



Custodian
REIT PLC



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 Company¹ 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. For more information visit www.custodianreit.com.



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, Custodian Real Estate (Leicester) Limited, Custodian Real Estate GP Limited, Custodian Real Estate Nominees Limited and Custodian Real Estate Luxembourg S.à.r.l..

Key facts

Fund Manager

Richard Shepherd-Cross MRICS

Assistant Fund Manager

Alex Nix MRICS

Launch date

26 March 2014

Market

Premium segment of the main market of the London Stock Exchange

Target gearing

25%

Target dividend 2019*

6.55p

Target lot size

£2–10m

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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.

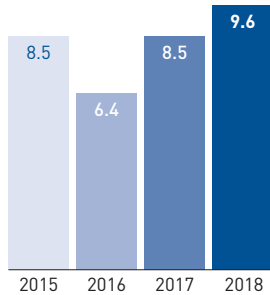
Plymouth

→ See page 28 for **Our portfolio by sector**

Financial highlights and performance summary

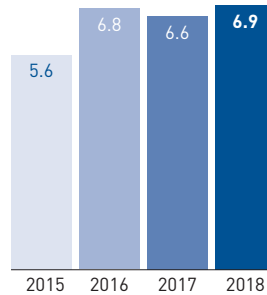
NAV per share total return² (%)

9.6% (+1.1%) ↑



EPRA³ earnings per share⁴ (p)

6.9p (+4.5%) ↑



Market capitalisation

£437.1m ↑

2017: £379.7m (+15.1%)

Dividend cover¹²

105.5% ↑

2017: 101.0% (+4.5%)

Share price total return¹³

6.7% ↓

2017: 10.3% (-3.6%)

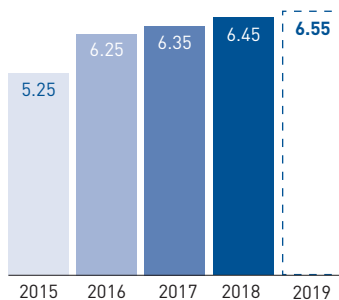
NAV per share

107.3p ↑

2017: 103.8p (+3.4%)

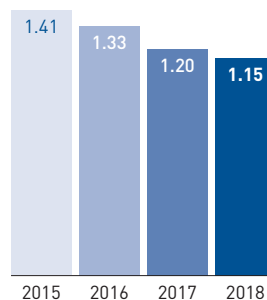
Dividends per share⁵ (p)

6.45p (+1.6%) ↑



OCR excluding direct property expenses⁶ (%)

1.15% (-0.05%) ↓



- Basic and diluted earnings per share of **8.9p** (2017: 8.1p)
- Portfolio value of **£528.9m** (2017: £418.5m⁷)
- Profit after tax up 34% to **£32.4m** (2017: £24.2m)
- **£54.7m⁸** of new equity raised at average premium of 11.1% to dividend adjusted NAV
- 2019 target dividend per share increased to **6.55p** (2018: 6.45p)
- **£106.3m⁹** invested in 20 acquisitions one ongoing pre-let development and one significant refurbishment
- **£8.8m** valuation uplift from successful asset management initiatives, £5.7m net valuation increase¹⁰
- **£1.6m** profit on disposal of five properties for an aggregate consideration of £11.3m
- Ongoing charges ratio¹¹ **1.37%** (2017: 1.61%)

2. Net Asset Value ("NAV") movement including dividends paid and approved relating to the year on shares in issue at 31 March 2017.

3. The European Public Real Estate Association ("EPRA").

4. Profit after tax excluding net gain on investment property divided by weighted average number of shares in issue.

5. Dividends paid and approved for the year.

6. Expenses (excluding operating expenses of rental property) divided by average quarterly NAV.

7. Restated to reclassify the value of deferred lease incentives from receivables to investment property.

8. Before costs and expenses of £0.8m.

9. Before acquisition costs of £6.2m.

10. Comprising £8.8m of valuation uplift from successful asset management initiatives plus £3.1m of other valuation increases, less £6.2m of acquisition costs.

11. Expenses (excluding operating expenses of rental property rechargeable to tenants) divided by average quarterly NAV.

12. Profit after tax, excluding net gain on investment property, divided by dividends paid and approved for the year.

13. Share price movement including dividends paid and approved for the year.



Doncaster

→ See page 28 for **Our portfolio by sector**

Share price

113.0p

2017: 112.0p (+0.9%)

Net gearing¹⁴**21.0%**

2017: 14.4% (+6.6%)

NAV

£415.2m

2017: £351.9m (+18.0%)

Premium to NAV per share

5.3%

2017: 7.9% (-2.6%)

EPRA performance measures

	2018	2017
EPRA EPS (p)	6.9	1.4%
EPRA NAV per share (p)	107.3	103.8
EPRA net initial yield ("NIY")	6.1%	6.3%
EPRA 'topped-up' NIY	6.5%	6.7%
EPRA vacancy rate	3.5%	1.4%
EPRA cost ratio (including direct vacancy costs)	15.3%	18.0%
EPRA cost ratio (excluding direct vacancy costs)	14.6%	16.1%

Alternative performance measures, including EPRA Best Practice Recommendations, are among the key performance indicators used by the Board to assess the Company's performance.

EPRA performance measures have been disclosed to facilitate comparison with the Company's peers through consistent reporting of key performance measures. The Company is a FTSE EPRA/NAREIT index series constituent. Explanations as to why EPRA performance measures give valuable further insight into the Company's performance are given opposite.

Supporting calculations for alternative performance measures and reconciliations between non-statutory performance measures and their IFRS equivalents are set out in the Alternative performance measure workings section of the Annual Report.

EPRA EPS

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.

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 vacancy rate

Estimated rental value ("ERV") of unoccupied investment property compared to the portfolio's ERV.

EPRA cost ratios

Alternative measures of ongoing charges based on expenses compared to gross rental income.

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

Chairman's statement

“Proactive asset management and rental growth should sustain our policy of paying a growing and fully-covered dividend.”

David Hunter,
Chairman



EPRA EPS

6.9p

2017: 6.6p

New equity raised

£54.7m

2017: £92.4m

I am pleased to report that Custodian REIT has continued to deliver strong shareholder returns with NAV per share total return of 9.6% (2017: 8.5%) for the year ended 31 March 2018. During the year we invested a total of £106.3m on the completion of 20 acquisitions, one ongoing pre-let development and one significant refurbishment, funded principally by £54.7m raised from the issue of new shares and £50.0m of new term debt. Increasing the scale of the Company and a continued focus on controlling costs has reduced the ongoing charges ratio (excluding direct property expenses) from 1.20% to 1.15%. We plan to achieve continued growth to realise the further economies of scale offered by the Company's relatively fixed cost base and the reduced rate of Investment Manager fees from 1 June 2017, while adhering to the Company's investment policy and maintaining the quality of both properties and income.

The Company pays one of the highest fully-covered dividends amongst its peer group of listed property investment companies¹⁵. During a period of further growth we have sought to minimise the impact of 'cash drag' following the issue of new shares by taking advantage of the flexibility offered by the Company's £35.0m revolving credit facility ("RCF"). I am delighted that proactive asset management of the portfolio to secure rental growth, coupled with the flexibility of the RCF and prompt deployment of cash as it has been raised through equity issuance,

has allowed us to increase the target dividend¹⁶ for the year ending 31 March 2019 by 1.6% to 6.55p per share.

Through 2017 and into the first quarter of 2018 the market has been characterised by a very restricted supply of investment opportunities and a significant level of demand from a range of investors. Market demand has polarised, moving away from high street retail and focusing on industrial/logistics assets and properties let on long leases, particularly those with rents indexed to inflation. We believe the market is over-pricing some assets and we have taken a cautious approach to acquisitions. Custodian REIT has stuck firmly to its investment strategy making it more difficult, but not impossible, to deploy our available resources into the right property assets. Despite our success in investing more than £100m during the year, these market conditions have restricted our ability to satisfy demand for new equity issuance which in turn has seen the Company's shares trade at a premium well ahead of most of our peers. Current market dynamics look likely to persist and maintain the status quo for the rest of the year.

Custodian REIT remains focused on good quality regional property that might be considered too small for institutional investors. The Company continues to maintain a diverse portfolio strategy, allowing enough flexibility to be contracyclical where appropriate but always with a strong focus on acquiring assets that support the dividend policy of the Company.

Furthermore, we believe a well-defined investment strategy that offers secure income and focuses on long-term goals and deliverable targets will protect shareholders from market volatility.

¹⁵ Source: Numis Securities Limited.

¹⁶ 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.

Nuneaton

→ See page 28 for **Our portfolio by sector**

Strategic report

Governance

Financial statements

**Net asset value**

The NAV of the Company at 31 March 2018 was £415.2m, reflecting approximately 107.3p per share, an increase of 3.4% since 31 March 2017:

	Pence per share	£m
NAV at 31 March 2017	103.8	351.9
Issue of equity in the year (net of costs)	1.0	53.9
	104.8	405.8
Valuation movements relating to:		
• Asset management activity	2.3	8.8
• Other valuation movements	0.8	3.1
Gross valuation increase	3.1	11.9
Impact of acquisition costs	(1.6)	(6.2)
Net valuation increase	1.5	5.7
Profit on disposal of investment property	0.4	1.6
Net gain on investment property	1.9	7.3
Revenue	9.0	34.8
Expenses and net finance costs	(2.5)	(9.7)
Dividends paid ¹⁷	(5.9)	(23.0)
NAV at 31 March 2018	107.3	415.2

17. Dividends totalling 6.425p per share (1.5875p relating to the prior year and 4.8375p relating to the year) were paid on shares in issue throughout the year. Dividends paid on shares in issue at the year end averaged 5.9p per share due to new shares being issued after the first ex-dividend date.

Chairman's statement continued

The Company delivered NAV per share total return of 9.6% for the year, which was another period of significant new investment where the initial costs (primarily stamp duty) of investing £106.3m in 20 property acquisitions, one pre-let development and one significant refurbishment diluted NAV per share total return by circa 1.6p, largely offset by raising £53.9m of new equity (net of costs) at an average 11.1% premium to dividend adjusted NAV, which added 1.5p per share¹⁸ and fully-covered the cost of raising and deploying the proceeds.

In addition to acquisitions, activity during the year also focused on proactive asset management, which generated an £8.8m valuation uplift. We intend to continue our asset management activities and complete the current acquisition pipeline where we have identified compelling propositions, with the deployment of existing debt facilities expected to increase net gearing towards our target level of 25% loan-to-value ("LTV").

Share price

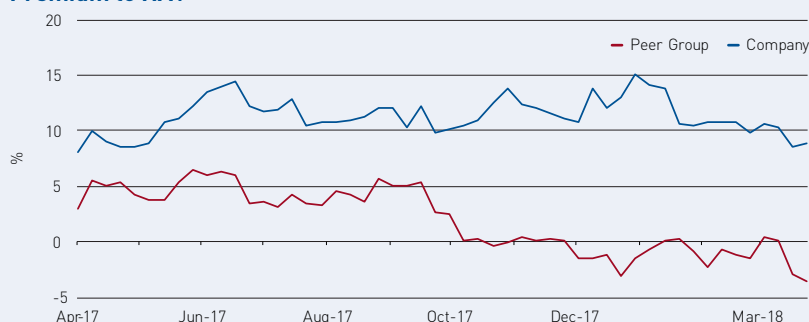
Consistent demand for the Company's shares has led to its share price showing a relatively stable premium to NAV through the year, illustrated above.

This share price performance has been combined with a steadily increasing level of daily liquidity which now rates Custodian REIT as the second highest in its peer group in terms of volume of shares traded daily as a percentage of issued share capital¹⁹. This liquidity has done much to reduce volatility so the few instances of short-term share price volatility have quickly stabilised.

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 very well suited to investors looking for a close proxy to direct real estate but in a managed and liquid structure.

The nature of shareholders has, in turn, helped to reduce volatility as they are typically long-term holders looking for stable dividend-driven returns.

Premium to NAV



Placing of new ordinary shares

The Company raised £54.7m of new equity during the year, placing 47.8m new shares at an average 11.1% (2017: 5.1%) premium to dividend adjusted NAV via an ongoing programme of tap issuance.

Borrowings

As at 31 March 2018 net gearing equated to 21.0% LTV. The Board's strategy is to:

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

To achieve these objectives, on 5 April 2017, the Company and Aviva Investors Real Estate Finance ("Aviva") entered into an agreement for Aviva to provide the Company with a new 15 year £50m term loan facility, comprising two tranches of £35m ("Tranche 1") and £15m ("Tranche 2") respectively. The Company drew down Tranche 1 on 6 April 2017, with a fixed rate of interest of 3.02% per annum, and drew down Tranche 2 on 3 November 2017 with a fixed rate of interest of 3.26% per annum.

The weighted average cost of the Company's agreed debt facilities at 31 March 2018 was 3.1% (2017: 3.1%) with a WAM of 9.1 years (2017: 10.1 years) and 77% (2017: 77%) of the Company's agreed debt facilities now at a fixed rate of interest. This removes significant interest rate risk from the Company and provides shareholders with a wide, beneficial margin between the fixed cost of debt and income returns from the portfolio.

Investment Manager

Custodian Capital Limited ("the Investment Manager") was appointed at IPO under an investment management agreement ("IMA") 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, securing the earnings required to fully cover the target dividend, and the asset management successes.

On 1 June 2017, the Investment Manager was appointed for a further three years and fees payable to the Investment Manager under the IMA were amended to include:

- A step down in the property management fee from 0.75% to 0.65% of NAV applied to NAV in excess of £500m; and
- A step down in the administrative fee from 0.125% to 0.08% of NAV applied to NAV between £200m and £500m and a further step down to 0.05% of NAV applied to NAV in excess of £500m.

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

¹⁸ 1.0p per share through new issuance at a premium to NAV plus 0.5p per share notional dividend saving due to new shares being issued after the year's first ex-dividend date.

¹⁹ Source: Numis Securities Limited.

WAULT

The Investment Manager's report sets out in detail a proposed change to the Company's investment policy regarding weighted average unexpired lease term to the earlier of first break or expiry ("WAULT"). With the natural passage of time and the growth in size of the portfolio, as well as the general market overpricing of many longer lease assets, the target of maintaining a portfolio WAULT of more than five years is now inappropriate. It is proposed that this be changed to a more realistic objective 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. The Board fully supports this change which will provide the Investment Manager with additional flexibility when looking for the best value properties to add to the portfolio.

Dividends

Income is a major component of total return. The Company paid aggregate dividends of 6.425p per share during the year (totalling

£23.0m), comprising the fourth interim dividend of 1.5875p per share relating to the year ended 31 March 2017 and three interim dividends of 1.6125p per share relating to the year ended 31 March 2018.

The Company paid an interim dividend of 1.6125p per share for the quarter ended 31 March 2018 on 31 May 2018, meeting the Company's target of paying an annual dividend per share relating to the year of 6.45p (2017: 6.35p, 2016: 6.25p), totalling £23.8m. Dividends relating to the year are 105.5% covered by net recurring income of £25.2m, 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 6.55p per share for the year ending 31 March 2019. The Board's objective is to grow the dividend on a sustainable basis at a rate which is fully-covered by projected net rental income and does not inhibit the flexibility of the Company's investment strategy.

Outlook

Notwithstanding our cautious approach to investment in the current market we believe that value can still be found with a disciplined approach to deployment with the strength of the occupational market representing an exciting opportunity which is discussed more fully in the Investment Manager's report. Rental growth at lease renewal and rent review remains robust. We expect proactive asset management and rental growth will continue to drive performance in the portfolio and are confident we can maintain occupancy levels, which in turn will sustain our policy of paying a growing and fully-covered dividend to shareholders.

