6 June 2019

Custodian REIT plc

("Custodian REIT" or "the Company")

Final Results

Custodian REIT (LSE: CREI), the UK commercial real estate investment company, today reports its final results for the year ended 31 March 2019.

Financial highlights and performance summary

- NAV per share total return[1,]* of 5.9% (2018: 9.6%) comprising 6.1% income (2018: 6.2%) and a 0.2% capital decrease (2018: 3.4% capital increase)
- EPRA[2] earnings per share[3,]* of 7.3p (2018: 6.9p)
- Basic and diluted earnings per share[4] of 6.0p (2018: 8.9p)
- Portfolio value of £572.7m (2018: £528.9m)
- Profit before tax down 27% to £23.6m (2018: £32.4m) primarily due to a £8.9m aggregate property valuation decrease[5]
- £13.4m[6] of new equity raised at average premium of 11% to dividend adjusted NAV*
- 2020 target dividend per share* increased 1.5% to 6.65p (2019: 6.55p)
- £55.5m[7] invested in 11 property acquisitions, £2.5m capital expenditure incurred primarily on one pre-let development and two significant refurbishments
- £6.4m property valuation uplift from successful asset management initiatives
- £5.3m property valuation decrease due to company voluntary arrangements
- £4.3m profit on disposal of three properties for an aggregate consideration of £15.4m

1 Net Asset Value ("NAV") movement including dividends paid and approved for the year on shares in issue at 31 March 2018.

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

3 Profit after tax excluding net gains or losses on investment property and one-off costs divided by weighted average number of shares in issue.

4 Profit after tax divided by weighted average number of shares in issue.

5 Comprising £6.4m of valuation uplift from successful asset management initiatives less £11.9m of other valuation decreases and £3.4m of acquisition costs.

6 Before costs and expenses of £0.2m.

7 Before acquisition costs of £3.4m.

	2019	2018	change
Return			
NAV per share total return*	5.9%	9.6%	-3.7%
Share price total return[8],*	4.2%	6.7%	-2.5%
Dividend cover[9],*	110.4%	105.5%	4.9%
Dividends per share[10] (p)	6.55	6.45	1.5%
Capital values			
NAV (£m)	426.6	415.2	2.7%
NAV per share* (p)	107.1	107.3	-0.2%
Share price* (p)	111.2	113.0	-1.6%
Portfolio value (£m)	572.7	528.9	8.3%
Market capitalisation* (£m)	442.8	437.1	1.3%
Premium of share price to NAV per share*	3.8%	5.3%	-1.5%
Net gearing[11],*	24.1%	21.0%	3.1%
Costs			
Ongoing charges ratio[12],* ("OCR")	1.53%	1.37%	0.16%
OCR excluding direct property expenses[13],*	1.12%	1.15%	-0.03%
*EPRA performance measures**			
EPRA EPS (p)	7.3	6.9	5.8%
EPRA NAV per share (p)	107.1	107.3	-0.2%
EPRA net initial yield ("NIY")	6.2%	6.1%	0.1%
EPRA 'topped up' NIY	6.4%	6.5%	-0.1%
EPRA vacancy rate	4.1%	3.5%	0.6%
EPRA cost ratio (including direct vacancy costs)	16.1%	15.3%	0.8%
EPRA cost ratio (excluding direct vacancy costs)	14.5%	14.6%	-0.1%
EPRA capital expenditure (£m)	2.53	2.50	1.2%
EPRA like-for-like rental growth (£m)	39.1	34.1	14.7%

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

9 Profit after tax, excluding net gains or losses on investment property and one-off costs, divided by dividends paid and approved for the year.

10 Dividends paid and approved for the year.

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

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

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

**Alternative performance measures*

The Company presents NAV per share total return, new equity raised, target dividend per share, share price total return, dividend cover, NAV per share, share price, market capitalisation, premium to NAV per share, net gearing, ongoing charges ratios and EPRA Best Practice Recommendations as alternative performance measures ("APMs") to assist stakeholders in assessing performance alongside the Company's results on a statutory basis. APMs are among the key performance indicators used by the Board to assess the Company's performance and are used by research analysts covering the Company. EPRA Best Practice Recommendations have been disclosed to facilitate comparison with the Company's peers through consistent reporting of key real estate specific performance measures. Certain other APMs may not be directly comparable with other companies' adjusted measures, and APMs are not intended to be a substitute for, or superior to, any IFRS measures of performance. Supporting calculations for APMs and reconciliations between APMs and their IFRS equivalents are set out in the Alternative performance measure workings section of the Annual Report.

