensions and the retention of tenants beyond their contractual break clauses have partially offset the negative valuation impact of reductions in ERVs in the high street retail sector and a reduction in valuation yields due to worsening market sentiment. Initiatives completed during the Period were:

- Agreeing a five year extension to a lease with Turpin Distribution at an industrial unit in Biggleswade, increasing annual rent by 10% to £330k;
- Completing a lease renewal with Laura Ashley at Colchester where the tenant has taken a five year lease with a third year tenant only break option, with annual passing rent falling from £118k to £106k;
- Completing a lease renewal with Specsavers in Norwich which has taken a 10 year lease with a fifth year tenant only break option at £126k, against an ERV of £125k;
- Retained Waterstones in Scarborough beyond its contractual lease expiry on a flexible lease arrangement whilst the unit is re-marketed, with annual passing rent falling from £93k to £45k;
- Completed a 10 year lease extension, subject to a fifth year tenant only break option, with Equinox Aromas in Kettering with no change to annual passing rent; and
- Completing six electric vehicle charging point leases to Instavolt across a number of retail warehouse sites within the property portfolio, generating an additional £18k in annual contracted rent on 15 year leases.

Further initiatives on other properties currently under review are expected to complete during the coming months.

Growth in rents and positive asset management outcomes have been tempered by CVAs in the retail portfolio with both Cotswold Outdoor and Paperchase entering CVAs with an aggregate reduction of £228k in rent. In addition two tenants, Thomas Cook in Shrewsbury and Kings Road Tyres in Burton upon Trent, recently went into administration. We expect Hays Travel to take on the former Thomas Cook unit, albeit at a lower rent, and the Burton upon Trent property has already been re-let at £500k pa, a rent reduction of just £10k.

The recent exercise of a tenant only break option effective from August 2020 in Weymouth and three tenants confirming their intention to vacate premises at lease expiry in 2020 in Redditch, Portsmouth and Cirencester will put annual aggregate rent of £687k at risk. We consider re-letting vacant properties and re-gearing leases part of the day-to-day management of a diversified property portfolio. We do not expect these negotiations to lead to a significant increase in the Company's void rate, based on our anticipated discussions with tenants to remain in situ and knowledge of the asset-specific local letting market.

The property portfolio's WAULT decreased from 5.6 years at 31 March 2019 to 5.3 years principally due to the natural half a year's decline due to the passage of time over the Period, partially offset by disposing of two assets with an aggregate WAULT of 4.4 years and completion of the asset management initiatives above. The acquisition of the Menzies Portfolio on 1 October 2019 increased the Company's property portfolio's WAULT to 5.5 years.

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

Investment Manager's report continued

Outlook

We do not expect to see a meaningful change in investor demand for UK real estate over the next few months. We anticipate the impact of the General Election and the conundrum of Brexit will continue to occupy investors' thoughts and we anticipate a period of continued relative inaction while investors wait to see what happens next. However, we believe a clear outcome from the General Election could produce an upsurge in confidence and activity and we remain ready with available undrawn debt facilities to exploit any opportunities which may arise. Meanwhile, the occupational market in the regions remains short of supply which continues to support rental growth in office and industrial markets.

While Custodian REIT is not immune from falling values, as witnessed in the NAV decrease during the period, this is a cloud with a silver lining. Market conditions through late 2018 and 2019 have made it very difficult to source investment property with the appropriate risk profile. Properties that are modern, fit for purpose; capable of delivering long-term secure income; not in need of significant capital expenditure and likely to show limited voids have been scarce. A downward adjustment in market values could create the sort of opportunities that will allow Custodian REIT's strategy to continue to thrive.

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

Richard Shepherd-Cross
for and on behalf of Custodian Capital Limited
Investment Manager
11 December 2019


TO LET
MODERN OFFICE SUITES

Menzies Portfolio acquisition

On 1 October 2019 we acquired the Menzies Portfolio for £24.65m via a sale and leaseback transaction with Menzies Distribution Limited ("MDL"). MDL is one of the UK's leading print media logistics companies, servicing 1,700 routes per day from over 50 sites across the UK and Ireland. The Menzies Portfolio comprises eight logistics/distribution units spread across the UK with a current passing rent of £1.61m reflecting a NIY of 6.4%.

The Company acquired the Menzies Portfolio by purchasing the entire issued share capital of John Menzies Property 4 Limited which owns the Menzies Portfolio. All eight properties are let on new 10 year leases with one unit having a second-year break option. The leases provide for a 13.1% fixed rental uplift at year five.

The Menzies Portfolio is strongly aligned to Custodian REIT's investment strategy and complementary to the Company's existing property portfolio. The pricing benefits of pursuing a smaller lot-size, regional strategy is evident when compared with pricing in the highly competitive market for logistics assets. The acquisition of the Menzies Portfolio enhances the Company's property portfolio's weighted average unexpired lease term to first break or expiry ("WAULT"), supplements regional diversification and additionally provides secure cash flow with the benefit of fixed rental uplifts in 2024.

Following this transaction, MDL became Custodian REIT's largest tenant, but MDL still represents only 3.9% of the rent roll. No one property accounts for more than 0.7% of the rent roll, supporting the continued drive to mitigate risk through diversification and stock selection. We are very pleased to enter into a long-term relationship with MDL, which offers a strong covenant.

The corporate transaction offered compelling economic benefits to both the Company and the vendor, compared to acquiring the properties directly. For details of all properties in the portfolio please see www.custodianreit.com/property/portfolio.