David Hunter
Independent Chairman
4 June 2018



Stoke

→ See page 28 for **Our portfolio by sector**

Investment Manager's report

“Increases at rent review averaging 18% added £0.5m to the rent roll”

Richard Shepherd-Cross,
Investment Manager



Portfolio value

£528.9m

2017: £418.5m

Dividend cover

105.5%

2017: 101.0%

The UK property market

Our review of the UK property market shows demand is outstripping supply in almost all sectors save for secondary retail. In November 2017 Property Week reported that allocations to commercial property now exceed 10% in global institutional portfolios, up from 8.9% in 2013. While a small percentage increase, the absolute impact has been significant resulting in competition for acquisitions as most participants in the commercial property market are targeting net investment across their portfolios. Is this a positive endorsement of the UK property investment market or is it looking like a late cycle bubble?

Last year I commented as follows:
“We are not unduly concerned by this risk. The equivalent yield²⁰ of the portfolio has been constant at c. 6.75% since 2014, although the NIY of the portfolio has hardened to reflect rental growth. This suggests that capital growth has been driven by the prospect of rental growth and not by underlying yield compression, lessening the risk of a reversal of gains made in the near future.”

A year on we have witnessed some equivalent yield compression in our valuations, principally driven by market pricing for industrial and logistics assets, which make up 39% of the portfolio, but we have also seen softening in pricing for high street retail which makes up only 14% of the portfolio. The net result has been an increase in the valuation of the portfolio, which we still believe is robust, showing a NIY of 6.6%. Furthermore, the aggregate NIY of the £103.8m of property acquisitions during the year was 6.7% which compares favourably to Lambert Smith Hampton's recently reported all property transaction yield of 5.67% for Q1 2018. This demonstrates that it is still possible to find properties that support Custodian

REIT's attractive, fully-covered dividend policy, but it is safe to say it is somewhat harder than 12 months ago. While we are not concerned that the Custodian REIT portfolio is in a late cycle bubble, we are not immune from the market.

The first point to note is that the property market is very different: In 2007/2008 we were at the tail end of a debt driven, development boom which had left us with an over-supply of vacant property; we were at the end of rental growth cycle; we had debt fueled investment demand; interest rates were 5% and we were on the brink of a global banking collapse.

Current market conditions are somewhat different. We have had very low levels of development for 10 years and still there is very limited banking support for speculative development, leaving us with low levels of modern vacant real estate; rental growth may have peaked or even be declining in central London but in regional markets it is a different picture. Industrial and office rents have been growing since 2016 and while the rate of growth may be slowing there remain a large number of regional assets with latent rental growth. Investment demand is principally driven by equity rather than debt, although the low cost of finance is enhancing demand; interest rates are 0.5% and while we believe the Bank of England wishes to raise rates we envisage a medium-term low rate environment, notwithstanding some small increases; and while we do not fear a banking crisis, we have the uncertainty of leaving the EU next year instead. The jury may be out on the outcome for UK plc of leaving the EU but we are hopeful that the impact on UK commercial property investment might be less than for those invested in assets directly linked to financial markets. Perhaps the current allocations to UK property support this view.

20. The weighted average between the NIY and reversionary yield.



“Occupational demand is driving rental growth”

Biggleswade

→ See page 28 for **Our portfolio by sector**

Investment Manager's report continued

So even though the market backdrop is very different to 2007/2008, some investor activity has some of the hallmarks of a late cycle bubble. There seems to be a core of investors intent on deploying capital into the UK property market at any cost and some pricing reflects this. The hope of any market facing a bursting bubble is for a soft landing. We feel confident that the current occupational market dynamics and the low return environment will secure a soft landing for commercial property if one is needed.

Occupational market

Strength in occupational markets has supported much of our asset management activities throughout the year. We have settled 17 rent reviews showing increases ranging from 2% to 87% with an 18% average adding £0.5m to the Company's rent roll. While much of the growth has come from the industrial sector, with 12 rent reviews, there has also been growth in other sectors with three retail rental uplifts and two alternative assets.

There remain a number of factors that should lead to a continuing period of rental growth:

- 2008-2016 saw rental levels in many regional markets fall in nominal terms against a background of annual economic inflation averaging c. 3% per annum, leading to like-for-like rental declines of 20-25%. As a result rents are now growing from a low and affordable base in real terms.
- Many regional markets are witnessing rental levels which remain below the threshold necessary to bring forward new development. This is a function of the fall in real rental levels against inflation in construction and labour costs. It would appear that there is a latent pool of rental growth on which the market must deliver before we see supply reach equilibrium with demand, thus maintaining pressure on rents to grow.
- Many tenant negotiations remain finely balanced, with tenants keenly aware of their value to landlords. However tenants are accepting of rental growth, which they may have avoided for as much as 10 years in many instances which combined with limited supply of alternative premises, should continue to deliver rental growth albeit at a lessening rate.

In addition, 13% of the Company's rent roll benefits from fixed or indexed rental uplifts, although there is increasingly strong evidence of open market rental growth matching or exceeding indexation.

However we have seen some weakness in secondary retail locations and expect to experience one or two rental reductions at lease expiry. Some tenants have taken matters into their own hands to bring about early rental reductions with the aggressive use of company voluntary arrangements ("CVAs") to step away from their lease obligations or to reduce rents. Happily we have been largely unaffected by this. We have no exposure to House of Fraser or New Look and the lease over our restaurant let to Prezzo was assigned in advance of its CVA so we were unaffected, but Carpetright's CVA has resulted in a 25% reduction in rent at our Grantham store (a £25k drop in rent representing 0.07% of the Company's rent roll). This is perhaps where Custodian REIT has the greatest protection against the impact of CVAs or other tenant failure, as the Company's largest tenant represents only 3.2% of the total rent roll and with 201 tenants any instance of tenant default will have only a muted impact on the Company.

Investment objective

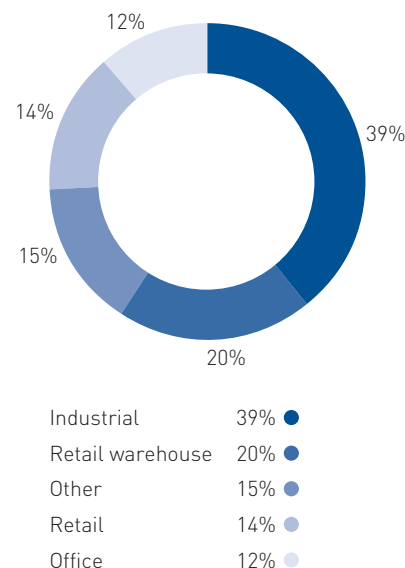
The Company's key objective is to provide shareholders with an attractive level of income by maintaining the high level of dividend, fully-covered by earnings, with a conservative level of net gearing. We are delighted to have continued to achieve this, with earnings providing 105.5% cover of the approved total dividend relating to the year of 6.45p per share, with a net gearing ratio of 21.0% at the year end. As a result of the fund's growth and consequential reduction in OCR the Board has increased the target dividend for the next financial year to 6.55p per share.

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

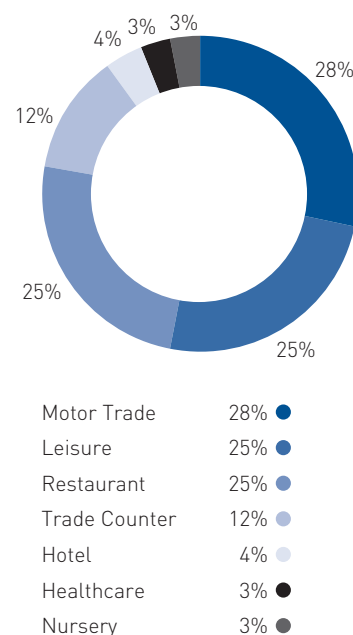
We remain committed to a strategy principally focused on sub £10m lot size regional property. We expect to see continuing strong asset management performance as we secure rental increases and extend contractual income.

The portfolio is split between the main commercial property sectors, in line with the Company's objective to maintain a suitably balanced investment portfolio, with a relatively low exposure to office and a relatively high exposure to industrial, retail warehouse and alternative sectors, often referred to as 'other' in property market analysis. The current sector weightings are shown above.

Sector split by income (%)



Other sector – sub-sector split (%)



Portfolio balance

Sector	Valuation 31 March 2018 £m	Valuation 31 March 2017 £m	Gross valuation increase ²¹ £m	Net valuation movement £m	Weighting by income 31 March 2018	Weighting by income 31 March 2017
Industrial	209.8	188.4	11.4	10.6	39%	45%
Retail						
warehouse	107.5	48.8	1.0	(2.4)	20%	11%
Other ²²	80.4	56.7	0.7	(0.7)	15%	13%
Retail	75.3	72.2	(2.8)	(3.4)	14%	17%
Office	55.9	52.4	1.6	1.6	12%	14%
Total	528.9	418.5	11.9	5.7	100%	100%

21. Before the impact of £6.2m acquisition costs.

22. Includes car showrooms, petrol filling stations, children's day nurseries, restaurants, health and fitness units, hotels and healthcare centres.

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 the vacant possession value is closer to the investment value than in other sectors) and where the real estate is less exposed to obsolescence. £5.9m of the £11.4m gross valuation increase 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. However, the high street is a polarised sector where many locations continue to be in demand by retailers. We will continue to rebalance the portfolio to focus on strong retail locations while working on an orderly disposal of those assets we believe are ex-growth. The current well-publicised crop of CVAs has the potential to increase vacancy levels in our retail warehousing portfolio, but set against a backdrop of very low vacancy rates in this sector we do not feel unduly exposed to long-term void risk.

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 continues to be a target for acquisitions.

Office rents in regional markets are growing and supply remains constrained by a lack of development and 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, so while we are experiencing rental growth in our office portfolio, we remain a cautious investor.

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

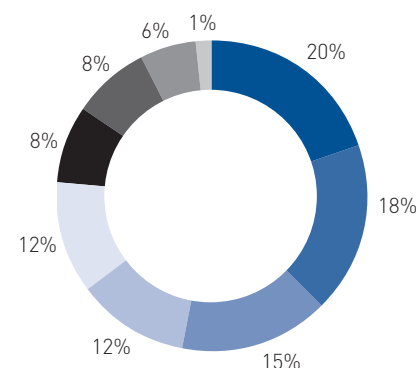
WAULT

During the year we proactively managed the portfolio enhancing income and maintaining the WAULT ahead of the Company's objective of a WAULT of over five years.

At 31 March 2018 the portfolio's WAULT was 5.9 years (2017: 5.9 years) with the completion of asset management initiatives and acquisitions with an aggregate WAULT of 8.5 years offsetting the one-year decline due to the passage of time.

WAULT is a much-quoted statistic and is often considered a proxy for risk. This perception has encouraged many investors to pursue long-dated income causing significant price inflation for long lease assets. Although buying shorter leases puts pressure on the WAULT of the portfolio, we believe that with the current strength of the occupational market and a portfolio of high quality properties, risk is better managed by pursuing a strategy of buying high quality properties that are likely to re-let, rather than highly priced properties with long leases. This view, combined with the growth in size of the portfolio means we believe the target of maintaining a portfolio WAULT of more than five years is inappropriate, and we have recommended to the Board that shareholders approve amending the Company's investment objective at the Annual General Meeting ("AGM") on 19 July 2018 as follows:

Regional split by income (%)



West Midlands	20%
North-West	18%
South-East	15%
East Midlands	12%
South-West	12%
Scotland	8%
North-East	8%
Eastern	6%
Wales	1%

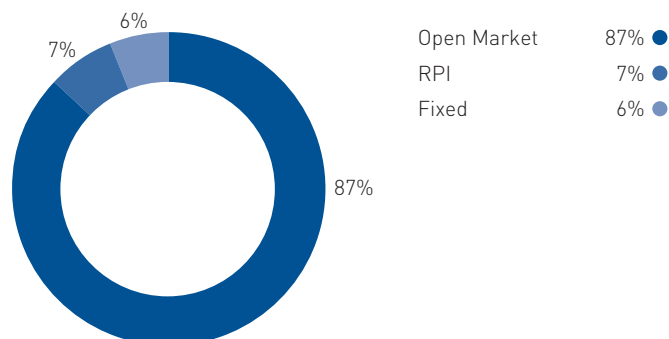
Investment Manager's report continued

- Current WAULT policy: The Company will seek to maintain a WAULT of over five years across the portfolio secured against low risk tenants and to minimise rental voids.
- Proposed WAULT policy: The Company will 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.

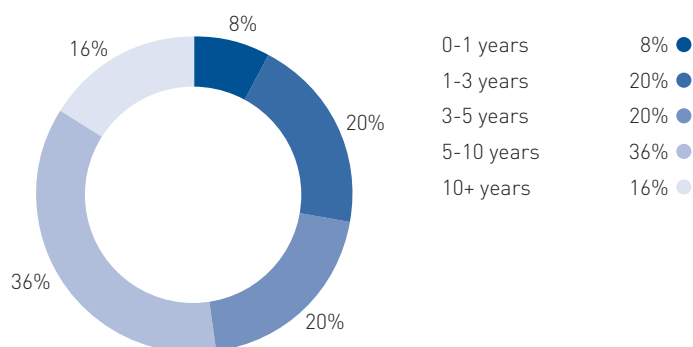
Asset management

Successful asset management strategies including rent reviews, new lettings, lease extensions and the retention of tenants beyond their contractual break clauses have more than offset the impact on NAV of acquisition costs. In aggregate asset management activities increased NAV by £8.8m delivering the largest component of NAV performance through the year. This element of NAV growth underlines the importance of proactive, strategic asset management of the portfolio. As a fund manager who collects rent and has direct relationships with all the tenants in the portfolio, we have been able to deliver mutually beneficial outcomes for both the Company and its tenants.