Commenting on the final results, David Hunter, Chairman of Custodian REIT, said:

"I am pleased to report that five years since its initial public offering ("IPO") Custodian REIT is continuing to deliver on its objectives and performing for shareholders. The Company's market capitalisation has grown from £132m to £443m through managing a portfolio of increasingly well diversified regional properties with a gross value that has increased from £95m at IPO to £573m. Since IPO the Company has successfully deployed new equity, reached target net gearing and grown dividends annually. While property market dynamics may have assisted performance through much of the last five years, we expect our focus on income to provide a stable platform to deliver positive shareholder returns in the future.

"Custodian REIT's shares have continued to trade at a premium to NAV while many in its direct peer group have moved to a discount. The premium undoubtedly reflects the relatively high dividend yield coupled with a diverse, regional property strategy.

"The Company paid an interim dividend of 1.6375p per share for the quarter ended 31 March 2019 on 31 May 2019, meeting the Company's target of paying an annual dividend per share relating to the year of 6.55p (2018: 6.45p), 110.4% covered by net recurring income".

Further information

Further information regarding the Company can be found at the Company's website www.custodianreit.com or please contact:

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Analyst presentation

There will be an analyst presentation to discuss the results at 10.30am today.

Those analysts wishing to take part are asked to contact Emily Hall on +44 (0) 20 3757 4996 or at emily.hall@camarco.co.uk.

Chairman's statement

I am pleased to report that five years since its initial public offering ("IPO") Custodian REIT is continuing to deliver on its objectives and performing for shareholders. The Company's market capitalisation has grown from £132m to £443m through managing a portfolio of increasingly well diversified regional properties with a gross value that has increased from £95m at IPO to £573m. Since IPO the Company has successfully deployed new equity, reached target net gearing and grown dividends annually. While property market dynamics may have assisted performance through much of the last five years, we expect our focus on income to provide a stable platform to deliver positive shareholder returns in the future.

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

In the year ended 31 March 2019 Custodian REIT delivered a NAV per share total return of 5.9% (2018: 9.6%).

We continue to target growth to realise the potential economies of scale offered by the Company's relatively fixed administrative cost base and the reducing scale of management charges. These economies of scale and a continued focus on controlling costs have reduced the ongoing charges ratio (excluding direct property expenses) from 1.41% during the financial year ended 31 March 2015 to 1.12% in the financial year ended 31 March 2019, demonstrating the benefits to shareholders of scale and growth.

The Company pays one of the highest fully covered dividends amongst its peer group of listed property investment companies[14]. During a period of further growth we have mitigated the impact from 'cash drag' following the issue of new shares by taking advantage of the flexibility offered by the Company's revolving credit facility ("RCF"). Total funds available under the RCF were increased from £35.0m to £45.0m in January 2019 for six months to provide further flexibility to exploit potential acquisition opportunities. The Board expects the RCF facility to be permanently increased to £45m later this year.

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

While we have taken a cautious approach to investment through the year, I am pleased to report that £58m has been invested across 11 acquisitions, the completion of one pre-let development and two significant refurbishments, funded principally by £13.4m raised from the issue of new shares and through

14 Source: Numis Securities Limited.

the Company's existing debt facilities. The new acquisitions reflected an average net initial yield[15] ("NIY") of 6.8%. The Company continues to maintain a diverse portfolio strategy, allowing enough flexibility to make contra-cyclical investments where appropriate but always with a strong focus on acquiring assets that support our dividend policy. We believe a well-defined investment strategy that offers secure income and focuses on long-term goals and deliverable targets will provide considerable protection to shareholders from market volatility.