Aberdeen

Glasgow


Norwich

Swansea


Edinburgh


Ipswich

Stockton


Weybridge

> The Menzies Portfolio is strongly aligned to Custodian REIT's investment strategy and complementary to its existing property portfolio

Richard Shepherd-Cross,
Investment Manager

Headline price

£24.65m

Length of leases

10 years[18]

Net initial yield

6.4%

Annual passing rent

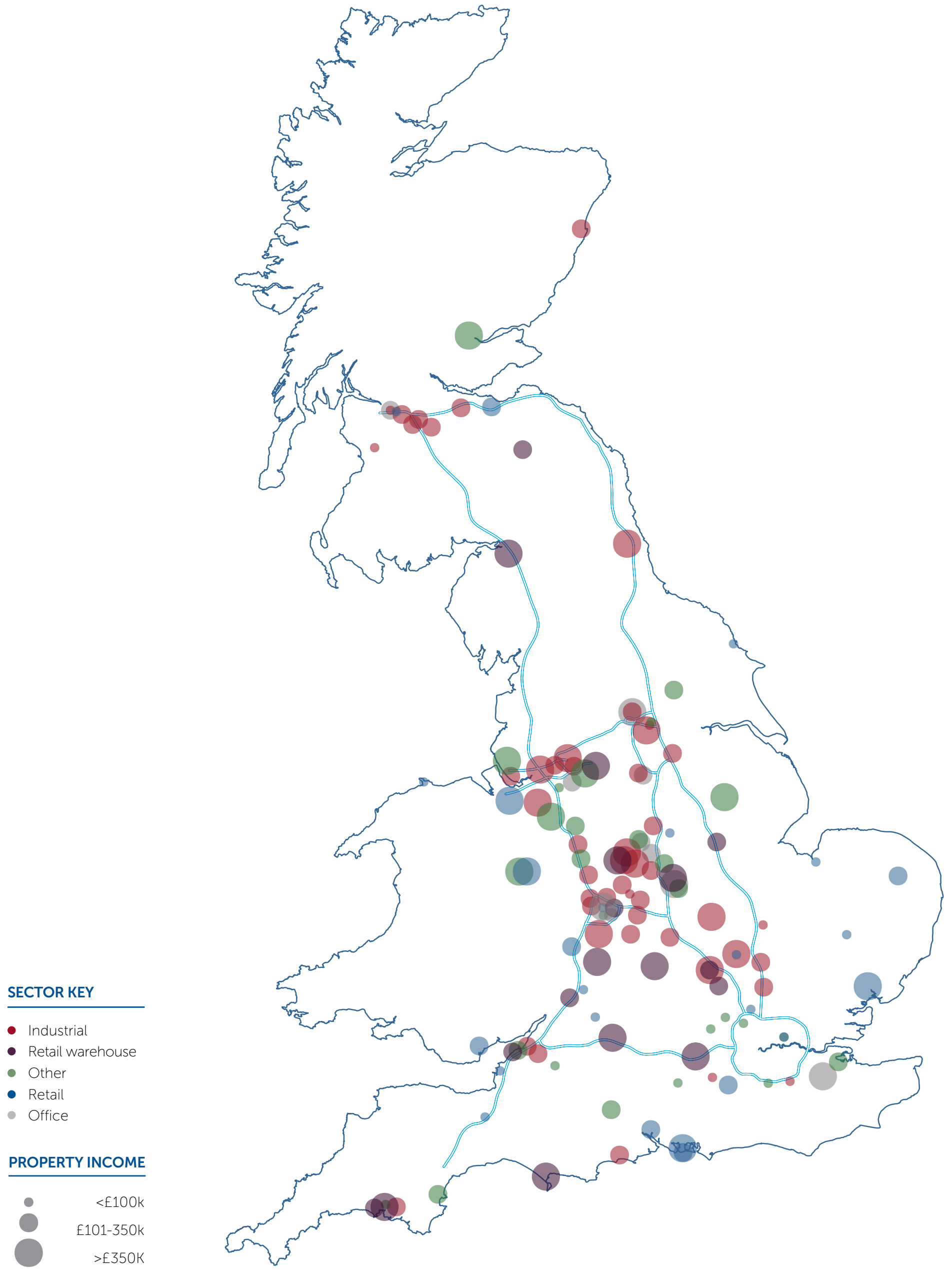
£1.61m

Tenant proportion of rent roll

3.9%

18. The Weybridge unit has a second-year break option.

Our property portfolio



Industrial

Location	Tenant	Income[19]
Ashby-de-la-Zouch	Teleperformance	**1.3%**
Burton	Kings Road Tyres	**1.2%**
Gateshead	Multi-let	**1.2%**
Warrington	JTF Wholesale	**1.2%**
Salford	Restore	**1.1%**
Bedford	Elma Electronics and Vertiv Infrastructure	**1.1%**
Hilton, Derby	Daher Aerospace	**1.0%**
Winsford	H&M	**1.0%**
Eurocentral	Next	**0.9%**
Tamworth	ICT Express	**0.9%**
Doncaster	Silgan Closures	**0.9%**
Redditch	Amco Services	**0.8%**
Normanton	YESSS Electrical	**0.8%**
Biggleswade	Turpin Distribution	**0.8%**
Stone	Revlon International	**0.8%**
Kettering	Multi-let	**0.8%**
Warrington	Procurri Europe and Synertec	**0.8%**
Daventry	Cummins	**0.8%**
Redditch	Hydro Extrusions	**0.7%**
Cannock	HellermannTyton	**0.7%**
Milton Keynes	Massmould	**0.7%**
West Bromwich	OyezStraker	**0.7%**
Team Valley - Gateshead	Worthington Armstrong	**0.7%**
Bellshill, Glasgow	Yodel Delivery Network	**0.7%**
Nuneaton	DX Network Services	**0.6%**
Milton Keynes	Saint-Gobain Building Distribution	**0.6%**
Plymouth	Sherwin-Williams	**0.6%**
Avonmouth	Superdrug	**0.6%**
Bedford	Heywood Williams Components	**0.6%**
Bristol	BSS	**0.6%**
Coventry	Royal Mail	**0.6%**