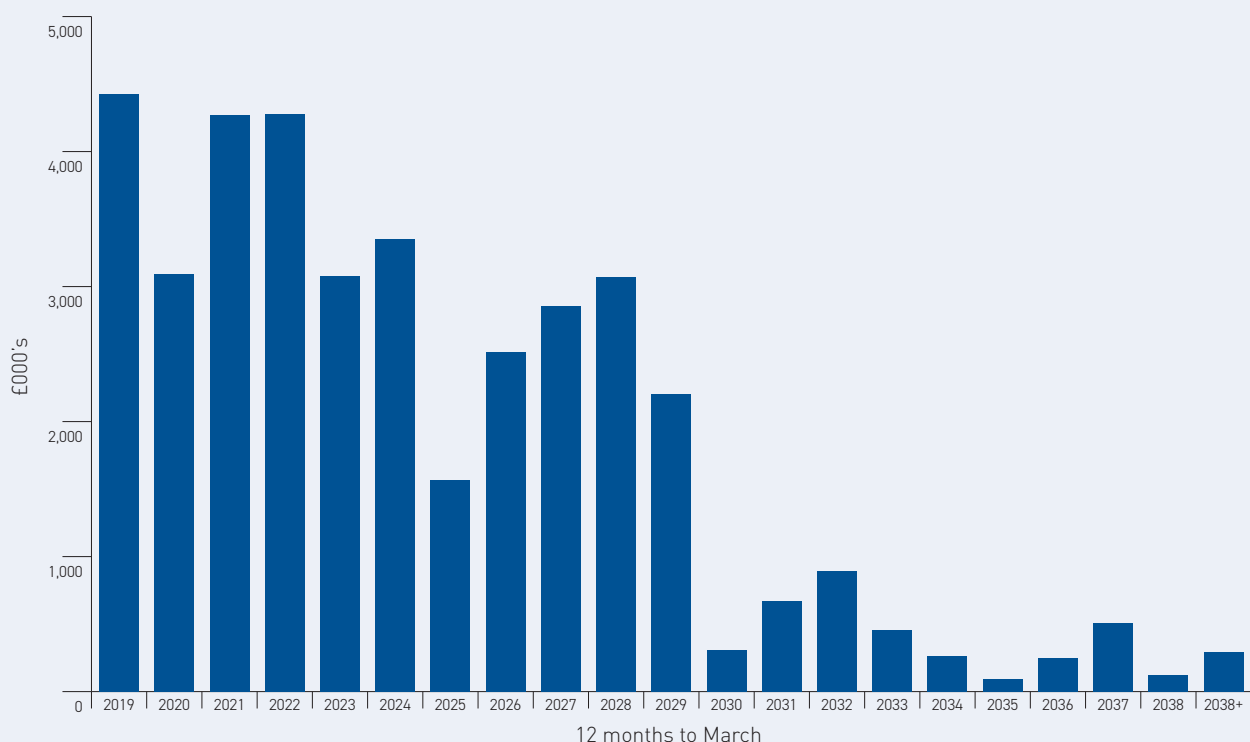
Rent review



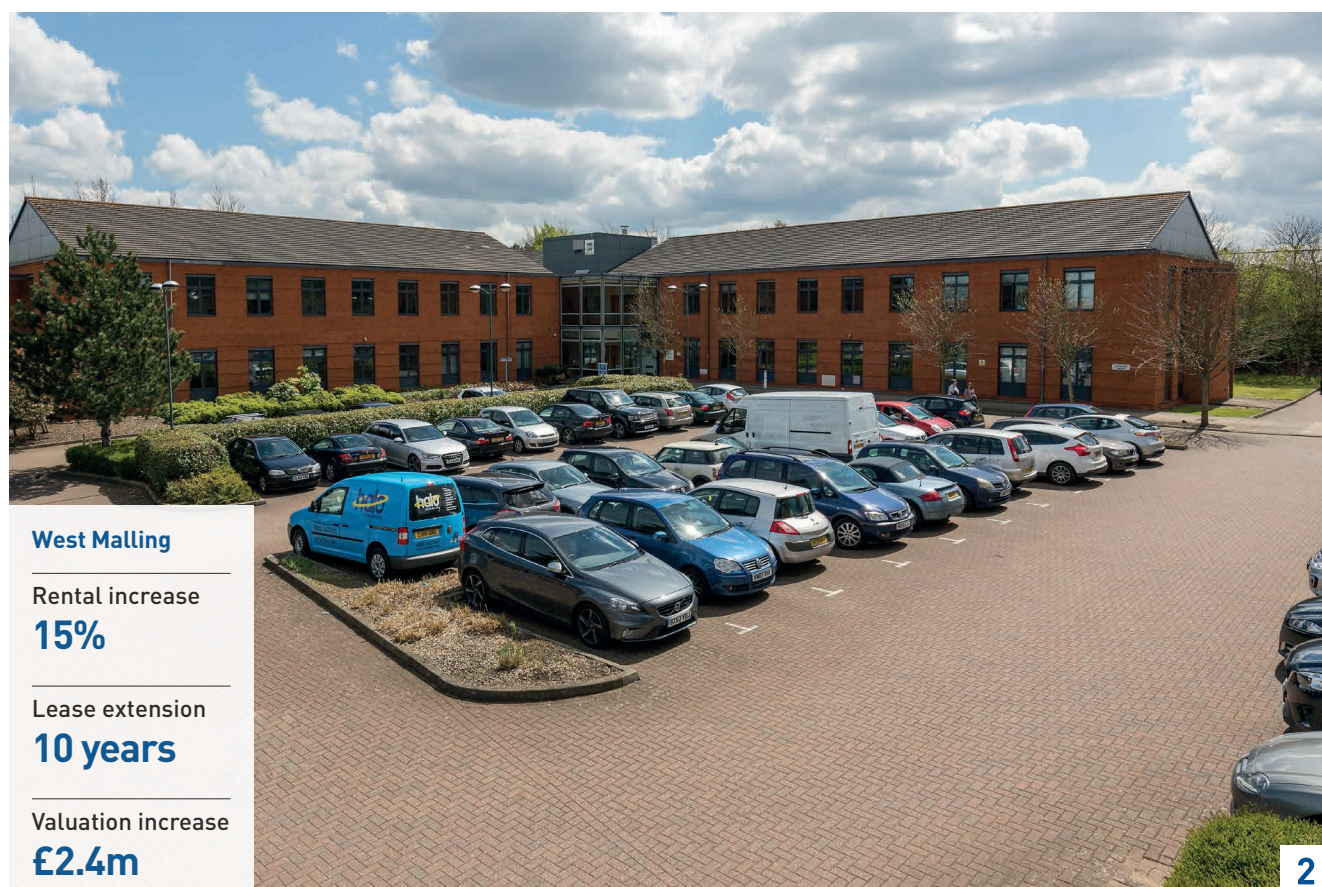
Income expiry



Lease expiry profile



Key asset management initiatives completed during the year included:



Investment Manager's report continued

Key asset management initiatives completed during the year included: continued



Key asset management initiatives completed during the year included:

1. Finalising a rent review in Southwark, increasing annual rent by 87% from £0.20m pa (£9 per sq ft) to £0.37m pa (£16.25 per sq ft), exceeding ERV of £0.27m pa (£12 per sq ft) and increasing valuation by £2.5m;
2. Agreeing a new 10-year lease with Regus in West Malling, increasing annual rent by 14.5% from £0.56m pa (£19.20 per sq ft) to £0.64m pa (£22 per sq ft) and increasing valuation by £2.4m;
3. Agreeing a rent review at £0.33m per annum and a five-year reversionary lease with YESSS Electrical at Foxbridge Way, Normanton, increasing valuation by £1.0m;
4. Finalising a rent review with DHL in Warrington at £0.31m per annum, increasing valuation by £0.6m;
5. Settling a rent review with a tenant at Leacroft Road, Warrington and assigning a lease to a larger group entity with a stronger covenant, increasing valuation by £0.5m;
6. Letting a vacant unit in Gateshead to WH Partnership on a 10-year lease at £0.14m per annum, increasing valuation by £0.4m;
7. Agreeing a new 10-year reversionary lease with Powder Systems at Estuary Commerce Park, Speke with expiry moving from July 2020 to July 2030 and annual rent increasing by 7% from £0.14m to £0.15m, increasing valuation by £0.4m;
8. Assigning the lease at Ravensbank Drive, Redditch to a larger group entity with a stronger covenant, increasing valuation by £0.3m;
9. Removing an August 2018 break clause in Bunzl's lease in Castleford increasing WAULT from 1.2 years to 6.2 years, increasing valuation by £0.2m;
10. Completing a new five-year reversionary lease at Sainsbury's, Torpoint with expiry moving from December 2022 to December 2027, increasing valuation by £0.2m; and
11. Agreeing a five-year reversionary lease at West George Street, Glasgow with Safe Deposits Scotland, increasing valuation by £0.1m.

Rental increases of 20% have been secured on another two properties since the year end, illustrating that rental growth is taking hold. Further asset management initiatives in solicitor's hands are expected to complete over the coming months including new lettings, lease renewals, rent reviews and lease re-gears.



Speke

Valuation increase
£0.4m

7



Redditch

Valuation increase
£0.3m

8



Castleford

Valuation increase
£0.2m

9



Torpoint

Valuation increase
£0.2m

10



Glasgow

Valuation increase
£0.1m

11

Investment Manager's report continued

Key asset management initiatives

completed during the year included: continued

**Disposals**

A key part of effective portfolio management is the disposal of assets which either no longer meet the long-term investment strategy of the Company or which can be disposed of significantly ahead of valuation, often to a special purchaser, such that holding the asset is no longer appropriate. After focused pre-sale asset management, the following properties were sold during the Period

for a total of £11.3m, realising a profit on disposal of £1.6m²³ at an aggregate NIY of 5.7%, with gross proceeds 20% ahead of aggregate valuation:

1. An 82,081 sq ft multi-let industrial property in Chepstow for £4.6m, £0.9m ahead of valuation;
2. An 8,326 sq ft retail unit in Colchester for £4.25m, £0.7m ahead of valuation;

3. A 15,330 sq ft multi-tenanted industrial estate in Hinckley for £1.2m, £0.2m ahead of valuation;
4. A 9,332 sq ft multi-tenanted retail parade in Redcar for £0.6m, £0.1m ahead of valuation; and
5. A 10,736 sq ft retail unit in Hinckley for £0.6m, in line with valuation.

23. Net of disposal costs of £0.1m.



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

Activity

We were delighted to make the 20 acquisitions shown below. NAV has increased and the portfolio profile has strengthened in terms of diversification of tenant, sector and lease break/expiry. In addition, the portfolio's rental growth potential has been enhanced because of these acquisitions.

Location	Tenant	WAULT (Years)	NIY	Agreed purchase price (£m)
Gloucester	Magnet and Smyths Toys	3.0	7.41%	4.7
York	Pendragon	12.8	5.75%	3.9
Galashiels	B&Q	7.6	8.24%	3.2
Plymouth	Oak Furniture, SCS and McDonald's	9.6	6.74%	7.5
Langley Mill	Warburtons	5.5	6.29%	2.1
Eurocentral	Next	1.7	6.91%	4.7
Sheldon	Dreams and Pets at Home	6.3	6.64%	5.1
Stockport	Benham (Specialist Cars) (t/a Williams BMW and Mini)	10.1	6.99%	8.8
Ashton-under-Lyne	B&M	14.5	6.00%	6.6
Salisbury	Parkwood Health + Fitness	13.6	6.75%	2.8
Plymouth	Magnet and B&M	7.5	6.79%	5.6
Livingston	A Share + Sons (t/a SCS)	5.0	7.50%	2.8
Cardiff	Card Factory and Specsavers	9.6	7.46%	5.2
Burton upon Trent	Wickes, The Range and HSS Hire	11.3	6.45%	8.4
Maypole	Starbucks	15.0	6.43%	1.0
Worcester	Superdrug	9.3	6.50%	5.6
Derby	VW Group	7.9	6.28%	5.1
Carlisle	Halfords, Oak Furniture Land, Iceland, B&M and Poundland	9.5	6.89%	12.1
Leicester	Matalan	10.8	7.36%	6.7
Gateshead	Worthington Armstrong	8.4	6.73%	3.9
				105.8²⁴

24. Agreed purchase price before rent free top-ups of £1.9m and acquisition costs of £6.2m.

Portfolio risk

We have managed the portfolio's income expiry profile through successful asset management activities with only 48% of income expiring within five years at 31 March 2018 (2017: 53%). Short-term income at risk is a relatively low proportion of the portfolio's income, with only 28% expiring in the next three years (2017: 28%).

Income expiry	31 March 2018	31 March 2017
0-1 years	8%	13%
1-3 years	20%	15%
3-5 years	20%	25%
5-10 years	36%	33%
10+ years	16%	14%
Total	100%	100%

Outlook and pipeline

Looking ahead, income is likely to provide the majority of total return in the next 12-24 months. I would be disappointed if we saw further yield compression, in part because I do not think it is warranted and in larger part because I fear it may further inflate pricing bubbles in certain sectors. I believe Custodian REIT's portfolio is insulated from the worst excesses of market pricing and I would expect Custodian REIT to have a softer landing than most should a correction occur.

The growth in the portfolio enjoyed from 2014-2017 is now showing very positive benefits to shareholders, as rental growth feeds in, ongoing charges continue to fall through economies of scale and asset management delivers further growth in NAV. The spread of income and diversification of property by sector and location that has resulted from portfolio growth stands the Company in good stead to deliver increases in fully-covered dividends and to support strong shareholder total returns.

Richard Shepherd-Cross
for and on behalf of
Custodian Capital Limited
Investment Manager
4 June 2018

Business model and strategy

Investment objective and policy

The Company seeks 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 principally targets individual properties with a value of less than £10m at acquisition, seeking to benefit from a significant NIY advantage as a result. The Board keeps the Company's investment objectives under review to ensure they remain appropriate to the market in which the Company operates and in the best interests of shareholders. The Board proposes amending the Company's WAULT investment objective at the AGM as set out in the Investment Manager's report.

The Company's current investment objectives:

1. To not exceed a maximum weighting to any one property sector or to any one geographic region of greater than 50%;
2. To hold a portfolio of UK commercial property, diversified by sector, location, tenant and lease term;
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. To have no one tenant or property accounting for more than 10% of the total rent roll of the portfolio at the time of purchase, except:
 - a) In the case of a single tenant which is a governmental body or department, where no limit shall apply; or
 - b) In the case of a single tenant rated by Dun & Bradstreet ("D&B") 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 target borrowings of 25% of the aggregate market value of all the properties of the Company at the time of borrowing;
6. Not to undertake speculative development (that is, development of property which has not been leased or pre-leased), save for refurbishment of existing holdings, but may (provided that it shall not exceed 20% of the gross assets of the Company) 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; and
7. To maintain a WAULT of over five years across the portfolio secured against low risk tenants and to minimise rental voids.



Eurocentral

→ See page 28 for **Our portfolio by sector**

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 paid to shareholders. The Board regards this as the best overall measure of value delivered to shareholders. The Board assesses NAV 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;
- EPRA EPS – reflects the Company's ability to generate earnings from the portfolio which underpin dividends;
- Net gearing – measures the prudence of the Company's financing strategy, balancing the additional returns available from employing debt with the need to effectively manage risk;
- Dividends per share and dividend cover – a key objective is 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 – 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;
- 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 limit 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.



3

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

Business model and strategy continued

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 £35m RCF with Lloyds Bank plc attracting 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, attracting fixed annual interest of 3.935%;
- A £45m term loan facility with SWIP repayable in June 2028, attracting fixed annual interest of 2.987%; and
- A £50m term loan facility with Aviva comprising:
 - a) A £35m tranche repayable on 6 April 2032, attracting fixed annual interest of 3.02%; and
 - b) A £15m tranche repayable on 3 November 2032 attracting 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 35%.

Equity

During the year the Company raised £54.7m (before costs and expenses) through the placing of 47,839,999 new ordinary shares.

Dividends

The Company paid dividends totalling 6.425p per share during the year, comprising the fourth interim dividend of 1.5875p per share relating to the year ended 31 March 2017 and three interim dividends of 1.6125p per share relating to the year ended 31 March 2018.

The Company paid an interim dividend of 1.6125p per share for the quarter ended 31 March 2018 on 31 May 2018, meeting its target of paying an annual dividend per share for the financial year of 6.45p (2017: 6.35p, 2016: 6.25p).

In the absence of unforeseen circumstances, the Board intends to pay quarterly dividends to achieve a target dividend of 6.55p per share for the year ending 31 March 2019. 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 Board is conscious of the increased focus on diversity in the boardroom, and has constituted a Nominations Committee to ensure that for any future appointment the best person for the role is selected, while recognising the benefits of diversity when considering an appointment. The Board recognises the value and importance of diversity in the boardroom, 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. 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 four key elements of the Company's environmental policy are:

- An independent environmental report is required for all potential acquisitions, which considers, amongst other matters, the historical and current usage of the site and the extent of any contamination present;
- 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 and 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 are referred to the Board.

Social policy

The activities of the Company are carried out in a responsible manner, taking into account the social impact.