The prompt deployment of cash coupled with the flexibility of the RCF and the proactive asset management of the portfolio to secure rental growth have allowed us to increase the target dividend[16] for the fifth year running. The target dividend for the year ending 31 March 2020 is proposed to be increased by 1.5% to 6.65p per share. The Board's objective is to grow the dividend on a sustainable basis at a rate which is fully covered by projected net rental income and does not inhibit the flexibility of the Company's investment strategy.

Net asset value

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

	Pence per share	£m
NAV at 31 March 2018	107.3	415.2
Issue of equity in the year (net of costs)	0.3	13.2
	107.6	428.4
Valuation movements relating to:		
- Asset management activity	1.6	6.4
- Other valuation movements	(3.0)	(11.9)
Valuation decrease before acquisition costs	(1.4)	(5.5)
Impact of acquisition costs	(0.9)	(3.4)
Valuation decrease including acquisition costs	(2.3)	(8.9)
Profit on disposal of investment property	1.1	4.3
Net loss on investment property	(1.2)	(4.6)
Revenue	10.0	40.0
Expenses and net finance costs	(2.9)	(11.7)
Dividends paid[17]	(6.4)	(25.5)
NAV at 31 March 2019	**107.1**	**426.6**

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

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.

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

The Company delivered NAV per share total return of 5.9% for the year despite continued new investment. The initial costs (primarily stamp duty) of investing £55.5m across 11 property acquisitions diluted NAV total return by £3.4m (0.9p per share), partly offset by raising £13.2m of new equity (net of costs) at an average 11% premium to dividend adjusted NAV which added 0.4p per share[18] and fully covered the cost of raising and deploying the proceeds.

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

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

Share price

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

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

The share price performance has been combined with a steadily increasing level of liquidity which now sees Custodian REIT recording an average daily trading volume of over £500k over the last 12 months[19]. This liquidity, combined with share issuance, has done much to help price stability and diminish volatility.

The Company enjoys the support of a wide range of shareholders with the majority classified as private client or discretionary wealth management investors. The Company's investment and dividend strategy is well suited to investors looking for a close proxy to direct real estate investment but in a managed and

18 0.3p per share through new issuance at a premium to NAV plus 0.1p per share notional dividend saving due to new shares being issued after the year's first ex-dividend date.

19 Source: Numis Securities Limited.

liquid structure. The structure of our shareholder base has, in turn, helped to reduce volatility as our shareholders are typically long-term holders looking for stable dividend-driven returns.

Authority to place new ordinary shares

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

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

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

Borrowings

The Company's property investment activity has increased LTV from 21.0% at the start of the year to 24.1% at the year end, which contributed to an increase in dividend cover, demonstrating the benefits of prudent leverage. The Board's strategy is to:

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

The weighted average cost of the Company's agreed debt facilities at 31 March 2019 was 3.2% (2018: 3.1%) with a WAM of 7.9 years (2018: 9.1 years) and 72% (2018: 77%) of the Company's agreed debt facilities are now at fixed rates. This high proportion of fixed rate debt significantly mitigates interest rate risk for the Company and provides shareholders with a beneficial margin between the fixed cost of debt and income returns from the portfolio.

Investment Manager

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

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

Dividends

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

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

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

Board composition

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

Outlook

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

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

David Hunter
Independent Chairman
5 June 2019

Investment Manager's report

The UK property market

The property market in the year ended 31 March 2019 has been marked by two significant issues: the continued debate around Brexit and the fortunes of retail. No discussion of the performance of UK commercial property over the last financial year can ignore the negative impact of these issues, notwithstanding the positive total shareholder returns delivered by the Company over the year.

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

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

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

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

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

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

The concerns for retail, while present in March 2018, really took hold in the autumn of 2018 and have deepened in 2019. This time last year we reported that we had seen some weakness in secondary retail locations and that we expected to experience some rental reductions at lease expiry. We also noted the aggressive use of CVAs by retailers keen to step away from their lease obligations or to reduce rents. CVAs are now becoming so commonplace that even profitable retailers are consulting on whether they can put their businesses through a CVA.