Location	Tenant	Income
Hamilton	Ichor Systems	**0.6%**
Stevenage	Morrison Utility Services	**0.6%**
Livingston	A Share & Sons (t/a SCS)	**0.5%**
Manchester	Unilin Distribution	**0.5%**
Oldbury	Sytner	**0.5%**
Aberdeen	DHL Supply Chain	**0.5%**
Christchurch	Interserve Project Services	**0.5%**
Cambuslang	Brenntag	**0.5%**
Warrington	Dinex Exhausts	**0.4%**
Warwick	Semcon	**0.4%**
Leeds	Sovereign Air Movement and Tricel Components	**0.4%**
Coalville	MTS Logistics	**0.4%**
Erdington	West Midlands Ambulance Service NHS Trust	**0.4%**
Langley Mill	Warburtons	**0.4%**
Irlam	Northern Commercials	**0.4%**
Castleford	Bunzl	**0.4%**
Sheffield	Synergy Health	**0.3%**
Liverpool	Powder Systems	**0.3%**
Westerham	Aqualisa Products	**0.3%**
Sheffield	Arkote	**0.3%**
Sheffield	ITM Power and River Island	**0.3%**
Kettering	Sealed Air	**0.3%**
Atherstone	North Warwickshire Borough Council	**0.3%**
Liverpool	DHL International	**0.3%**
Huntingdon	PHS	**0.3%**
Normanton	Acorn Web Offset	**0.3%**
Kilmarnock	Royal Mail	**0.2%**
Glasgow	DHL Global Forwarding	**0.2%**
	VACANT UNITS	**1.3%**
		37.9%

19. % of property portfolio passing rent plus ERV of vacant units.

Our property portfolio continued

Retail warehouse

Location	Tenant	Income
Evesham	Multi-let	**2.3%**
Weymouth	Multi-let	**2.0%**
Carlisle	Multi-let	**1.9%**
Winnersh	Pets at Home and Wickes	**1.4%**
Burton upon Trent	CDS (t/a The Range) and Wickes	**1.4%**
Swindon	B&M and Go Outdoors	**1.3%**
Leicester	Matalan	**1.3%**
Banbury	B&Q	**1.2%**
Plymouth - Coypool	A Share & Sons (t/a SCS) and JB Global (t/a Oak Furniture Land)	**1.2%**
Ashton-under-Lyne	B&M	**1.1%**
Plymouth - Transit Way	Multi-let	**1.0%**
Gloucester	Multi-let	**0.9%**
Sheldon	Multi-let	**0.9%**
Leighton Buzzard	Homebase	**0.9%**
Grantham	Multi-let	**0.8%**
Galashiels	B&Q	**0.7%**
Leicester	Magnet	**0.6%**
Torpoint	Sainsbury's	**0.6%**
Portishead	Multi-let	**0.5%**
	VACANT UNITS	**0.9%**
		22.9%

Other

Location	Tenant	Income
Stockport	Benham Specialist Cars (t/a Williams BMW and Mini)	**1.8%**
Liverpool	Multi-let	**1.1%**
Perth	Multi-let	**1.0%**
Lincoln	Total Fitness	**0.9%**
Stoke	Nuffield Health	**0.9%**
Derby	VW Group	**0.8%**
Crewe	Multi-let	**0.8%**
Stafford	VW Group	**0.7%**
Torquay	Multi-let	**0.7%**
Gillingham	Co-operative	**0.7%**
York	Pendragon	**0.6%**
Portishead	Travelodge	**0.5%**
Salisbury	Parkwood Health & Fitness	**0.5%**
Shrewsbury	VW Group	**0.5%**
Lincoln	MKM Building Supplies	**0.5%**
Loughborough	Listers Group	**0.4%**
Crewe	Multi-let	**0.4%**
Redhill	Honda Motor Europe	**0.3%**
Bath	Chokdee (t/a Giggling Squid)	**0.3%**
Shrewsbury	Azzurri Restaurants (t/a ASK) and Sam's Club (t/a House of the Rising Sun)	**0.3%**
Castleford	MKM Building Supplies	**0.3%**
High Wycombe	Stonegate Pub Co	**0.3%**
Maypole, Birmingham	Starbucks	**0.3%**
Shrewsbury	TJ Vickers & Sons	**0.3%**
Carlisle	The Gym Group	**0.3%**
Leicester	Pizza Hut	**0.3%**
Watford	Pizza Hut	**0.2%**
Plymouth	McDonald's	**0.2%**
Basingstoke	Bright Horizons	**0.2%**
Portishead	JD Wetherspoon	**0.2%**
Stratford	The Universal Church of the Kingdom of God	**0.1%**
Kings Lynn	Loungers	**0.1%**
Chesham	Bright Horizons	**0.1%**
Knutsford	Knutsford Day Nursery	**0.1%**
	VACANT UNITS	**0.5%**
		17.2%