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

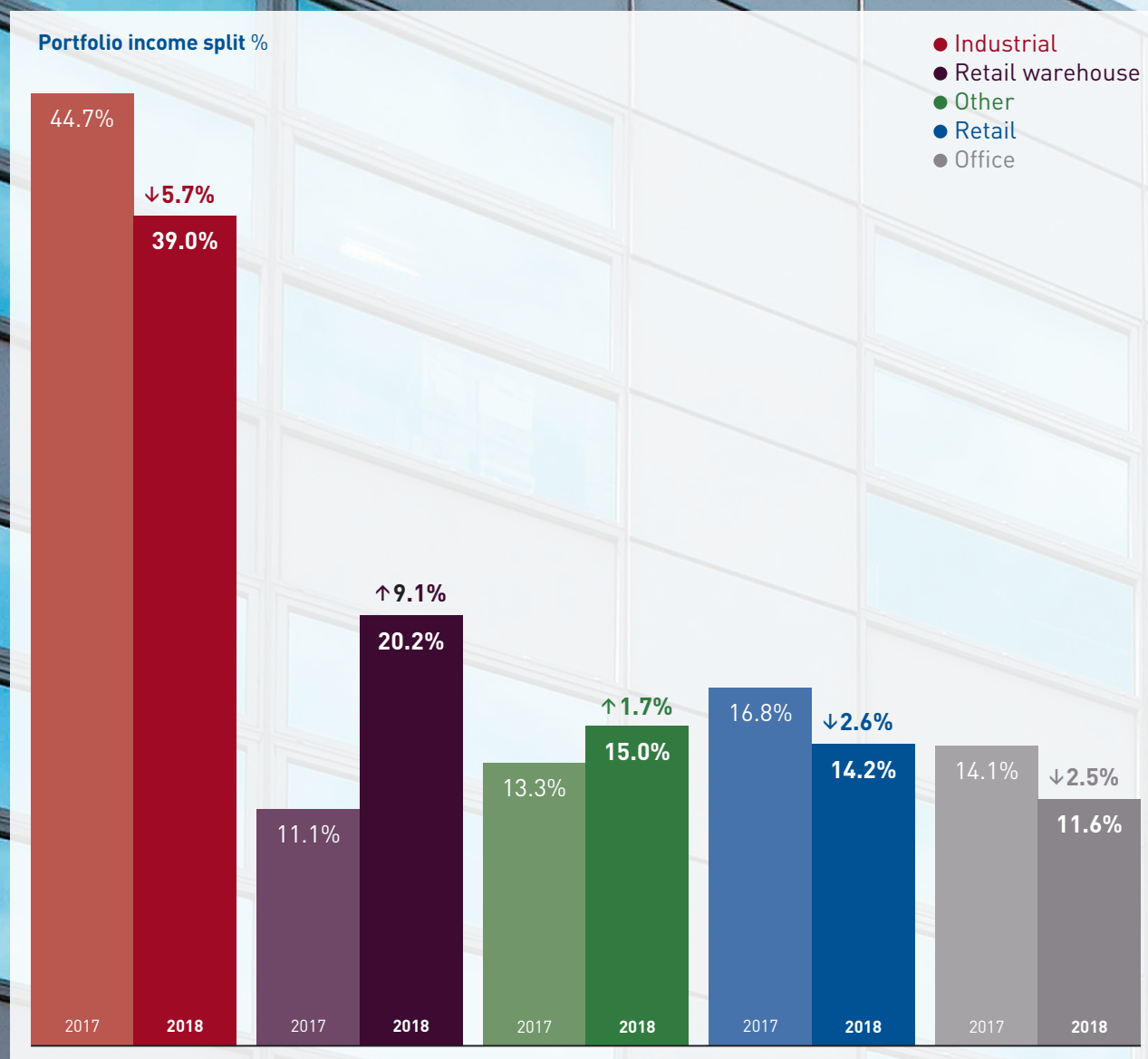
4 June 2018



Warrington

→ See page 28 for **Our portfolio by sector**

Diverse and reliable tenants



Industrial

Location	Tenant	Income%
Aberdeen/Warrington	DHL Supply Chain	1.3%
Wolverhampton	Assa Abloy (sub-let to Kuehne + Nagel)	1.3%
Burton	Kings Road Tyres	1.3%
Warrington	JTF Wholesale	1.3%
Ashby-de-la-Zouch	Teleperformance	1.2%
Winsford	H&M	1.1%
Salford	Restore	1.0%
Southwark	Constantine	1.0%
Doncaster	Silgan Closures	0.9%
Eurocentral	Next	0.9%
Normanton	Yesss Electrical	0.9%
Coventry/Kilmarnock	Royal Mail	0.8%
Stone	Revlon International	0.8%
Redditch	Amco Services	0.8%
Redditch	Hydro Extrusions	0.8%
Biggleswade	Turpin Distribution	0.8%
Cannock	HellermannTyton	0.7%
Milton Keynes	Massmould	0.7%
West Bromwich	OyezStraker	0.7%
Gateshead	Worthington Armstrong	0.7%
Nuneaton	DX Network Service	0.7%
Milton Keynes	Saint-Gobain Building Distribution	0.7%
Plymouth	Sherwin Williams	0.7%
Avonmouth	Superdrug	0.7%
Bristol	BSS	0.6%
Bedford	Heywood Williams Components	0.6%
Bedford	Elma Electronics	0.6%
Stevenage	Morrison Utility Services	0.6%
Daventry	Cummins	0.6%
Livingston	A Share & Sons (t/a SCS)	0.6%
Manchester	Unilin Distribution	0.6%
Bedford	Vertiv Infrastructure	0.5%
Oldbury	Sytner	0.5%
Christchurch	Interserve Project Services	0.5%
Cambuslang	Brenntag	0.5%

Location	Tenant	Income%
Warrington	Dinex Exhausts	0.5%
Warwick	Semcon	0.5%
Hamilton	Ichor Systems	0.4%
Warrington	Procurri Europe	0.4%
Gateshead	389Log	0.4%
Erdington	West Midlands Ambulance Service NHS Trust	0.4%
Langley Mill	Warburtons	0.4%
Sheffield Parkway	Synergy Health	0.4%
Farnborough	Triumph Structures	0.4%
Irlam	Northern Commercials	0.4%
Gateshead	WH Partnership	0.4%
Kettering	VP Packaging	0.4%
Westerham	Aqualisa Products	0.3%
Coalville	MTS Logistics	0.3%
Castleford	Bunzl	0.3%
Sheffield	Arkote	0.3%
Speke	DHL International	0.3%
Kettering	Sealed Air	0.3%
Warrington	Synertec	0.3%
Atherstone	North Warwickshire Borough Council	0.3%
Huntingdon	PHS	0.3%
Glasgow	DHL Global Forwarding	0.2%
Normanton	Acorn Web Offset	0.2%
Sheffield	Andrew Page	0.2%
Leeds	Sovereign Air Movement	0.2%
Speke	Powder Systems	0.2%
Gateshead	Boots	0.2%
Kettering	Rapid Vehicle Repairs	0.2%
Gateshead	Rexel	0.1%
Gateshead	JR Forster & LJ Green	0.1%
Kettering	Equinox Aromas	0.1%
Kettering	Nital Training Academy	0.1%
Sheffield	River Island	0.1%
	VACANT	1.4%

Diverse and reliable tenants continued



Retail warehouse

Location	Tenant	Income%
Ashton-under-Lyne/Carlisle Plymouth/Swindon	B&M	3.2%
Burton/Winnersh	Wickes	2.0%
Banbury/Galashiels	B&Q	2.0%
Leighton Buzzard	Homebase	1.4%
Leicester	Matalan	1.3%
Milton Keynes	Staples	1.1%
Carlisle/Plymouth	JB Global (t/a Oak Furniture Land)	0.9%
Swindon	Go Outdoors	0.8%
Carlisle/Sheldon/Stourbridge	Halfords	0.8%
Gloucester	Smyths Toys	0.7%
Plymouth	A Share & Sons (t/a SCS)	0.6%
Torpoint	Sainsburys	0.6%
Gloucester/Plymouth	Magnet	0.6%
Sheldon/Winnersh	Pets at Home	0.5%
Burton	CDS Superstores	0.5%
Sheldon	Dreams	0.4%
Portishead	TJ Morris (t/a Home Bargains)	0.4%
Grantham	Laura Ashley	0.3%
Carlisle	Iceland	0.3%
Carlisle	Possfund	0.3%
Grantham	Poundstretcher	0.3%
Grantham	Carpentryright	0.3%
Carlisle	Poundland	0.3%
Stourbridge	Tesco	0.2%
Stourbridge	Bathstore	0.1%
Portishead	Majestic Wine	0.1%
Stourbridge	KFC	0.1%
Burton	HSS Hire	0.1%



Other

Location	Tenant	Income%
Stockport	Benham (Specialist Cars) (t/a Williams BMW and Mini)	1.7%
Stoke	Nuffield Health	0.9%
Derby	VW Group	0.9%
Castleford/Lincoln	MKM Buildings Supplies	0.8%
Liverpool	Tai Pan Buffet Restaurants	0.7%
Gillingham	Co-Op	0.7%
Leicester	Magnet	0.6%
Perth	Bannatyne Fitness	0.6%
York	Pendragon	0.6%
Crewe/Leicester/Watford	Pizza Hut	0.6%
Portishead	Travelodge	0.6%
Crewe	MFA Bowl	0.5%
Salisbury	Parkwood Health & Fitness	0.5%
Liverpool	Liverpool Community Health NHS Trust	0.5%
Crewe	Mecca Bingo	0.4%
Redhill	Honda Motor Europe	0.4%
Bath	Chokdee (t/a Giggling Squid)	0.3%
Maypole	Starbucks	0.3%
High Wycombe	Stonegate Pub Co	0.3%
Basingstoke/Chesham	Bright Horizons Family Solutions	0.3%
Crewe	Mecca Bingo (sublet to Odeon Cinemas)	0.3%
Torquay	Las Iguanas	0.3%
Perth	The Restaurant Group (t/a Frankie & Bennies)	0.3%
Shrewsbury	Azzurri Restaurants (t/a ASK)	0.2%
Torquay	Le Bistrot Pierre	0.2%
Plymouth	McDonald's	0.2%
Perth	Scotco Eastern (t/a KFC)	0.2%
Portishead	JD Wetherspoon	0.2%
Crewe	Multi Tile (t/a Tile Giant)	0.2%
Torquay	Loungers	0.2%
Knutsford	Knutsford Day Nursery	0.1%
Crewe	F1 Autocentres	0.1%
Shrewsbury	Sam's Club (t/a House of the Rising Sun)	0.1%
Crewe	Edmundson Electrical	0.1%
Torquay	Jurassic Coast Coffee (t/a Costa Coffee)	0.1%



Retail

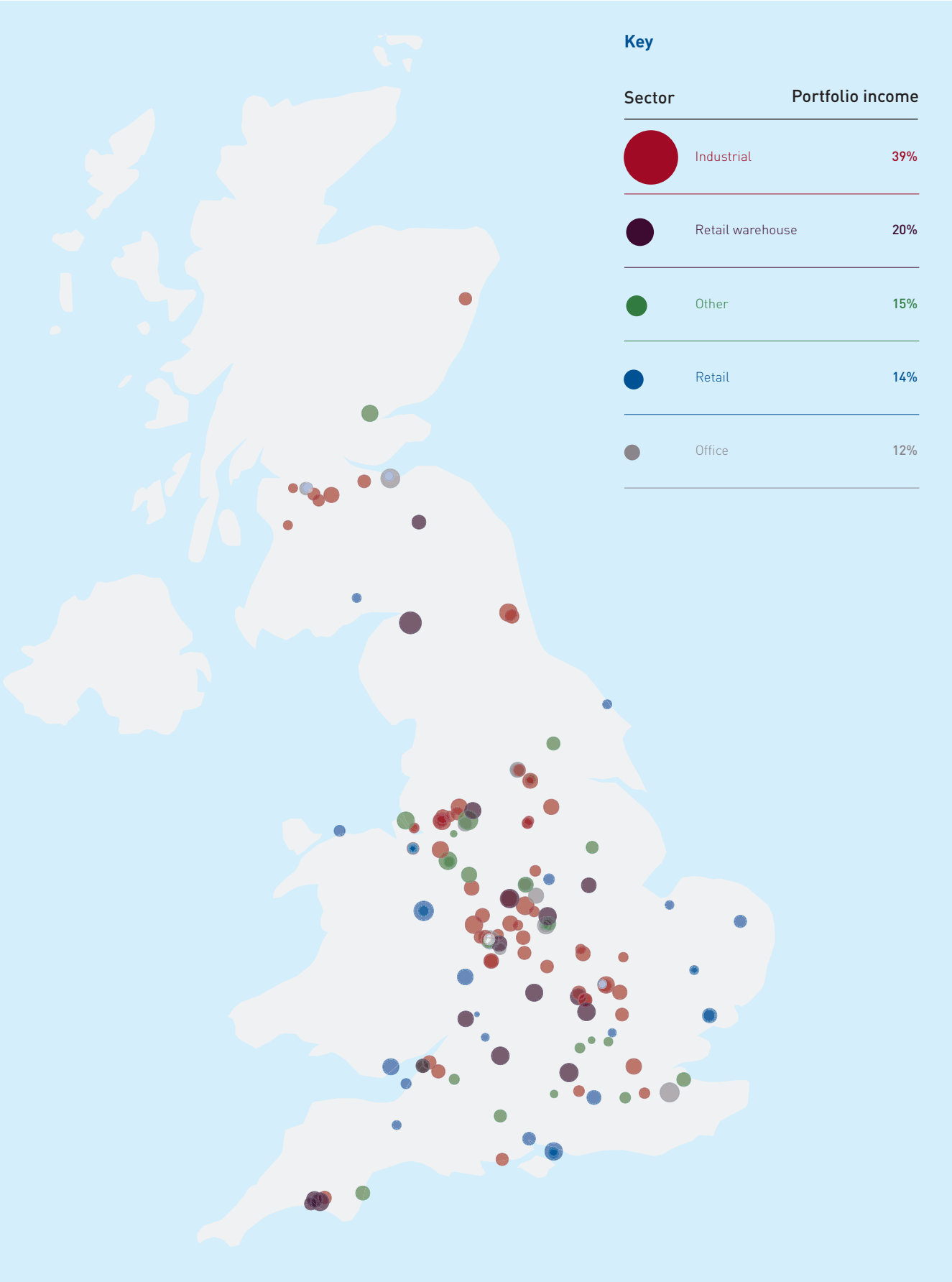
Location	Tenant	Income%
Southsea/Weston-super-Mare/ Worcester	Superdrug	1.4%
Cardiff/Norwich	Specsavers	1.1%
Colchester/Portsmouth	Poundland	1.0%
Cardiff/Portsmouth	Sportsworld (t/a Card Factory)	0.7%
Southampton	URBN	0.6%
Birmingham/Glasgow/ Shrewsbury	Greggs	0.5%
Guildford	Reiss	0.5%
Bury St Edmunds/Portsmouth	The Works	0.5%
Bedford/Scarborough	Waterstones	0.5%
Shrewsbury	Outdoor and Cycle Concepts	0.4%
Birmingham/Edinburgh	Tesco	0.4%
Shrewsbury	Paperchase	0.4%
Llandudno	WH Smith	0.4%
Nottingham	The White Company	0.4%
Colchester	Laura Ashley	0.3%
Edinburgh	Phase Eight	0.3%
Portsmouth	Game Retail	0.3%
Shrewsbury	Holland & Barrett	0.3%
Shrewsbury	The Edinburgh Woollen Mill	0.2%
Taunton	Wilko Retail	0.2%
Dumfries	Iceland	0.2%
Chester	Signet Trading (t/a Ernest Jones)	0.2%
Shrewsbury	TCCT Retail (t/a Thomas Cook)	0.2%
Colchester	H Samuel	0.2%
Southsea	Portsmouth City Council	0.2%
Colchester	Kruidvat Real Estate (t/a Savers)	0.2%
Colchester	Lush	0.2%
Chester	Der Touristik	0.2%
Chester	Ciel (Concessions) (t/a Chesca)	0.2%
Portsmouth	Your Phone Care	0.2%
Chester	TSB	0.1%
Bury St Edmunds	Savers Health & Beauty	0.1%
Chester	Felldale Retail (t/a Lakeland)	0.1%
Cheltenham	Done Brothers (t/a Betfred)	0.1%
Chester	Aslan Jewellery	0.1%
Cirencester	Framemakers Galleries	0.1%
Colchester	Leeds Building Society	0.1%
Cirencester	The Danish Wardrobe (t/a Noa Noa)	0.1%
Birmingham	Coral	0.1%
	VACANT	0.9%