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

It is acknowledged that the UK has too many shops and retailers are actively reducing the size of their store portfolios, albeit acknowledging that physical stores remain a very important part of their sales proposition and a key interface with the customer. This reduction in store portfolios is not all about on-line retailing, although on-line is clearly having a real impact. The UK is one of the most advanced on-line shopping nations in Europe, with 2018 on-line sales accounting for 18%[20] of all retail sales. Forecasts of 30% plus on-line sales do not seem unrealistic, although the adoption of on-line retailing varies from sector to sector. The supermarkets were early adopters of on-line retailing, but it is reported that the proportion of people grocery shopping on-line has fallen from 49% to 45% since 2016[21]. Shopping habits have evolved so, while superstores are still important for big basket shops and for dealing with local on-line demand, there has been huge growth in top-up shopping from smaller local convenience stores. There is an important lesson for all retailers: as shopping habits evolve, retailers need to be flexible enough to meet those changing requirements and therefore landlords may need to accept that retailers will need greater flexibility.

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

Retail is an unfolding story but the short-term impact on retail property investment is being felt keenly by investors. The long-term picture for retail is likely to be polarised. Prime and good secondary locations

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

will remain popular with retailers and investors alike, although rents may need to adjust further downwards. Poor secondary locations may need to consider re-purposing former retail units into residential, leisure or other uses.

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

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

Across all regions of the UK the industrial and logistics sector is delivering new buildings to the market. For "big box" (100,000 sq ft plus) we have witnessed an increase in speculative development as developers try to capture demand and the relative lack of supply. During 2018, up to 50% of UK big box was developed speculatively[22] and it was e-commerce, food and 'other retailers' who dominated the new lettings.

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

The good news is not restricted to industrial/logistics. Regional office markets have also performed well. Again it is lack of supply combined with strength in regional economies that has driven this growth and the pipeline of new development continues to look restricted. New office lettings across all regional markets were 19%[23] above the five year average through 2018. Notwithstanding this, longer periods of vacancy remain commonplace in some office markets.

The Company has experienced a marginal increase in vacancy rate from 3.5% to 4.1% which we would still regard as within normal levels for a mature portfolio. However, we have prospective tenants in

22 Source CBRE.
23 Source CBRE.

advanced negotiations to take some of the vacant space and we are taking the opportunity to improve the quality of vacant buildings with office and industrial refurbishments underway in Glasgow and Warrington respectively.

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

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

Investment objective

The Company's key objective is to provide shareholders with an attractive level of income by maintaining the high level of dividend, fully covered by earnings, with a conservative level of net gearing. We are delighted to have continued to achieve these objectives, with earnings providing 110.4% cover of the total dividend relating to the year of 6.55p per share, with a net gearing ratio of 24.1% at the year end.

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

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

Portfolio balance

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

Sector	Valuation 31 March 2019 £m	Weighting by income[24] 31 March 2019	Valuation 31 March 2018 £m	Weighting by income 31 March 2018	Valuation movement before acquisition costs £m	Valuation movement including acquisition costs £m	Weighting by value 31 March 2019	Weighting by value 31 March 2018
Industrial	224.3	37%	209.8	39%	11.5	11.0	39%	40%
Retail warehouse	123.4	22%	107.5	20%	(7.7)	(9.3)	21%	20%
Other[25]	95.7	17%	80.4	15%	(1.2)	(2.2)	17%	15%
High street retail	68.6	13%	75.3	14%	(7.9)	(8.0)	12%	14%
Office	60.7	11%	55.9	12%	(0.2)	(0.4)	11%	11%
Total	572.7	100%	528.9	100%	(5.5)	(8.9)	100%	100%

Industrial property is a very good fit with the Company's strategy where it is possible to acquire modern, 'fit-for-purpose' buildings with high residual values (ie where the vacant possession value is closer to the investment value than in other sectors) and where the real estate is less exposed to obsolescence. £5.4m of the £11.5m valuation increase (before acquisition costs) in the industrial sector was driven by asset management initiatives, with occupational demand driving rental growth and generating positive returns.