Retail

Location	Tenant	Income
Portsmouth	Multi-let	**1.2%**
Shrewsbury	Multi-let	**1.1%**
Worcester	Superdrug	**0.9%**
Colchester	Multi-let	**0.7%**
Cardiff	Specsavers and Card Factory	**0.6%**
Southampton	URBN	**0.5%**
Guildford	Reiss	**0.5%**
Southsea	Portsmouth City Council	**0.4%**
Llandudno	WH Smith	**0.4%**
Cardiff	Sportswift (t/a Card Factory)	**0.4%**
Birmingham	Multi-let	**0.3%**
Nottingham	The White Company	**0.3%**
Chester	Felldale Retail (t/a Lakeland) and Signet Trading (t/a Ernest Jones)	**0.3%**
Chester	Ciel Concessions (t/a Chesca) and TSB	**0.3%**
Norwich	Specsavers	**0.3%**
Weston-Super-Mare	Superdrug	**0.3%**
Edinburgh	Phase Eight	**0.3%**
Chester	Aslan Jewellery (t/a Gasia) and Der Touristik	**0.3%**
Portsmouth	The Works	**0.3%**
Stratford	Foxtons	**0.2%**
Scarborough	Waterstones	**0.2%**
Taunton	Wilko Retail	**0.2%**
Bury St Edmunds	The Works	**0.2%**
Colchester	Kruidvat Real Estate (t/a Savers)	**0.2%**
St Albans	Crepeaffaire	**0.2%**
Cirencester	Framemakers Galleries and The Danish Wardrobe (t/a Noa Noa)	**0.2%**
Bury St Edmunds	Savers	**0.1%**
Cheltenham	Done Brothers (t/a Betfred)	**0.1%**
Bedford	Waterstones	**0.1%**
Shrewsbury	Cotswold Outdoor	**0.0%**
	VACANT UNITS	**0.5%**
		11.6%

Office

Location	Tenant	Income
West Malling	Regus (Maidstone West Malling)	**1.6%**
Birmingham	Multi-let	**1.1%**
Sheffield	Secretary of State for Communities and Local Government	**0.9%**
Castle Donington	National Grid	**0.8%**
Leeds	First Title (t/a Enact Conveyancing)	**0.8%**
Cheadle	Wienerberger	**0.7%**
Leeds	First Title (t/a Enact Conveyancing)	**0.7%**
Leicester	Countryside Properties and Erskine Murray	**0.7%**
Derby	Edwards Geldards	**0.6%**
Solihull	Lyons Davidson	**0.5%**
Leicester	Regus (Leicester Grove Park)	**0.4%**
Glasgow	Multi-let	**0.3%**
	VACANT UNITS	**1.3%**
		10.4%

Condensed consolidated statement of comprehensive income

For the six months ended 30 September 2019

	Note	**Unaudited 6 months to 30 Sept 2019 £000**	Unaudited 6 months to 30 Sept 2018 £000	Audited 12 months to 31 Mar 2019 £000
Revenue	4	**20,495**	19,634	39,974
Investment management fee		**(1,762)**	(1,733)	(3,486)
Operating expenses of rental property				
– rechargeable to tenants		**(838)**	(787)	(866)
– directly incurred		**(928)**	(707)	(1,530)
Professional fees		**(191)**	(244)	(624)
Directors' fees		**(94)**	(92)	(183)
Administrative expenses		**(317)**	(313)	(626)
Expenses		**(4,130)**	(3,876)	(7,315)
Operating profit before financing and revaluation of investment property		**16,365**	15,758	32,659
Unrealised (losses)/gains on revaluation of investment property:				
– relating to gross property revaluations	9	**(12,919)**	246	(5,499)
– relating to acquisition costs	9	**(222)**	(1,635)	(3,391)
Net valuation decrease		**(13,141)**	(1,389)	(8,890)
(Loss)/profit on disposal of investment property		**(79)**	4,250	4,250
Net (losses)/gains on investment property		**(13,220)**	2,861	(4,640)
Operating profit before financing		**3,145**	18,619	28,019
Finance income	5	**10**	41	27
Finance costs	6	**(2,428)**	(2,054)	(4,400)
Net finance costs		**(2,418)**	(2,013)	(4,373)
Profit before tax		**727**	16,606	23,646
Income tax	7	**—**	—	—
Profit and total comprehensive income for the Period, net of tax		**727**	16,606	23,646
Attributable to:				
Owners of the Company		**727**	16,606	23,646
Earnings per ordinary share:				
Basic and diluted (p)	3	**0.2**	4.3	6.0
EPRA (p)	3	**3.4**	3.5	7.3

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

Condensed consolidated statement of financial position

As at 30 September 2019
Registered number: 08863271

	Note	**Unaudited 30 Sept 2019 £000**	Unaudited 30 Sept 2018 £000	Audited 31 Mar 2019 £000
Non-current assets				
Investment property	9	**547,179**	546,963	572,745
Total non-current assets		**547,179**	546,963	572,745
Current assets				
Trade and other receivables	10	**4,940**	4,597	3,674
Cash and cash equivalents	12	**41,659**	8,186	2,472
Total current assets		**46,599**	12,783	6,146
Total assets		**593,778**	559,746	578,891
Equity				
Issued capital	14	**4,107**	3,939	3,982
Share premium		**240,023**	220,764	225,680
Retained earnings		**184,381**	202,832	196,961
Total equity attributable to equity holders of the Company		**428,511**	427,535	426,623
Non-current liabilities				
Borrowings	13	**150,696**	117,464	137,532
Other payables		**576**	571	576
Total non-current liabilities		**151,272**	118,035	138,108
Current liabilities				
Trade and other payables	11	**7,009**	7,081	6,851
Deferred income		**6,986**	7,095	7,309
Total current liabilities		**13,995**	14,176	14,160
Total liabilities		**165,267**	132,211	152,268
Total equity and liabilities		**593,778**	559,746	578,891