Office

Location	Tenant	Income%
West Malling	Regus	1.7%
Leeds	First Title (t/a Enact)	1.6%
Castle Donington	National Grid	0.9%
Leicester	Mattioli Woods	0.9%
Cheadle	Wienerberger	0.8%
Derby	Edwards Geldards	0.7%
Solihull	Lyons Davidson	0.5%
Edinburgh	Digby Brown	0.4%
Leicester	Regus	0.4%
Edinburgh	Metaswitch Networks	0.3%
Edinburgh	Age Scotland	0.3%
Glasgow	Cognizant Technology Solutions	0.2%
Birmingham/Glasgow	Systra	0.2%
Leicester	Erskine Murray	0.2%
Birmingham	Dakeyne Emms Gilmore Liberson	0.2%
Birmingham	TP Cuthbertson and MG Stocks	0.1%
Birmingham	Copeland Wedge Associates	0.1%
Birmingham	Workers Educational Association	0.1%
Birmingham	Stoford Properties	0.1%
Birmingham	Reward Gateway	0.1%
Birmingham	Quantem Consulting	0.1%
Birmingham	Naismiths	0.1%
Birmingham	Bell Cornwall Associates	0.1%
Birmingham	KWB Property Management	0.1%
Glasgow	Safe Deposits	0.1%
Birmingham	Other smaller tenancies	0.1%
	VACANT	1.2%

Our portfolio



Portfolio facts

Value

£528.9m

2017: £418.5m

Separate tenancies

254

2017: 265

Occupancy rate

96.5%

2017: 98.6%

Assets

147

2017: 131

WAULT

5.9 years

2017: 5.9 years

Net initial yield²⁵

6.6%

2017: 6.9%

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



Industrial

→ Read more on this portfolio sector on page 28



Retail warehouse

→ Read more on this portfolio sector on page 40



Other

→ Read more on this portfolio sector on page 46



Retail

→ Read more on this portfolio sector on page 52



Office

→ Read more on this portfolio sector on page 60



Our portfolio by sector



Aberdeen



Industrial at a glance

Portfolio weighting by income

39%

2017: 45%

Number of properties

61

2017: 60

Sector splits

22%

Warehouse

13%

Distribution

4%

Manufacturing

Valuation

£209.8m

2017: £188.4m

“Modern, fit-for-purpose buildings with high residual values and less exposure to obsolescence”

Our portfolio by sector continued



Industrial

- 1. Wolverhampton**
Assa Abloy (sub-let to Kuehne + Nagel)
- 2. Burton**
Kings Road Tyres
- 3. Gateshead**
Multi-tenanted
- 4. Warrington**
JTF Wholesale
- 5. Ashby-de-la-Zouch**
Teleperformance
- 6. Winsford**
H&M
- 7. Salford**
Restore
- 8. Southwark**
Constantine
- 9. Tamworth**
Vacant
- 10. Doncaster**
Silgan Closures
- 11. Eurocentral**
Next
- 12. Normanton**
YESSS Electrical



1



2



3



4



5



Our portfolio by sector continued



Industrial

13. Kilmarnock

Royal Mail

14. Stone

Revlon International

15. Redditch

Amco Services

16. Warrington

DHL Supply Chain

17. Redditch

Hydro Extrusions

18. Biggleswade

Turpin Distribution

19. Cannock

HellermannTyton

20. Milton Keynes

Massmould

21. Kettering

Multi-tenanted

22. Gateshead

Worthington Armstrong

23. West Bromwich

OyezStraker

24. Milton Keynes

Saint-Gobain Building Distribution





Our portfolio by sector continued



Industrial

25. Nuneaton

DX Network Service

26. Plymouth

Sherwin-Williams

27. Bedford

Heywood Williams Components

28. Avonmouth

Superdrug

29. Bristol

BSS

30. BedfordElma Electronics
Vertiv Infrastructure**31. Coventry**

Royal Mail

32. Stevenage

Morrison Utility Services

33. Daventry

Cummins

34. Livingston

A Share and Sons (t/a SCS)

35. Manchester

Unilin Distribution

36. Oldbury

Sytner



25



26



27



28



29



Our portfolio by sector continued

Industrial

37. Aberdeen

DHL Supply Chain

38. Christchurch

Interserve Project Services

39. Cambuslang

Brenntag

40. Warrington

Dinex Exhausts

41. Warwick

Semcon

42. Hamilton

Ichor Systems

43. WarringtonProcurri Europe
Synertec**44. Erdington**West Midlands Ambulance Service NHS
Trust**45. Sheffield**

Synergy Health

46. Farnborough

Triumph Structures

47. Irlam

Northern Commercials

48. Langley Mill

Warburtons





Our portfolio by sector continued



Industrial

49. Westerham

Aqualisa Products

50. Coalville

MTS Logistics

51. Castleford

Bunzl

52. Speke

DHL International

53. Sheffield

Arkote

54. Kettering

Sealed Air

55. Atherstone

North Warwickshire Borough Council

56. Huntingdon

PHS

57. Glasgow

DHL Global Forwarding

58. Normanton

Acorn Web Offset

59. Sheffield

Andrew Page

60. Leeds

Sovereign Air Movement

61. Speke

Powder Systems



49



50



51



52



53



54



Our portfolio by sector continued



Ashton-under-Lyne



Retail warehouse at a glance

Portfolio weighting by income

20%

2017: 11%

Number of properties

18

2017: 16

Valuation

£107.5m

2017: 48.8m

“Low vacancy rates in this sector”

Our portfolio by sector continued



Retail warehouse

1. Carlisle

Halfords
JB Global (t/a Oak Furniture Land)
Poundland
Iceland
B&M

2. Swindon

B&M
Go Outdoors

3. Ashton-under-Lyne

B&M

4. Burton

Wickes
CDS Superstores
HSS Hire

5. Plymouth

Magnet
B&M

6. Winnersh

Wickes
Pets at Home

7. Galashiels

B&Q

8. Banbury

B&Q

9. Leighton Buzzard

Homebase





Our portfolio by sector continued



Retail warehouse

10. Leicester

Matalan

11. Milton Keynes

Staples

12. Stourbridge

KFC
Halfords
Pizza Hut
Tesco
Bathstore

13. Gloucester

Smyths Toys
Magnet

14. Torpoint

Sainsbury's

15. Plymouth

A Share & Sons (t/a SCS)
JB Global (t/a Oak Furniture Land)

16. Sheldon

Dreams
Pets at Home
Halfords

17. Grantham

Laura Ashley
Poundstretcher
Carpentryright

18. Portishead

TJ Morris (t/a Home Bargains)
Majestic Wines



10



11



12



13



Our portfolio by sector continued



Derby



Other at a glance

Portfolio weighting by income

15%

2017: 13%

Number of properties

27

2017: 21

Valuation

£80.4m

2017: £56.7m

“The ‘other’ sector offers diversification of income without adding to portfolio risk, and has proved to be an out-performer over the long-term”

Our portfolio by sector continued



Other

- 1. Stockport**
Benham (Specialist Cars)
(t/a Williams BMW and Mini)

- 2. Stoke**
Greens Health & Fitness

- 3. Derby**
VW Group

- 4. Castleford**
MKM Building Supplies

- 5. Lincoln**
MKM Building Supplies

- 6. Gillingham**
Co-Op

- 7. Leicester**
Magnet

- 8. Perth**
The Restaurant Group (t/a Frankie & Bennies)
Scotco Eastern (t/a KFC)
Bannatyne Fitness

- 9. York**
Pendragon

- 10. Watford**
Pizza Hut

- 11. Leicester**
Pizza Hut

- 12. Salisbury**
Parkwood Health and Fitness

- 13. Liverpool**
Community Health NHS Trust
Tai Pan Buffet Restaurants





Our portfolio by sector continued



Other

14. Crewe

Pizza Hut
Mecca Bingo (sub-let to Odeon
Cinemas)
MFA Bowl
Mecca Bingo



14

15. Redhill

Honda Motor Europe

16. Maypole

Starbucks

17. High Wycombe

Stonegate Pub Co

18. Chesham

Bright Horizons Family Solutions

19. Basingstoke

Bright Horizons Family Solutions

20. Torquay

Le Bistrot Pierre
Las Iguanas
Jurassic Coast Coffee
(t/a Costa Coffee)
Loungers



15



16

21. Plymouth

McDonald's

22. Knutsford

Knutsford Day Nursery

23. Crewe

F1 Autocentres
Edmundson Electrical
Multi Tile (t/a Tile Giant)

24. Portishead

Travelodge

25. Bath

Chokdee (t/a Giggling Squid)

26. Portishead

JD Wetherspoon

27. Shrewsbury

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



17



18



19



Our portfolio by sector continued



Shrewsbury



Retail at a glance

Portfolio weighting by income

14%

2017: 17%

Number of properties

33

2017: 26

Valuation

£75.3m

2017: £72.2m

“The strongest locations continue to be in demand by retailers”

Our portfolio by sector continued



Retail

1. **Worcester**
Superdrug

2. **Weston-super-Mare**
Superdrug

3. **Cardiff**
Specsavers
Card Factory

4. **Norwich**
Specsavers

5. **Portsmouth**
Poundland
Phone Care
Card Factory
Game





Our portfolio by sector continued



Retail

6. Colchester

Kruidvat Real Estate (t/a Savers)
Poundland

7. Southampton

URBN

8. Glasgow

Greggs

9. Birmingham

Subway
Coral
Tesco
Greggs

10. Guildford

Reiss

11. Bury St Edmunds

The Works

12. Portsmouth

The Works

13. Scarborough

Waterstones

14. Bedford

Waterstones

15. Shrewsbury

Outdoor and Cycle Concepts

16. Edinburgh

Tesco
R Scott Bathrooms

17. Llandudno

WH Smith

18. Nottingham

The White Company

19. Colchester

Lush
Laura Ashley
H Samuel
Leeds Building Society



6



7



8



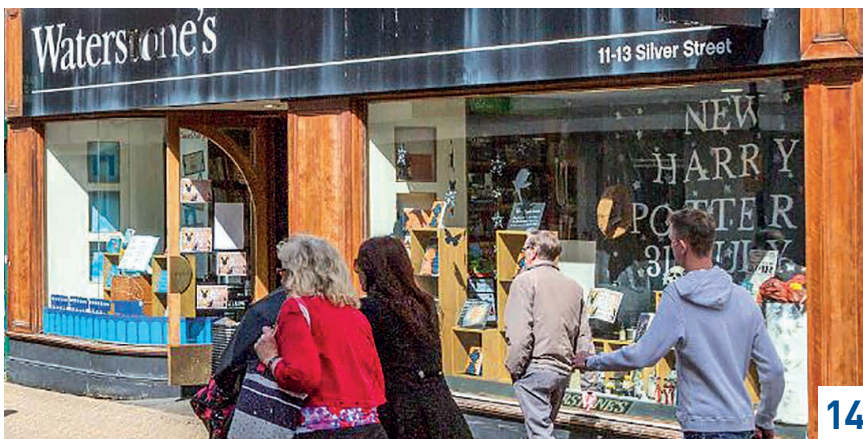
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10



11



Our portfolio by sector continued



Retail

20. Edinburgh
Phase Eight**21. Taunton**
Wilko Retail**22. Dumfries**
Iceland**23. Chester**
Signet Trading (t/a Ernest Jones)
Felldale Retail (t/a Lakeland)**24. Southsea**
Portsmouth City Council
Superdrug**25. Chester**
Aslan Jewellery
Der Touristik**26. Chester**
TSB
Ciel (Concessions) (t/a Chesca)**27. Bury St. Edmunds**
Savers Health & Beauty**28. Cheltenham**
Done Brothers (t/a Betfred)**29. Cirencester**
Danish Wardrobe (t/a Noa Noa)
Framemakers Galleries**30. Shrewsbury**
Multi-tenanted**31. St. Albans**
Vacant**32. Chester**
Vacant**33. Kings Lynn**
Vacant



Our portfolio by sector continued



Birmingham



Office at a glance

Portfolio weighting by income

12%

2017: 14%

Number of properties

12

2017: 12

Valuation

£55.9m

2017: £52.4m

“Office rents in regional markets are growing strongly and supply is constrained by a lack of development”

Our portfolio by sector continued



Office

1. **West Malling**
Regus
2. **Castle Donington**
National Grid
3. **Cheadle**
Wienerberger
4. **Derby**
Edwards Geldards
5. **Solihull**
Lyons Davidson
6. **Leicester**
Mattioli Woods
Erskine Murray
7. **Edinburgh**
Age Scotland
Metaswitch Networks
Digby Brown
8. **Leicester**
Mattioli Woods
Regus
9. **Glasgow**
Multi-tenanted
10. **Leeds**
First Title (t/a Enact)
11. **Leeds**
First Title (t/a Enact)
12. **Birmingham**
Multi-tenanted





6



7



8



9



10



11



12

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.

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.

The Board considers it is too early to understand the full impact of 'Brexit' on revenues and portfolio valuation, but this political risk is not considered likely to have a material impact on the Company's performance due to the mitigating factors.

Risk type	Assessment	Mitigating factors
Loss of revenue <ul style="list-style-type: none"> • Tenant default. • Expiries or breaks concentrated in a specific year. • Unable to re-let void units. • Low UK economic growth impacting the commercial property market. 	Likelihood: Moderate ↔ Impact: Moderate ↔	<ul style="list-style-type: none"> • Company's largest tenant account 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.
Decreases in portfolio valuation <ul style="list-style-type: none"> • Market pricing affecting value. • Change in demand for space. • Properties concentrated in a specific geographical location or sector. • Low general property market sentiment and investor demand. 	Likelihood: Moderate ↑ Impact: Moderate ↔	<ul style="list-style-type: none"> • Active portfolio diversification between office, industrial (distribution, manufacturing and warehousing), retail and other. • Investment policy limits the Company's portfolio to no more than 50% in any specific sector or geographical region.
Financial <ul style="list-style-type: none"> • Reduced availability or increased cost of arranging or servicing debt. • Breach of borrowing covenants. • Significant increases in interest rates. 	Likelihood: Low ↔ Impact: High ↔	<ul style="list-style-type: none"> • Target net gearing of 25% LTV on property portfolio. • 77% 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.
Operational <ul style="list-style-type: none"> • Inadequate performance, controls or systems operated by the Investment Manager. 	Likelihood: Low ↔ Impact: High ↔	<ul style="list-style-type: none"> • Ongoing review of performance by independent Board of Directors. • Internal audit function operated by the Investment Manager reporting directly to the Audit Committee.
Regulatory and legal <ul style="list-style-type: none"> • 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 regime²⁶ or changes to the Company's tax status. 	Likelihood: Low ↔ Impact: High ↔	<ul style="list-style-type: none"> • 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.
Acquisitions <ul style="list-style-type: none"> • Unidentified liabilities associated with the acquisition of new properties (whether acquired directly or via a corporate structure). 	Likelihood: Low ↔ Impact: High ↔	<ul style="list-style-type: none"> • Comprehensive due diligence is undertaken in conjunction with professional advisors and the provision of insured warranties and indemnities are sought from vendors where appropriate.

Key of change

↑ Increased ↔ Stable ↓ Decreased

26. As defined by the Corporation Tax Act 2010.

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 business plan covers 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 three-year business plan considered 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 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 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 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.



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: 64

Relevant skills and experience

David is a professional strategic adviser focused principally on UK and international real estate. He 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.

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

Committee membership

(A) (M) (R) (N)

Committee key

- (A)** Audit Committee
- (M)** Management Engagement Committee
- (R)** Remuneration Committee
- (N)** Nominations Committee
- Chairman of Committee
- Member of Committee



Ian Mattioli MBE

Role: Director

Age: 55

Relevant skills and experience

Ian has 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 plc, ("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 £8.3bn 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

(N)



Matthew Thorne MA, FCA

Role: Independent Director

Age: 65

Relevant skills and experience

Matthew chairs the Company's Audit Committee. Matthew qualified as a chartered accountant in 1978 with Price Waterhouse. He is an independent non-executive director of Bankers Investment Trust plc, chairing the Audit Committee, and since May 2007 has been an advisor to Consensus Business Group (led by Vincent Tchenguiz). Matthew is also a finance member of the advisory board and Audit Committee chair of Greenwich Hospital. 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.

Committee membership

(A) (M) (R) (N)

Key Investment Manager personnel

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



Barry Gilbertson PPRICS

Role: Senior Independent Director

Age: 66

Relevant skills and experience

Barry is the designated Senior Independent Director and chairs the Management Engagement Committee and the Remuneration Committee. He is an international consultant with a focus on real estate, strategy and risk, with more than 45 years' experience advising on property – especially where real estate is material to the corporate entity.

He was 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. In 1996, Barry became a full equity partner in the Coopers & Lybrand (now PricewaterhouseCoopers) partnership, where he remained until 2011. Barry has been a non-executive consultant to Knight Frank LLP, and has held advisory appointments with the United Nations and the UK Government. Barry's other public company independent non-executive directorships have previously included Chairman of conwert Immobilien Invest SE, quoted on the Vienna Stock Exchange; RONA Incorporated, quoted on the TSX and; Granite REIT, quoted on the NYSE and TSX, where he served on the Audit Committee throughout his six year term, and chaired the Corporate Governance and Nominations Committee until retiring by rotation, having previously chaired three other Committees at different stages of the company's evolution.

Barry has served on the Council of The University of Bath since 2014, serving on the Finance Committee and recently elected to Chair the new Remuneration Committee; holds Visiting Professor appointments at two UK universities and; been awarded Honorary Membership of four international professional bodies. Among his voluntary roles, Barry has been, since July 2017, Chairman of The City of Bath UNESCO World Heritage Site.

Committee membership



Richard Shepherd-Cross BSc MRICS

Role: Managing Director

Age: 47

Relevant skills and experience

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 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.



Nathan Imlach CA FCSI CF

Role: Chief Financial Officer

Age: 48

Relevant skills and experience

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 also 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 on the opposite page.

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



Alex Nix MRICS

Role: Assistant Fund Manager

Relevant skills and experience

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 MRICS

Role: Portfolio Manager

Relevant skills and experience

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 MRICS

Role: Portfolio Manager

Relevant skills and experience

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 only area of non-compliance with the Code is that 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.

Role of the Board

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. 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. In particular, the Directors have delegated responsibility for management of the Company's property portfolio to the Investment Manager, while retaining the responsibility for exercising overall control and supervision of the Investment Manager.

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.

Non-executive Directors

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.

Board appraisals

The Directors have annual appraisals as part of a Board Effectiveness Review. Whilst this review is usually undertaken in-house, the Board appointed PricewaterhouseCoopers to undertake an external review of Board effectiveness in 2017 to provide a benchmark for the 2018 Board appraisals.

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 Board appraisals was around Board composition with a view to increasing the number of Non-executive Directors, and as a result the Company constituted a Nominations Committee in April 2018.

Nominations Committee

The Board as a whole is responsible for ensuring adequate succession planning to maintain an appropriate balance of skills on the Board. 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 are required to be informed of subsequent changes.

The Nominations Committee consists of the four Directors and is chaired by David Hunter. The Nominations Committee meets at least once a year and otherwise as required and the Committee chairman attends the Annual General Meeting to answer any shareholder questions about the Committee's activities.

The key responsibilities of the Nominations 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.

Governance report continued

Nominations Committee continued

Before any appointment is made by the Board, the Nominations 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 Nominations Committee shall also make 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, Remunerations 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.

There have been no Board vacancies during the year and up to the date of this report. The Articles stipulate that all new directors shall retire and offer themselves for re-appointment at least every three years.

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.

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.

Management Engagement Committee

The Management Engagement Committee comprises the independent directors and is chaired by Barry Gilbertson. The Investment Manager is appointed under the IMA to provide real estate fund management services. The Management Engagement Committee reviews annually the performance of the Investment Manager and its compliance with the Company's investment policy and with the IMA. 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. As a consequence of these reviews, 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.

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

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

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

The Board considers that the length of time each director, including the Chairman, serves on the Board should not be limited and has not set a finite tenure policy.

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 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 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.

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 Adviser 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.

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.

The Board has considered the requirements of the Bribery Act 2010, the Criminal Finances Act 2017 and the Modern Slavery Act and has taken steps to ensure that it has adequate procedures in place to comply with their requirements. Responsibility for the Company's compliance policies rests with the Investment Manager.

Approval

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

David Hunter

Independent Chairman

4 June 2018

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. 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 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 reviewing 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 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, monitoring the effectiveness of the audit process 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.

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

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.

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 undrawn facilities and forecasts.

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

Audit Committee report continued

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 reviewed the reports of the internal audit function.

The external audit, review of its effectiveness, auditor reappointment and audit tendering

The Audit Committee reviews annually the external auditor's:

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

The review of the 2018 external audit was conducted internally. The Committee agreed a framework to assess the effectiveness of the audit approach and considered the views of the Investment Manager. Following this 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 2018 £000	Year ended 31 March 2017 £000
Audit of the Company's Annual Report	80	57
Total audit related fees	80	57
Review of the Company's Interim Report	15	11
Total non-audit fees	15	11
Total fees	95	68

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 will not exceed £10,000 without the prior consent of the Committee.

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 other 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.

The external auditor is required to rotate the audit partner responsible for every fifth annual audit. The 31 March 2018 audit marks the fifth audit for the current lead audit partner, Jonathan Dodworth. 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. Jim Wright is expected to be the lead audit partner for the audit of the year ending 31 March 2019.

Approval

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

Matthew Thorne
Chairman of the Audit Committee
4 June 2018

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 shall meet at least once a year and otherwise as required.

Responsibilities

The key responsibilities of the Committee are:

- 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 of Corporate Governance;
- Review the ongoing 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. 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. 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.

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 20 July 2017, an ordinary resolution to approve the directors' remuneration report was passed, with 100% of votes cast for the resolution and 0% of votes cast against the resolution, with 8,098 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 2018			Year ended 31 March 2017		
	Salary £	Er's NIC £	Total £	Salary £	Er's NIC £	Total £
David Hunter	48,000	6,362	54,362	46,200	6,003	52,203
Matthew Thorne	38,000	4,965	42,965	36,200	4,622	40,822
Barry Gilbertson	33,500	4,397	37,897	31,700	4,001	35,701
Ian Mattioli	28,500	3,558	32,058	27,500	3,422	30,922
	148,000	19,282	167,282	141,600	18,048	159,648

In April 2018 the Committee approved the following annual salaries with effect from 1 April 2018: David Hunter £50,000; Matthew Thorne £40,000; Barry Gilbertson £38,000; and Ian Mattioli £34,500.

No pension benefits were accruing to any of the directors during the year (2017: Enil).

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.

Remuneration Committee report continued

Directors' interests (audited)

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

	2018		2017	
	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	34,000	0.01%	34,000	0.01%
Ian Mattioli ²⁷	2,445,259	0.63%	2,435,305	0.72%
	2,537,259	0.66%	2,527,305	0.75%

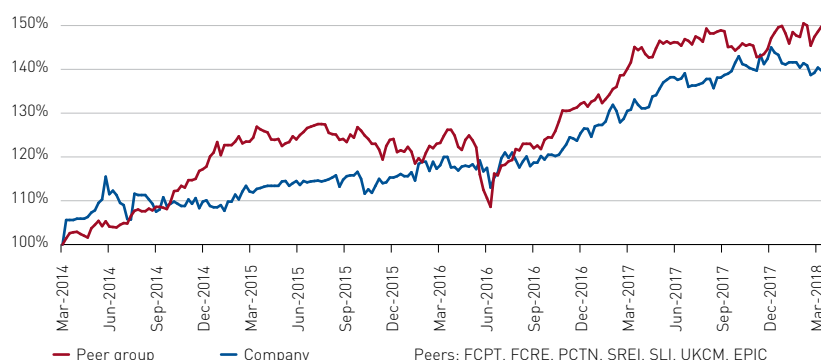
There have been no changes in Directors' interests since the year end.

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 trading on the London Stock Exchange ("Admission") to 31 March 2018 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.²⁸



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

4 June 2018

²⁷ Including his wife and a charitable trust under his control.

²⁸ The Company's peer group comprises: F&C Commercial Property Trust Limited, F&C UK Real Estate Investments Limited, Picton Property Income Limited, Schroder Real Estate Investment Trust Limited, Standard Life Investments Property Income Trust Limited and UK Commercial Property Trust Limited.

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 2018. 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 1.6125p per share (totalling £6.2m) in respect of the quarter ended 31 March 2018 on 31 May 2018, resulting in total dividends relating to the year ended 31 March 2018 achieving the target of 6.45p 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 2018 the Company had net assets of £415.2m and had undrawn debt facilities of £35.0m. 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.

Directors' report continued

Capital structure continued

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 4 June 2018 the Directors were aware that the following shareholders each owned²⁹ 3% or more of the issued share capital:

Shareholder	Number of ordinary shares	Percentage holding ³⁰
Mattioli Woods	28,304,323	7.3%
BlackRock	13,294,958	3.4%

On 27 April 2018, the company was notified that Mattioli Woods held 26,977,272 ordinary shares (6.97%).

No other changes in substantial shareholding were disclosed between 31 March 2018 and 4 June 2018.

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.

Environmental

The Board believes good environmental practices such as the recycling of paper waste support its strategy by enhancing the reputation of the Company. However, due to the nature of its business generally, the Company does not have a significant environmental impact.

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 2018 tCO ₂ e ³¹	31 March 2017 tCO ₂ e
Scope 1		
Gas, refrigerants and fuel	—	—
Scope 2		
Landlord controlled electricity	805.5	700.1
Intensity measure		
Emissions per £1m of rent	21.8	22.6

The operational control method has been used to reflect influence over energy consumption, with the increase in landlord controlled electricity due to the acquisition of several multi-let properties during the 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.

²⁹ Ownership incorporates the control of voting rights through acting as discretionary investment manager on behalf of retail investors holding the beneficial interest.

³⁰ Based on the issued share capital on 4 June 2018.

³¹ Tonnes of carbon dioxide equivalent.

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 19 July 2018 at 11:00am.

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 2018

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

4 June 2018

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 International Financial Reporting Standards 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 4 June 2018 and is signed on its behalf by:

David Hunter
Independent Chairman
4 June 2018

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

For the year ended 31 March 2018

Opinion

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2018 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 of Custodian REIT plc (the "Parent Company") and its subsidiaries (the "Group") which comprise:

- The Consolidated and Company statements 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 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	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> • Valuation of the property portfolio; • Revenue recognition cut-off and accounting for lease incentives; and • Compliance with the real estate investment trust ("REIT") regime. <p>These key audit matters are consistent with those identified in the prior year, except for removal of loan covenant compliance from the list of key audit matters.</p>
Materiality	<p>The materiality that we used for the Group financial statements was £8.3m, which was determined on the basis of 2% of net assets for Statement of financial position testing. Lower focused materiality of £2.5m was used for 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.</p>
Scoping	<p>All audit procedures were performed directly by the Group audit team.</p>
Significant changes in our approach	<p>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 or changes in basis for determining materiality.</p>

Independent auditor's report to the members of Custodian REIT plc continued
For the year ended 31 March 2018

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 twelve months from the date of approval of the financial statements.

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

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.

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 64-65 that describe the principal risks and explain how they are being managed or mitigated;
- The Directors' confirmation on page 64 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 93 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 confirm that we have nothing material to report, add or draw attention to in respect of these matters.

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.

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.

Given the existing and new finance facilities undertaken by the Company during the year ended 31 March 2017, a key factor in assessing the going concern basis of the Company was covenant compliance. Following improvement of the management procedures over control of the covenant compliance and absence of new non-financial covenants during the year ended 31 March 2018, we have removed loan covenant compliance as a key audit matter.

Valuation of the property portfolio

Key audit matter description	<p>As disclosed in Note 10, the Group's investment property portfolio is valued at £528.9m (31 March 2017: £418.5m). 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 valuer 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, void periods and purchaser costs. 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.</p> <p>Valuation of investment property is an area of judgement which could materially affect the financial statements.</p> <p>The Audit Committee report on pages 73-74 discloses this as a primary area of judgement.</p>
How the scope of our audit responded to the key audit matter	<p>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 randomly selected properties). For this sample, we assessed and challenged the reasonableness of the significant judgments and assumptions applied in the valuation model for each property in our sample, focusing in particular on the yields assumed and assessing sensitivity of the valuation to changes in assumptions. We assessed the completeness and accuracy of the data provided by the Group to the valuer for the purposes of their valuation exercise.</p> <p>With the assistance of expert 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 valuer both in the meeting and contained in the detailed valuation reports; and we undertook our own research into the relevant markets to evaluate the reasonableness of the valuation inputs and the resulting fair values.</p>
Key observations	<p>The results of our tests were satisfactory and we concluded that the key assumptions applied in determining the property valuations by the external valuer were appropriate. The testing performed in relation to the final property valuations proved satisfactory.</p>

Revenue recognition cut-off and accounting for lease incentives

Key audit matter description	<p>As disclosed in Note 4, the Company recognised £34.8m of gross income from investment properties (2017: £27.2m), where £7.7m (2017: £6.2m) related to the last quarterly billing which is exposed to revenue cut-off risk. £1.5m related to revenue recognised during the year from lease incentives (2017: £1.2m). As set out in Note 2.4 to the financial statements, the Company's accounting policy is to account for the rental income from properties owned by the Company on a straight-line basis over the term of the lease. Lease incentives are amortised on a straight-line basis over the lease term. There is a risk that lease incentives such as rent free periods or stepped rent agreements may not be treated appropriately to ensure rental income is recognised in each accounting period on straight-line basis over the lease agreement. We have also defined revenue recognition risk as arising from revenue cut-off errors in rental income near the period-end. Due to complexities involved in the calculations, we have determined that there was a potential for fraud through possible manipulation of this balance.</p>
How the scope of our audit responded to the key audit matter	<p>To respond to the key audit matter we tested new tenancy agreements entered into in the period (on a sample basis); tested cut off for a sample of revenue recognised near either side of year end to ensure the transactions have been recognised in the correct period; and performed substantive testing of a selection of tenancy rental revenue recognised to signed rental agreements ensuring lease incentives have been recognised over the correct period.</p>
Key observations	<p>The results of our tests were satisfactory and we concluded revenue had been appropriately recognised. The Group's accounting policies in relation to revenue recognition were found to be in line with IFRS and industry peers.</p>

Independent auditor's report to the members of Custodian REIT plc continued
For the year ended 31 March 2018

Compliance with REIT regime

Key audit matter description	<p>The UK REIT regime affords the Company a beneficial tax treatment for income and capital gains, provided certain criteria are met. As a REIT, the Company must ensure that it monitors its compliance with the requirements of the regime. If the Company breaches one or more of the REIT regime conditions, the penalty can range from automatic expulsion from the regime to additional tax liabilities for the REIT.</p> <p>The Audit Committee report on pages 73-74 discloses this as a primary area of judgement.</p>
How the scope of our audit responded to the key audit matter	<p>We obtained copies of the Investment Manager's calculations to support compliance with these conditions which we recalculated. We also agreed compliance with these conditions by reference to the REIT requirements at the balance sheet date, and in the forecast period of 12 months from the balance sheet date.</p>
Key observations	<p>The results of our tests were satisfactory and we found no instances of breaches or forecast breaches of compliance with the REIT regime.</p>

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	£8.3m	£8.29m
Basis for determining materiality	<p>2% (2017: 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.</p>	<p>2% (2017: 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.</p>
Rationale for the benchmark applied	<p>We have used the net asset value as at 31 March 2018 as the benchmark for determining materiality, as this benchmark is deemed to be a key driver 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 net assets, we consider EPRA earnings as a critical performance measure for the Group. We have also benchmarked these percentages and approach to materiality to other listed REITs based on information publicly disclosed in the audit reports and found them to be consistent.</p>	

We agreed with the Audit Committee that we would report to the Audit Committee all audit differences in excess of £0.39m (2017: £0.35m) for the Group, and all misstatements in excess of £0.125m for the Statement of comprehensive income (2017: £0.098m), 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.