These interim financial statements of Custodian REIT plc were approved and authorised for issue by the Board of Directors on 11 December 2019 and are signed on its behalf by:

David Hunter
Director

Condensed consolidated statement of cash flows

For the six months ended 30 September 2019

	Note	**Unaudited 6 months to 30 Sept 2019 £000**	Unaudited 6 months to 30 Sept 2018 £000	Audited 12 months to 31 Mar 2019 £000
Operating activities				
Profit for the Period		**727**	16,606	23,646
Net finance costs	5,6	**2,418**	2,013	4,373
Net revaluation loss	9	**13,141**	1,389	8,890
Profit on disposal of investment property		**79**	(4,250)	(4,250)
Impact of lease incentives	9	**(749)**	(1,112)	(2,237)
Amortisation		**4**	–	–
Income tax	7	**–**	–	–
Cash flows from operating activities before changes in working capital and provisions		**15,620**	14,646	30,422
(Increase)/decrease in trade and other receivables		**(1,266)**	3,286	4,209
(Decrease)/increase in trade and other payables		**(165)**	1,354	1,404
Cash generated from operations		**14,189**	19,286	36,035
Interest and other finance charges	6	**(2,280)**	(1,947)	(4,225)
Net cash flows from operating activities		**11,909**	17,339	31,810
Investing activities				
Purchase of investment property		**–**	(26,215)	(55,523)
Capital expenditure and development		**(1,933)**	(1,442)	(2,530)
Acquisition costs		**(222)**	(1,635)	(3,391)
Disposal of investment property		**15,383**	15,375	15,375
Costs of disposal of investment property		**(137)**	(130)	(130)
Interest received and similar income	5	**10**	108	27
Net cash flows from/(used in) investing activities		**13,101**	(13,939)	(46,172)
Financing activities				
Proceeds from the issue of share capital		**14,655**	8,410	13,420
Costs of the issue of share capital		**(187)**	(110)	(161)
New borrowings	13	**13,500**	4,000	24,000
New borrowings origination costs	13	**(484)**	–	–
Dividends paid	8	**(13,307)**	(12,573)	(25,484)
Net cash flows from/(used in) financing activities		**14,177**	(273)	11,775
Net increase/(decrease) in cash and cash equivalents		**39,187**	3,127	(2,587)
Cash and cash equivalents at start of the Period		**2,472**	5,059	5,059
Cash and cash equivalents at end of the Period		**41,659**	8,186	2,472

Condensed consolidated statements of changes in equity

For the six months ended 30 September 2019 and 30 September 2018

	Note	Issued capital £000	Share premium £000	Retained earnings £000	Total equity £000
As at 31 March 2019 (audited)		**3,982**	**225,680**	**196,961**	**426,623**
Profit and total comprehensive income for Period		—	—	727	727
Transactions with owners of the Company, recognised directly in equity					
Dividends	8	—	—	(13,307)	(13,307)
Issue of share capital	14	125	14,343	—	14,468
As at 30 September 2019 (unaudited)		**4,107**	**240,023**	**184,381**	**428,511**

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

Notes to the interim financial statements

for the period ended 30 September 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 interim financial statements have been prepared on a historical cost basis, except for the revaluation of investment property, and are presented in pounds sterling with all values rounded to the nearest thousand pounds (£000), except when otherwise indicated. The interim financial statements were authorised for issue in accordance with a resolution of the Directors on 11 December 2019.

2. Basis of preparation and accounting policies

2.1. Basis of preparation

The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial statements do not include all the information and disclosures required in the annual financial statements. The Annual Report for the year ending 31 March 2020 will be prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB (together "IFRS") as adopted by the European Union, and in accordance with the requirements of the Companies Act applicable to companies reporting under IFRS.

The information relating to the Period is unaudited and does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006. A copy of the statutory financial statements for the year ended 31 March 2019 has been delivered to the Registrar of Companies. The auditor's report on those financial statements was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

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

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

2.2. Significant accounting policies

The principal accounting policies adopted by the Company and applied to these interim financial statements are consistent with those policies applied to the Company's Annual Report and financial statements, except for the following new accounting standard in issue and effective from 1 April 2019:

- IFRS 16 'Leases' – disclosing operating lease obligations is replaced with the recognition of 'right-of-use' assets and associated financial liabilities, with rent expense under IAS 17 replaced with depreciation and finance costs. IFRS 16 requires 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 and total cash outflow for leases. During the Period there has been a £38k impact on income statement categorisation of headlease costs and a £4k reduction in profit after tax, with no impact on bank covenants.

2. Basis of preparation and accounting policies continued

2.3. Going concern

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

2.4. Segmental reporting

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

2.5. Principal risks and uncertainties

The Company's assets consist of direct investments in UK commercial property. Its principal risks are therefore related to the UK commercial property market in general, the particular circumstances of the properties in which it is invested and their tenants. Principal risks faced by the Company are:

- Loss of contractual revenue;
- Decrease in property valuations;
- Reduced availability or increased costs of debt;
- Inadequate performance, controls or systems operated by the Investment Manager;
- Regulatory or legal changes;
- Business interruption from cyber or terrorist attack; and
- Unidentified liabilities from corporate acquisitions.

These risks, and the way in which they are mitigated and managed, are described in more detail under the heading 'Principal risks and uncertainties' within the Company's Annual Report for the year ended 31 March 2019. The Company's principal risks and uncertainties have not changed materially since the date of that report. The Company's principal risks and uncertainties are not expected to change materially for the remaining six months of the Company's financial year and will be detailed within the Company's Annual Report for the year ending 31 March 2020.

3. Earnings per ordinary share

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

Diluted EPS amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the Period plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. There are no dilutive instruments.

Notes to the interim financial statements continued

for the period ended 30 September 2019

3. Earnings per ordinary share continued

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

	Unaudited 6 months to 30 Sept 2019	Unaudited 6 months to 30 Sept 2018	Audited 12 months to 31 Mar 2019
Net profit and diluted net profit attributable to equity holders of the Company (£000)	**727**	16,606	23,646
Net losses /(gains) on investment property (£000)	**13,220**	(2,861)	4,640
One-off costs (£000)	**—**	—	170
EPRA net profit attributable to equity holders of the Company (£000)	**13,947**	13,745	28,456
Weighted average number of ordinary shares:			
Issued ordinary shares at start of the Period (thousands)	**398,203**	386,853	386,853
Effect of shares issued during the Period (thousands)	**6,978**	1,563	5,015
Basic and diluted weighted average number of shares (thousands)	**405,181**	388,416	391,868
Basic and diluted EPS (p)	**0.2**	4.3	6.0
EPRA EPS (p)	**3.4**	3.5	7.3

4. Revenue

	Unaudited 6 months to 30 Sept 2019 £000	Unaudited 6 months to 30 Sept 2018 £000	Audited 12 months to 31 Mar 2019 £000
Gross rental income from investment property	**19,657**	18,847	39,108
Income from recharges to tenants	**838**	787	866
	20,495	19,634	39,974

5. Finance income

	Unaudited 6 months to 30 Sept 2019 £000	Unaudited 6 months to 30 Sept 2018 £000	Audited 12 months to 31 Mar 2019 £000
Bank interest	**10**	41	27
	10	41	27

6. Finance costs

	Unaudited 6 months to 30 Sept 2019 £000	Unaudited 6 months to 30 Sept 2018 £000	Audited 12 months to 31 Mar 2019 £000
Amortisation of arrangement fees on debt facilities	**148**	107	175
Other finance costs	**147**	25	141
Bank interest	**2,133**	1,922	4,084
	2,428	2,054	4,400

7. Income tax

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

	Unaudited 6 months to 30 Sept 2019 £000	Unaudited 6 months to 30 Sept 2018 £000	Audited 12 months to 31 Mar 2019 £000
Profit before income tax	**727**	16,606	23,646
Tax charge on profit at a standard rate of 19.0% (30 September 2018: 19.0%, 31 March 2019: 19.0%)	**138**	3,155	4,493
Effects of:			
REIT tax exempt rental profits and gains	**(138)**	(3,155)	(4,493)
Income tax expense for the Period	**—**	—	—
Effective income tax rate	**0.0%**	0.0%	0.0%

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

Notes to the interim financial statements continued

for the period ended 30 September 2019

8. Dividends

	Unaudited 6 months to 30 Sept 2019 £000	Unaudited 6 months to 30 Sept 2018 £000	Audited 12 months to 31 Mar 2019 £000
Interim equity dividends paid on ordinary shares relating to the quarters ended:			
31 March 2018: 1.6125p	**–**	6,238	6,238
30 June 2018: 1.6375p	**–**	6,335	6,335
30 September 2018: 1.6375p	**–**	–	6,449
31 December 2018: 1.6375p	**–**	–	6,462
31 March 2019: 1.6375p	**6,521**	–	–
30 June 2019: 1.6625p	**6,786**	–	–
	13,307	12,573	25,484

All dividends paid are classified as property income distributions.

The Directors approved an interim dividend relating to the quarter ended 30 September 2019 of 1.6625p per ordinary share in October 2019 which has not been included as a liability in these interim financial statements. This interim dividend was paid on 29 November 2019 to shareholders on the register at the close of business on 25 October 2019. In the absence of unforeseen circumstances, the Board intends to pay further quarterly dividends to achieve an annual dividend of 6.65p per share for the financial year ending 31 March 2020[20].

9. Investment property

	£000
At 31 March 2019	572,745
Impact of lease incentives	749
Capitalised costs relating to post Period-end acquisitions	222
Capital expenditure	1,933
Disposals	(15,325)
Amortisation of right-of-use asset	(4)
Valuation decrease before acquisition costs	(12,919)
Acquisition costs	(222)
Valuation decrease including acquisition costs	(13,141)
As at 30 September 2019	**547,179**

20. This is a target only and not a profit forecast. There can be no assurance that the target can or will be met and it should not be taken as an indication of the Company's expected or actual future results. Accordingly, shareholders or potential investors in the Company should not place any reliance on this target in deciding whether or not to invest in the Company or assume that the Company will make any distributions at all and should decide for themselves whether or not the target dividend yield is reasonable or achievable.

9. Investment property continued

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

Included in investment property is £610k relating to right-of-use long-leasehold assets.

The investment property is stated at the Directors' estimate of its 30 September 2019 fair values. Lambert Smith Hampton Group Limited ("LSH") and Knight Frank LLP ("KF"), professionally qualified independent valuers, valued the properties as at 30 September 2019 in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors. KF was appointed during the Period to value approximately half of the Company's property portfolio, with the property portfolio divided by both sector and geography between valuers, to provide the Board with a more objective view of valuations. LSH and KF have recent experience in the relevant location and category of the properties being valued.