We have nothing to report in respect of these matters.

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.

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.

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

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

For the year ended 31 March 2018

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.

Report on other legal and 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 ending 24 March 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years, covering the periods ending 24 March 2014 to 31 March 2018.

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).

Jonathan Dodworth (Senior statutory auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, UK

4 June 2018

Consolidated and Company statements of comprehensive income

For the year ended 31 March 2018

		Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Group and Company	Note		
Revenue	4	34,813	27,610
Investment management		(3,124)	(2,671)
Operating expenses of rental property			
– rechargeable to tenants		(758)	(630)
– directly incurred		(852)	(1,239)
Professional fees		(433)	(337)
Directors' fees		(167)	(160)
Administrative expenses		(653)	(475)
Expenses		(5,987)	(5,512)
Operating profit before financing and revaluation of investment property		28,826	22,098
Unrealised gains/(losses) on revaluation of investment property:			
– relating to property revaluations	10	11,859	9,016
– relating to costs of acquisition	10	(6,212)	(6,103)
Net valuation increase		5,647	2,913
Profit on disposal of investment property		1,606	1,599
Net gain on investment property		7,253	4,512
Operating profit before financing		36,079	26,610
Finance income	6	99	186
Finance costs	7	(3,758)	(2,591)
Net finance costs		(3,659)	(2,405)
Profit before tax		32,420	24,205
Income tax expense	8	—	—
Profit for the year and total comprehensive income for the year, net of tax		32,420	24,205
Attributable to:			
Owners of the Company		32,420	24,205
Earnings per ordinary share:			
Basic and diluted (p per share)	3	8.9	8.1
EPRA (p per share)	3	6.9	6.6

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

Consolidated and Company statements of financial position

As at 31 March 2018

Registered number: 08863271

		Group		Company	
	Note	31 March 2018 £000	31 March 2017 (restated) £000	31 March 2018 £000	31 March 2017 (restated) £000
Non-current assets					
Investment property	10	528,943	418,548	528,943	418,548
Investments	11	—	—	7,610	7,109
Total non-current assets		528,943	418,548	536,553	425,657
Trade and other receivables	12	7,883	4,453	7,883	4,453
Cash and cash equivalents	14	5,059	5,807	5,059	5,807
Total current assets		12,942	10,260	12,942	10,260
Total assets		541,885	428,808	549,495	435,917
Equity					
Issued capital	16	3,869	3,390	3,869	3,390
Share premium	16	212,534	159,101	212,534	159,101
Retained earnings	16	198,799	189,386	198,799	189,386
Total equity attributable to equity holders of the Company		415,202	351,877	415,202	351,877
Non-current liabilities					
Borrowings	15	113,357	63,788	113,357	63,788
Other payables		571	571	571	571
Total non-current liabilities		113,928	64,359	113,928	64,359
Current liabilities					
Trade and other payables	13	5,870	7,014	13,480	14,123
Deferred income		6,885	5,558	6,885	5,558
Total current liabilities		12,755	12,572	20,365	19,681
Total liabilities		126,683	76,931	134,293	84,040
Total equity and liabilities		541,885	428,808	549,495	435,917

These consolidated and Company financial statements of Custodian REIT plc were approved and authorised for issue by the Board of Directors on 4 June 2018 and are signed on its behalf by:

David Hunter
Independent Chairman

Consolidated and Company statements of cash flows

For the year ended 31 March 2018

		Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Group and Company	Note		
Operating activities			
Profit for the year		32,420	24,205
Net finance costs		3,659	2,405
Net valuation increase of investment property	10	(5,647)	(2,913)
Impact of rent free	10	(1,547)	(1,202)
Profit on disposal of investment property (excluding costs of disposal)		(1,732)	(1,807)
Cash flows from operating activities before changes in working capital and provisions		27,153	20,688
Increase/(decrease) in trade and other receivables		985	(2,023)
Decrease in trade and other payables and deferred income		250	4,401
Cash generated from operations		28,388	23,066
Interest and other finance charges		(3,553)	(2,233)
Net cash flows from operating activities		24,835	20,833
Investing activities			
Purchase of investment property		(103,796)	(101,734)
Capital expenditure and development		(2,498)	(3,234)
Acquisition costs		(6,212)	(6,103)
Disposal of investment property (excluding proceeds held in charged bank accounts)		6,622	18,945
Interest received	6	32	33
Net cash used in investing activities		(105,852)	(92,093)
Financing activities			
Proceeds from the issue of share capital	16	54,670	92,425
Payment of costs of share issue		(758)	(1,320)
New borrowings/(repayment of borrowings) net of costs	15	49,364	(1,000)
Dividends paid	9	(23,007)	(18,493)
Net cash from financing activities		80,269	71,612
Net (decrease)/increase in cash and cash equivalents		(748)	352
Cash and cash equivalents at start of the year		5,807	5,455
Cash and cash equivalents at end of the year		5,059	5,807

Consolidated and Company statements of changes in equity

For the year ended 31 March 2018

	Note	Issued capital £000	Share premium £000	Retained earnings £000	Total equity £000
As at 1 April 2016		2,512	68,874	183,674	255,060
Profit for the year		—	—	24,205	24,205
Total comprehensive income for year		—	—	24,205	24,205
Transactions with owners of the Company, recognised directly in equity					
Dividends	9	—	—	(18,493)	(18,493)
Issue of share capital	16	878	90,227	—	91,105
As at 31 March 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

Notes to the financial statements

For the year ended 31 March 2018

1. Corporate information

The Company is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the London Stock Exchange plc's main market for listed securities. The 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 4 June 2018.

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 December or 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

During the year the Company has applied a number of amendments to IFRSs and a new interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for accounting periods beginning on or after 1 April 2017:

- Annual Improvements to IFRSs 2014-2016 Cycle; and
- Amendments to IAS 7 'Disclosure initiative'.

The Company adopted the amendments to IAS 7 for the first time during the year which require disclosure to enable the users of the financial statements to evaluate changes in liabilities arising from financing activities. Borrowings are the Company's only liabilities arising from financing activities and a reconciliation between opening and closing balances is shown in Note 15. The application of these new standards has otherwise had no impact on the disclosures or on the amounts recognised in the Company's financial statements.

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 9 'Financial Instruments';
- IFRS 15 'Revenue from Contracts with Customers';
- IFRS 16 'Leases'; and
- IFRS 17 'Insurance Contracts'

IFRS 9

IFRS 9 'Financial instruments' was issued in July 2014, and the new standard is effective for accounting periods beginning on or after 1 January 2018 and will be adopted by the Company on 1 April 2018. IFRS 9 was adopted by the EU in November 2016.

IFRS 9 introduces changes to the classification of financial assets and a new impairment model for financial assets, which could impact the timing of recognition of impairment losses. 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.

Notes to the financial statements continued
For the year ended 31 March 2018

2. Basis of preparation and accounting policies continued

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

IFRS 9 continued

The Company is assessing the impact of the following accounting changes that will arise under IFRS 9:

- Classification of financial assets held by the Company is not expected to change.
- Provisions for impairment losses against financial assets could be recognised sooner as lifetime expected credit losses are recognised on initial recognition of those financial assets.
- The Company's trade receivables, other receivables and accrued income are short-term and do not include a financing component, therefore the Company expects to apply the simplified approach and reflect lifetime credit losses.

The Company will apply IFRS 9 from 1 April 2018 and has elected not to restate comparatives on initial application of IFRS 9. The full impact of adopting IFRS 9 on the Company's financial statements will depend on the financial instruments that the Company has during 2018 as well as on economic conditions and judgements made as at the year end.

Based on the Company's credit losses incurred in the current and preceding financial years, the expected additional provision to be recognised is £nil.

IFRS 15

IFRS 15 'Revenue from contracts with customers' was issued in May 2014, and the new standard is effective for accounting periods beginning on or after 1 January 2018 and will be adopted by the Company on 1 April 2018. IFRS 15 was adopted by the EU in October 2016.

IFRS 15 will change the way revenue from customer contracts is recognised, potentially impacting both the timing at which revenue may be recognised, and the value of revenue recognised. Customer contracts are broken down into 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. Additional disclosure requirements include the reporting of disaggregated revenues, and the recognition of contract assets and contract liabilities on the face of the statement of financial position.

The Company is assessing the impact of the accounting and disclosure changes that will arise under IFRS 15 and at present only anticipates a minimal impact on revenue recognition and reported net assets due to certain leases containing an element of variable consideration.

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 lessee'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 is assessing the impact of the accounting and disclosure changes that will arise under IFRS 16 and at present only anticipates a £0.03m impact on income statement categorisation of headlease costs, with no impact on bank covenants.

IFRS 17

IFRS 17 'Insurance Contracts' 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. Basis of preparation and accounting policies continued

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

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duties.

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

Lease incentives are 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.

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. All financial assets are initially recognised at fair value plus transaction costs, when the Company becomes party to the contractual provisions of the instrument. Interest resulting from holding financial assets is recognised in 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 derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for 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.

Notes to the financial statements continued

For the year ended 31 March 2018

2. Basis of preparation and accounting policies continued

2.4. Significant accounting policies continued

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.

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 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.
- Acquisition of subsidiaries – The Board applies judgement as to whether the acquisition of a subsidiary comprises an asset purchase or a business combination.³² A business comprises an integrated set of activities, including strategic and operational management, and assets capable of being managed for the purpose of providing an economic benefit to the owner. The Board assessed the acquisition of subsidiaries detailed in Note 11 as an asset purchase because all outsourced strategic and operational management contracts were terminated on acquisition.

Estimates

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

32. As defined by IFRS 3 – Business Combinations.

2. Basis of preparation and accounting policies continued

2.6. Change in accounting presentation

During the year the classification of deferred lease incentives has been reviewed and compared with industry peers, resulting in a presentational change with no impact on total return or NAV. These assets were previously reported as a separate receivable and deducted from the independent property valuation in arriving at the reported investment property balance. To align the Company's accounting presentation with that adopted by many industry peers, assets totalling £2.7m at 31 March 2017 and £1.5m at 31 March 2016 have been reclassified from receivables to investment property in retrospectively restating the statement of financial position and the associated notes at those dates in these 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 2018	Year ended 31 March 2017
Group and Company		
Net profit and diluted net profit attributable to equity holders of the Company (£000)	32,420	24,205
Net gain on investment property (£000)	(7,253)	(4,512)
EPRA net profit attributable to equity holders of the Company (£000)	25,167	19,693
Weighted average number of ordinary shares:		
Issued ordinary shares at start of the year (thousands)	339,013	251,242
Effect of shares issued during the year (thousands)	23,380	47,489
Basic and diluted weighted average number of shares (thousands)	362,393	298,731
Basic and diluted EPS (p)	8.9	8.1
EPRA EPS (p)	6.9	6.6

4. Revenue

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Group and Company		
Gross rental income from investment property	34,055	26,980
Income from recharges to tenants	758	630
	34,813	27,610

Notes to the financial statements continued
For the year ended 31 March 2018

5. Operating profit

Operating profit is stated after charging/(crediting):

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Group and Company		
Profit on disposal of investment property	(1,606)	(1,599)
Net investment property valuation increase	(5,647)	(2,913)
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	80	57
Fees payable to the Company's auditor and its associates for other services	15	11
Administrative fee payable to the Investment Manager	493	365
Directly incurred operating expenses of vacant rental property	236	519
Directly incurred operating expenses of let rental property	616	720
Lease and sublease expenses	37	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 2018 £000	Year ended 31 March 2017 £000
Group and Company		
Bank interest	32	33
Finance income	67	153
	99	186

7. Finance costs

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Group and Company		
Amortisation of arrangement fees on debt facilities	205	358
Other finance costs	157	—
Bank interest	3,396	2,233
	3,758	2,591

During the prior year the Company repaid a £20m term loan with Lloyds Bank plc resulting in one-off costs of £0.165m related to the accelerated recognition of the associated deferred arrangement fees.

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 2018 £000	Year ended 31 March 2017 £000
Group and Company		
Profit before income tax	32,420	24,205
Tax charge on profit at a standard rate of 19.0% (2017: 20.0%).	6,160	4,841
Effects of: REIT tax exempt rental profits and gains	(6,160)	(4,841)
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

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Group and Company		
Interim dividends paid on ordinary shares relating to the quarter ended:		
Prior year		
– 31 March 2017: 1.5875p (2016: 1.6625p)	5,398	4,227
Current year		
– 30 June 2017: 1.6125p (2016: 1.5875p)	5,609	4,492
– 30 September 2017: 1.6125p (2016: 1.5875p)	5,899	4,638
– 31 December 2017: 1.6125p (2016: 1.5875p)	6,101	5,136
	23,007	18,493

The Company paid a fourth interim dividend relating to the quarter ended 31 March 2018 of 1.6125p per ordinary share (totalling £6.2m) on 31 May 2018 to shareholders on the register at the close of business on 27 April 2018. 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 2018

10. Investment property

Group and Company	£000	£000
At 31 March 2016 (previously reported)		318,966
Prior year adjustment		1,534
At 31 March 2016 (restated)		320,500
Impact of rent free		1,202
Additions		107,837
Capital expenditure and development		3,234
Disposals		(17,138)
Gross valuation increase	9,016	
Acquisition costs	(6,103)	
Net valuation increase		2,913
At 31 March 2017 (restated)		418,548
Impact of rent free		1,547
Additions		110,008
Capital expenditure and development		2,498
Disposals		(9,305)
Gross valuation increase	11,859	
Acquisition costs	(6,212)	
Net valuation increase		5,647
At 31 March 2018		528,943

Included in investment properties is £1.0m relating to ongoing pre-let developments.

£362.8m (2017: £233.1m) of investment property has been charged as security against the Company's borrowings.

The carrying value of investment property at 31 March 2018 comprises £459.8m freehold (2017: £364.3m) and £69.1m leasehold property (2017: £54.2m).