Investment property has been valued using the investment method which involves applying a yield to rental income streams. Inputs include yield, current rent and ERV. For the Period end valuation, the equivalent yields used ranged from 4.4% to 10.0%. Valuation reports are based on both information provided by the Company e.g. current rents and lease terms which are derived from the Company's financial and property management systems are subject to the Company's overall control environment, and assumptions applied by the valuers e.g. ERVs and yields. These assumptions are based on market observation and the valuers professional judgement. In estimating the fair value of the property, the highest and best use of the properties is their current use.

10. Trade and other receivables

	Unaudited as at 30 Sept 2019 £000	Unaudited as at 30 Sept 2018 £000	Audited as at 31 Mar 2019 £000
Trade receivables	**2,316**	3,460	2,447
Other receivables	**2,017**	736	708
Prepayments and accrued income	**607**	401	519
	4,940	4,597	3,674

The Company has provided fully for those receivable balances that it does not expect to recover. This assessment has been undertaken by reviewing the status of all significant balances that are past due and involves assessing both the reason for non-payment and the creditworthiness of the counterparty.

Notes to the interim financial statements continued

for the period ended 30 September 2019

11. Trade and other payables

	Unaudited as at 30 Sept 2019 £000	Unaudited as at 30 Sept 2018 £000	Audited as at 31 Mar 2019 £000
Falling due in less than one year:			
Trade and other payables	**2,056**	1,001	1,231
Social security and other taxes	**1,173**	2,449	1,464
Accruals	**2,699**	2,414	2,911
Rental deposits and retentions	**1,081**	1,217	1,245
	7,009	7,081	6,851

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

12. Cash and cash equivalents

	Unaudited as at 30 Sept 2019 £000	Unaudited as at 30 Sept 2018 £000	Audited as at 31 Mar 2019 £000
Cash and cash equivalents	**41,659**	8,186	2,472

Cash and cash equivalents include £23.6m held in the Company's solicitor's client account relating to the acquisition of the Menzies Portfolio and £16.5m (2018: £1.3m) of restricted cash comprising £15.2m disposal proceeds, £1.1m rental deposits held on behalf of tenants and £0.2m retentions held in respect of development fundings.

13. Borrowings

	Bank borrowings £000	Costs incurred in the arrangement of bank borrowings £000	Total £000
At 31 March 2019	139,000	(1,468)	137,532
New borrowings	13,500	—	13,500
Costs incurred in the arrangement of bank borrowings	—	(484)	(484)
Amortisation of arrangement fees	—	148	148
At 30 September 2019	**152,500**	**(1,804)**	**150,696**

13. Borrowings continued

	Bank borrowings £000	Costs incurred in the arrangement of bank borrowings £000	Total £000
At 31 March 2018	115,000	(1,643)	113,357
New borrowings	4,000	—	4,000
Amortisation of arrangement fees	—	107	107
At 30 September 2018	**119,000**	**(1,536)**	**117,464**

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

The Company's borrowing position at 31 March 2019 is set out in the Annual Report for the year ended 31 March 2019.

On 17 September 2019 the Company and Lloyds agreed to increase the total funds available under the RCF from £35m to £50m for a term of three years, with an option to extend the term by a further two years, and a reduction in the rate of annual interest to between 1.5% and 1.8% above three-month LIBOR, determined by reference to the prevailing LTV ratio. The RCF includes an 'accordion' option with the facility limit initially set at £46m, which can be increased to £50m subject to Lloyds' agreement.

14. Issued capital and reserves

Share capital	Ordinary shares of 1p	£000
At 31 March 2019	398,203,344	3,982
Issue of share capital	12,500,000	125
At 30 September 2019	**410,703,344**	**4,107**

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

The Company has made no further issues of new shares since the Period end.

Notes to the interim financial statements continued

for the period ended 30 September 2019

14. Issued capital and reserves continued

The following table describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share premium	Amounts subscribed for share capital in excess of nominal value less any associated issue costs that have been capitalised.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

15. Financial instruments

Fair values

The fair values of financial assets and liabilities are not materially different from their carrying values in the half yearly financial report. The IFRS 13 Fair Value Measurement fair value hierarchy levels are as follows:

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

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

Investment property – level 3

Fair value is based on valuations provided by an independent firm of chartered surveyors and registered appraisers. These values were determined after having taken into consideration recent market transactions for similar properties in similar locations to the investment property held by the Company. The fair value hierarchy of investment property is level 3. At 30 September 2019, the fair value of investment property was £547.2m and during the Period the net valuation decrease was £13.1m.

Interest bearing loans and borrowings – level 3

As at 30 September 2019, the amortised cost of the Company's loans with Lloyds Bank plc, Scottish Widows plc and Aviva Real Estate Investors approximated their fair value.

Trade and other receivables/payables – level 3

The carrying amount of all receivables and payables deemed to be due within one year are considered to reflect the fair value.

16. Related party transactions

Transactions with directors

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

16. Related party transactions continued

Transactions with directors continued

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

Investment Management Agreement ("IMA")

The Investment Manager was reappointed under a three year IMA with effect from 1 June 2017, under which the Investment Manager is delegated responsibility for the property management of the Company's assets, subject to the overall supervision of the Directors. The IMA is terminable by either party by giving not less than 12 months prior written notice to the other, which notice may only be given after the expiry of the three year term.

The Investment Manager manages the Company's investments in accordance with the policies laid down by the Board and the investment restrictions referred to in the IMA.

During the Period the Investment Manager was paid an annual management charge ("AMC") calculated by reference to the NAV of the Company each quarter as follows:

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

The Investment Manager provides day-to-day administration of the Company and provides the services of the Company Secretary, including maintenance of accounting records and preparing the annual financial statements of the Company.

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

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

The 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.

The NAV of the Company at 30 September 2019 was £428.5m (2018: £427.5m). During the Period the Investment Manager charged the Company £1.76m (2018: £1.73m, 2019: £3.49m) in respect of the AMC, £0.22m (2018: £0.21m, 2019: £0.43m) in respect of administrative fees and £0.03m (2018: £0.02m, 2019: £0.03m) in respect of marketing fees.

Notes to the interim financial statements continued

for the period ended 30 September 2019

16. Related party transactions continued

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 prior period. 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 £nil (2018: £0.18m, 2019: £0.26m) and £nil (2018: £nil, 2019: £0.56m) in dilapidation settlements during the Period.

17. Events after the reporting date

Property acquisitions

On 1 October 2019 the Company acquired the Menzies Portfolio for £24.65m.

Share issuance

Since the reporting date the Company raised £1.6m (before costs and expenses) through the issue of 1,350,000 new ordinary shares of 1p each in the capital of the Company.

Independent review report to Custodian REIT plc

We have been engaged by the Company to review the condensed set of financial statement in the half-yearly financial report for the six months ended 30 September 2019 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity and the related notes 1 to 17. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2.1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

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

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
Crawley, United Kingdom
11 December 2019

Directors' responsibilities for the interim financial statements

The Directors have prepared the interim financial statements of the Company for the period from 1 April 2019 to 30 September 2019.

We confirm that to the best of our knowledge:

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

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

By order of the Board

David Hunter
Chairman
11 December 2019

Additional disclosures

NAV per share total return

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

	Unaudited 6 months to 30 Sept 2019	Unaudited 6 months to 30 Sept 2018	Audited 12 months to 31 Mar 2019
Net assets (£000)	**428,511**	427,535	426,623
Shares in issue at the period end (thousands)	**410,703**	393,853	398,203
NAV per share at the start of the Period (p)	**107.1**	107.3	107.3
Dividends per share for the Period (p)	**3.325**	3.275	6.55
NAV per share at the end of the Period (p)	**104.3**	108.6	107.1
NAV per share total return	**0.5%**	4.3%	5.9%

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 period.

	Unaudited 6 months to 30 Sept 2019	Unaudited 6 months to 30 Sept 2018	Audited 12 months to 31 Mar 2019
Share price at the start of the Period (p)	**111.2**	113.0	113.0
Dividends per share for the Period (p)	**3.325**	3.275	6.55
Share price at the end of the Period (p)	**117.6**	121.4	111.2
Share price total return	**8.7%**	10.3%	4.2%

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 period.

	Unaudited 6 months to 30 Sept 2019	Unaudited 6 months to 30 Sept 2018	Audited 12 months to 31 Mar 2019
NAV per share (p)	**104.3**	108.6	107.1
Share price at the end of the year (p)	**117.6**	121.4	111.2
Premium	**12.8%**	11.8%	3.8%

Additional disclosures continued

Net gearing

Gross borrowings less unrestricted cash, divided by property portfolio value.

	Unaudited as at 30 Sept 2019 £000	Unaudited as at 30 Sept 2018 £000	Audited as at 31 Mar 2019 £000
Gross borrowings	**152,500**	119,000	139,000
Cash	**(41,659)**	(8,186)	(2,472)
Tenant rental deposits and retentions	**1,328**	1,305	1,369
Net borrowings	**112,169**	112,119	137,897
Investment property	**547,179**	546,963	572,745
Net gearing	**20.5%**	20.5%	24.1%

EPRA EPS

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

	Unaudited 6 months to 30 Sept 2019 £000	Unaudited 6 months to 30 Sept 2018 £000	Audited 12 months to 31 Mar 2019 £000
Profit for the Period after taxation	**727**	16,606	23,646
Net losses/(gains) on investment property	**13,220**	(2,861)	4,640
One-off abortive acquisition costs	**—**	—	170
EPRA earnings	**13,947**	13,745	28,456
Weighted average number of shares in issue (thousands)	**405,181**	388,416	391,868
EPRA EPS (p)	**3.4**	3.5	7.3

EPRA vacancy rate

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

	Unaudited as at 30 Sept 2019 £000	Unaudited as at 30 Sept 2018 £000	Audited as at 31 Mar 2019 £000
Annualised potential rental value of vacant premises	**1,862**	1,237	1,782
Annualised potential rental value for the property portfolio	**40,946**	40,002	42,012
EPRA vacancy rate	**4.5%**	3.1%	4.1%

Company information

Directors

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

Company secretary
Nathan Imlach

Registered office
1 New Walk Place
Leicester
LE1 6RU

Registered number
08863271

Investment Manager
Custodian Capital Limited
1 New Walk Place
Leicester
LE1 6RU

Depositary
Langham Hall UK Depositary LLP
1 Fleet Place
London
EC4M 7RA

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

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

Solicitors
DWF LLP
20 Fenchurch Street
London
EC3M 3AG

Walker Morris LLP
Kings Court
12 King Street
Leeds
LS1 2HL

Tax adviser
KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Registrars
Link Market Services Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

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

Knight Frank LLP
55 Baker Street
London
W1U 8AN

Auditor
Deloitte LLP
Park House
Crawley Business Quarter
Manor Royal
Crawley
RH10 9AD

Financial calendar

24 October 2019	Ex-dividend date for Q2 dividend
25 October 2019	Record date for Q2 dividend
29 November 2019	Payment of Q2 dividend
12 December 2019	Announcement of results for the period ended 30 September 2019

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LE1 6RU

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