Investment property is stated at the Directors' estimate of its 31 March 2018 fair value. Lambert Smith Hampton Group Limited ("LSH"), a professionally qualified independent valuer, valued the property as at 31 March 2018 in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors. LSH has recent experience in the relevant location and category of the 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 4.7% to 9.0%. Valuation reports are based on both information provided by the Company e.g. current rents and lease terms, which are derived from the Company's financial and property management systems 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.

Investment property additions include £6.7m relating to the purchase of a retail warehouse in Leicester, which the Company acquired by purchasing the entire issued share capital of Custodian Real Estate BL Limited (formerly BL (Leicester) Limited), the immediate parent of Custodian Real Estate (Beaumont Leys) Limited (formerly Belgrave Land (Beaumont Leys) Limited) and Custodian Real Estate (Leicester) Limited (formerly Belgrave Land (Leicester) Limited), which held the title and beneficial interest in the property on acquisition.

On 15 March 2018 the trade and assets of Custodian Real Estate (Beaumont Leys) Limited and Custodian Real Estate (Leicester) Limited were transferred to the Company at cost, which was considered market value.

11. Investments

Shares in subsidiaries

Company name	Company number	Country of registration and incorporation	Principal activity	Ordinary shares held	31 March 2018 £000	31 March 2017 £000
Custodian Real Estate Limited	08882372	England and Wales	Dormant	100%	—	—
Custodian Real Estate GP Limited	07631899	England and Wales	Dormant – in liquidation	100%	7	7
Custodian Real Estate Nominees Limited*	07661151	England and Wales	Dormant – in liquidation	100%	—	—
Custodian Real Estate Light Industrial Limited Partnership*	LP014551	England and Wales	Dormant – in liquidation	100%	—	—
Custodian Real Estate Luxembourg S.à.r.l.	B8162.013	Luxembourg	Dormant – in liquidation	100%	7,102	7,102
Custodian Real Estate BL Limited (formerly BL (Leicester) Limited)	09270501	England and Wales	Dormant	100%	—	—
Custodian Real Estate (Beaumont Leys) Limited (formerly Belgrave Land (Beaumont Leys) Limited)*	04364589	England and Wales	Dormant	100%	4	—
Custodian Real Estate (Leicester) Limited (formerly Belgrave Land (Leicester) Limited)*	04312180	England and Wales	Dormant	100%	497	—
					7,610	7,109

* 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. The registered office of Custodian Real Estate Luxembourg S.à.r.l. is 2 Rue d'Alsace, L-1122, Luxembourg.

The Company acquired 100% of the ordinary share capital of Custodian Real Estate BL Limited on 21 December 2017. Custodian Real Estate BL Limited owns 100% of the ordinary share capital of Custodian Real Estate (Beaumont Leys) Limited and Custodian Real Estate (Leicester) Limited.

The Company acquired 100% of the ordinary share capital of Custodian Real Estate GP Limited and Custodian Real Estate Luxembourg S.à.r.l. on 29 September 2016 as part of the acquisition of the Light Industrial Portfolio. Custodian Real Estate GP Limited owns 100% of the ordinary share capital of Custodian Real Estate Nominees Limited. Custodian Real Estate Luxembourg S.à.r.l. and Custodian Real Estate GP Limited hold 99.9% and 0.1% beneficial interests respectively in Custodian Real Estate Light Industrial Limited Partnership.

Notes to the financial statements continued
For the year ended 31 March 2018

12. Trade and other receivables

	31 March 2018 £000	31 March 2017 (restated) £000
Group and Company		
Trade receivables	2,137	1,342
Other receivables	5,194	2,771
Prepayments and accrued income	552	340
	7,883	4,453

The Company has provided fully for those receivable balances that it does not expect to recover. This assessment has been undertaken by reviewing the status of all significant balances that are past due and involves assessing both the reason for non-payment and the creditworthiness of the counterparty. Trade receivables include £0.2m (2017: £0.1m) which are past due as at 31 March 2018 for which no provision has been made because the amounts are considered recoverable.

Included in other receivables is £4.4m cash proceeds held in charged bank accounts from the disposal of investment property on which bank borrowings are secured.

13. Trade and other payables

	Group		Company	
	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000
Falling due in less than one-year:				
Trade and other payables	937	608	937	608
Social security and other taxes	1,226	2,423	1,226	2,423
Accruals	2,490	2,761	2,490	2,761
Rental deposits	1,217	1,222	1,217	1,222
Amounts due to subsidiary undertakings	—	—	7,610	7,109
	5,870	7,014	13,480	14,123

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, arising on the transfer of the trade and assets of Custodian Real Estate Light Industrial Limited Partnership to the Company, are due on demand.

14. Cash and cash equivalents

	31 March 2018 £000	31 March 2017 £000
Group and Company		
Cash and cash equivalents	5,059	5,807

Cash and cash equivalents include £1.3m (2017: £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	£000	£000
Falling due in more than one-year:		
Bank borrowings	65,000	
Costs incurred in the arrangement of bank borrowings	(1,212)	
As 31 March 2017		63,788
New borrowings (net of arrangement fees)	49,364	
Amortisation of arrangement fees	205	
		49,569
Bank borrowings	115,000	
Costs incurred in the arrangement of bank borrowings	(1,643)	

At 31 March 2018

113,357

The Company has the following facilities available:

- A £35m RCF with Lloyds Bank plc attracting 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, attracting fixed annual interest of 3.935%;
- A £45m term loan facility with SWIP repayable in June 2028, attracting fixed annual interest of 2.987%; and
- A £50m term loan facility with Aviva comprising:
 - a) A £35m tranche repayable on 6 April 2032, attracting fixed annual interest of 3.02%; and
 - b) A £15m tranche repayable on 3 November 2032 attracting fixed annual interest of 3.26%.

The RCF was not drawn at the year end.

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%.

Notes to the financial statements continued
For the year ended 31 March 2018

16. Share capital

Group and Company	Ordinary shares of 1p	£000
Issued share capital		
At 31 March 2016	251,242,071	2,512
Issue of share capital	87,771,274	878
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

During the year, the Company raised £54.7m (before costs and expenses) through the placing of 47,839,999 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 20 July 2017, the Board was given authority to issue up to 115,171,100 shares, pursuant to section 551 of the Companies Act 2006. This 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. 38,999,999 ordinary shares have been issued under this authority since 20 July 2017, leaving an unissued balance of 76,171,001 at 31 March 2018.

In addition, the Company was granted authority to make market purchases of up to 34,551,334 ordinary shares under section 701 of the Companies Act 2006. No market purchases of ordinary shares have been made.

Group and Company	Share premium account £000	Retained earnings £000
Other reserves		
At 31 March 2016	68,874	183,674
Shares issued during the year	91,547	—
Costs of share issue	(1,320)	—
Profit for the year	—	24,205
Dividends paid	—	(18,493)
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

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.

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:

	31 March 2018 £000	31 March 2017 £000
Group and Company		
Not later than one-year	36,085	29,279
Later than one-year but not later than five years	107,264	85,803
Later than five years	85,597	63,180
	228,946	178,262

Company as lessee

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

	31 March 2018 £000	31 March 2017 £000
Group and Company		
Not later than one-year	37	37
Later than one-year but not later than five years	149	149
Later than five years	3,306	3,343
	3,492	3,529

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 commencing on Admission, 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.

Notes to the financial statements continued

For the year ended 31 March 2018

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

The Investment Manager receives a fee of 0.25% (2017: 0.25%) of the aggregate gross proceeds from any issue of new shares in consideration of the marketing services it provides to the Company.

During the year the Investment Manager charged the Company £3.12m (2017: £2.49m) in respect of annual management charges, £0.49m (2017: £0.37m) in respect of administrative fees and £0.14m (2017: £0.23m) in respect of marketing fees.

During the year Mattioli Woods charged the Company £0.01m (2017: £0.02m) in respect of corporate transaction support.

Properties

The Company owns MW House and Gateway House located at Grove Park, Leicester, which are partially let to Mattioli Woods. Mattioli Woods paid the Company rentals of £0.35m (2017: £0.35m) 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 21.0% (2017: 14.5%).

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 2018, the RCF was drawn at £nil and therefore the Company was not exposed to interest rate risk.

Market risk management

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

19. Financial risk management continued

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 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 there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

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 2018 was £2.2m (2017: £1.4m).

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 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

Notes to the financial statements continued
For the year ended 31 March 2018

19. Financial risk management continued

Liquidity risk management continued

Group	Weighted average effective interest rate %	31 March 2017 0-3 months £000	31 March 2017 3 months- 1 year £000	31 March 2017 1-5 years £000	31 March 2017 5 years+ £000
Trade and other payables	—	1,830	—	146	425
Borrowings:					
Variable rate	—	—	—	—	—
Fixed rate	3.935	197	590	3,148	22,654
Fixed rate	2.987	336	1,008	5,377	53,312
		2,363	1,598	8,671	76,391

Company	Weighted average effective interest rate %	31 March 2017 0-3 months £000	31 March 2017 3 months- 1 year £000	31 March 2017 1-5 years £000	31 March 2017 5 years+ £000
Trade and other payables	—	8,939	—	146	425
Borrowings:					
Variable rate	—	—	—	—	—
Fixed rate	3.935	197	590	3,148	22,654
Fixed rate	2.987	336	1,008	5,377	53,312
		9,472	1,598	8,671	76,391

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 2018, the fair value of the Company's investment properties was £528.9m (2017: £418.5m).

Interest bearing loans and borrowings – level 3

As at 31 March 2018 the value of the Company's loans was £113.4m (2017: £63.8m) 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.

20. Events after the reporting date

Acquisitions

On 9 April 2018 the Company acquired a 53,198 sq ft distribution unit in Bellshill, Glasgow for £3.72m let to Yodel Delivery Network Limited on a lease expiring on 1 August 2025 with current passing rent of £0.28m, reflecting a NIY of 6.94%.

On 1 June 2018 the Company acquired a 77,242 sq ft health and fitness centre in Lincoln for £4.3m let to Total Fitness Health Clubs Limited on a lease expiring on 22 June 2040, subject to a break option on 22 June 2035. The current passing rent of £0.35m reflects a NIY of 7.64%.

Disposals

On 7 May 2018 the Company disposed of a 15,229 sq ft five-unit retail development in Stourbridge for £2.25m, in line with the 31 March 2018 valuation.

Alternative performance measure workings

1. NAV per share total return

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

	Year ended 31 March 2018	Year ended 31 March 2017
Net assets (£000)	415,202	351,877
Shares in issue at 31 March (thousands)	386,853	339,013
NAV per share at the start of the year (p)	103.8	101.5
Dividends per share for the year (p)	6.45	6.35
NAV per share at the end of the year (p)	107.3	103.8
NAV total return	9.6%	8.5%

2. Dividend cover

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

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Dividends paid relating to the year	17,609	14,266
Dividends approved relating to the year	6,238	5,398
	23,847	19,664
Profit after tax	32,420	24,205
One-off costs	—	165
Net gains on investment property	(7,253)	(4,512)
	25,167	19,858
Dividend cover	105.5%	101.0%

3. Net gearing

Gross borrowings less unrestricted cash, divided by portfolio value.

	Year ended 31 March 2018 £000	Year ended 31 March 2017 (restated) £000
Gross borrowings	115,000	65,000
Cash	(5,059)	(5,807)
Restricted cash	1,341	1,307
Net borrowings	111,282	60,500
Investment property	528,943	418,548
Net gearing	21.0%	14.5%

4. 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 2018 £000	Year ended 31 March 2017 £000
Average quarterly NAV during the year	381,562	303,840
Expenses	5,987	5,512
Operating expenses of rental property rechargeable to tenants	(758)	(630)
	5,229	4,882
Operating expenses of rental property directly incurred	(852)	(1,239)
	4,377	3,643
OCR	1.37%	1.61%
OCR excluding direct property expenses	1.15%	1.20%

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 the 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.

5. EPRA earnings per share

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.

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Profit for the year after taxation	32,420	24,205
Investment property valuation gain	(7,253)	(4,512)
EPRA earnings	25,167	19,693
Weighted average number of shares in issue (thousands)	362,393	298,731
EPRA earnings per share (p)	6.9	6.6

Alternative performance measure workings continued

6. 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 2018 £000	31 March 2017 £000
Net assets	415,202	351,877
Fair value of financial instruments	—	—
Deferred tax	—	—
EPRA NAV	415,202	351,877
Closing number of shares in issue (thousands)	386,853	339,013
EPRA NAV per share (p)	107.3	103.8

7. 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 2018 £000	31 March 2017 £000
EPRA NAV	415,202	351,877
Fair value of debt and derivatives	—	—
Deferred tax on property valuation surpluses	—	—
EPRA NNNAV	415,202	351,877
Closing number of shares in issue (thousands)	386,853	339,013
EPRA NNNAV per share (p)	107.3	103.8

8. EPRA NIY and EPRA 'topped-up' NIY

EPRA NIY is calculated as the annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the gross market valuation of the properties. 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 2018 £000	31 March 2017 (restated) £000
Investment property valuation	528,943	418,548
Allowance for estimated purchasers' costs ³³	34,381	27,028
Gross up property portfolio valuation	563,324	445,576
Annualised cash passing rental income	34,589	28,907
Property outgoings	(483)	(730)
Annualised net rents	34,106	28,177
Impact of expiry of lease incentives	2,500	1,841
	36,606	30,018
EPRA NIY	6.1%	6.3%
EPRA 'topped-up' NIY	6.5%	6.7%

33. Assumed at 6.5% of investment property valuation.

9. EPRA vacancy rate

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

	31 March 2018 £000	31 March 2017 £000
Annualised potential rental value of vacant premises	1,332	449
Annualised potential rental value for the property portfolio	38,420	31,197

EPRA vacancy rate	3.5%	1.4%
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10. EPRA cost ratios

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

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Directly incurred operating expenses and administrative fees	5,229	4,882
Ground rent costs	(37)	(37)
EPRA costs (including direct vacancy costs)	5,192	4,845
Property void costs	(236)	(517)
EPRA costs (excluding direct vacancy costs)	4,956	4,328
Gross rental income	33,956	26,980
Ground rent costs	(37)	(37)
Rental income net of ground rent costs	33,919	26,943
EPRA cost ratio (including direct vacancy costs)	15.3%	18.0%
EPRA cost ratio (excluding direct vacancy costs)	14.6%	16.1%

11. EPRA capital expenditure

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

	31 March 2018 £000	31 March 2017 £000
Acquisitions	—	—
Development	509	2,889
Like-for-like portfolio	1,989	345
Total capital expenditure	2,498	3,234

Alternative performance measure workings continued

12. EPRA like-for-like rental growth

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

	2018					Total £000
	Industrial £000	Retail warehouse £000	Retail £000	Other £000	Office £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
	14,341	5,974	4,878	4,854	4,008	34,055

	2017					Total £000
	Industrial £000	Retail warehouse £000	Retail £000	Other £000	Office £000	
Like-for-like rent	8,412	2,441	3,829	3,154	3,648	21,484
Acquired properties	2,438	600	279	228	493	4,038
Sold properties	354	—	345	759	—	1,458
	11,204	3,041	4,453	4,141	4,141	26,980

Financial calendar

26 April 2018	Ex-dividend date for Q4 dividend
27 April 2018	Record date for Q4 dividend
31 May 2018	Payment of Q4 dividend
5 June 2018	Announcement of results for the year ended 31 March 2018
19 July 2018	AGM

Company information

Directors

David Hunter	Independent Non-executive Chairman
Barry Gilbertson	Independent Non-executive
Matthew Thorne	Independent Non-executive
Ian Mattioli MBE	Non-executive

Company Secretary

Nathan Imlach

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