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

While deemed to be outside the core sectors of office, retail and industrial the 'other' sector offers diversification of income without adding to portfolio risk, containing assets considered mainstream but which typically have not been owned by institutional investors. The 'other' sector includes the motor trade and 'casual dining' sectors, both of which have been much in the news. The motor trade has suffered from falling sales over the last two years. New car sales have dipped from an all-time high in 2017, with the confusion over the future use of diesel fuel being cited as a principal factor. New diesel car sales are down 21%[26] but petrol and alternative fuel cars are up 5% and 7.5% respectively. We are watching this position closely but with over 30m cars in the UK[27], we still believe there is a place for motor trade properties for new sales, used car trading and servicing. The Company's eight car dealerships also

24 Current passing rent plus ERV of vacant properties.

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

26 Source: The Society of Motor Manufacturers & Traders ("SMMT").

27 Source: SMMT.

typically have low site coverage and affordable net rents, supporting valuations if alternative uses are required. The 'casual dining' sector has witnessed a number of recent CVAs and a slowing of the growth of many chain operators. However, there is still interest in artisan food and eating out remains popular so a selective approach can still yield investment opportunities.

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

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

WAULT

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

Disposals

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

After focused pre-sale asset management, the following three properties were sold during the year for a total of £15.4m, realising a profit on disposal of £4.3m at an aggregate NIY of 4.1%, with gross proceeds circa 40% ahead of aggregate valuation:

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

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

Acquisitions

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

Location	Sector	Tenant	WAULT (Years)	NIY	Agreed purchase price (£m)
Evesham	Retail warehouse	Next, M&S, Boots, Argos and Poundstretcher	6.8	6.00%	14.2
Weymouth	Retail warehouse	B&Q, Halfords and Sports Direct	7.8	6.97%	10.8
Hilton	Industrial	Daher Aerospace	3.0	6.72%	5.6
Stafford	Other	VW Group UK	6.4	6.29%	4.6
Lincoln	Other	Total Fitness Health Clubs	17.1	7.64%	4.3
Belshill	Industrial	Yodel	2.3	6.94%	3.7
Sheffield	Office	Secretary of State for Communities	1.8	9.79%	3.6
Shrewsbury	Other	VW Group UK	6.4	6.58%	2.8
Loughborough	Other	Listers	10.0	6.37%	2.4
Stratford	High Street retail	Foxtons and Universal Church of the Kingdom of God	8.6	6.78%	2.1
Shrewsbury	Other	TJ Vickers	7.2	6.75%	1.7
				6.8%	55.8[28]

Asset Management

Our continued focus on active asset management including rent reviews, new lettings, lease extensions and the retention of tenants beyond their contractual break clauses resulted in a £6.4m valuation increase in the year. Key asset management initiatives completed during the year include:

- Agreeing a new 10 year lease with Teleperformance of an industrial unit in Ashby-de-la-Zouch, with annual rent increasing by 15% to £0.5m, which increased the valuation by £2.0m;
- Letting the Company's largest vacant property, an industrial unit in Tamworth, to ICT Express on a 10 year lease without break at a 28% higher rent, which increased the valuation by £1.3m;
- Agreeing a new 10 year reversionary lease with Revlon International Corporation for an industrial unit in Stone, increasing the annual rent by 24% and the valuation by £0.7m;
- Agreeing a new 10 year lease with Next plc for an industrial unit on Eurocentral in Scotland, with annual rent increasing by 10%, which increased the valuation by £0.6m;
- Extending the lease with MTS Logistics for an industrial unit in Coalville, with annual rent increasing by 30%, which increased valuation by £0.4m;
- Agreeing a new 10 year lease with Age Scotland at Causewayside House, Edinburgh where the tenant expanded its letting to take the whole first floor office suite, increasing the annual rent by 44% and the valuation by £0.4m;

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

- Documenting a reversionary lease with Synergy Health for an industrial building at Sheffield Parkway to extend the lease by 7.5 years until 2034 and adjust the rent review pattern to increase in line with RPI, which increased the valuation by £0.2m;
- Documenting a 10 year reversionary lease with Synertec at Leacroft Road, Warrington, extending the lease expiry from July 2022 to July 2032 and increasing the valuation by £0.2m;
- Letting a unit on a retail park in Carlisle to The Gym Group on a 15 year lease without break, which increased the valuation by £0.1m; and
- Agreeing a new lease for additional external seating with Chokdee Limited (t/a Giggling Squid) at a restaurant in Bath, increasing the annual rent by 12% and the valuation by £0.1m.

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

- The CVA of Homebase resulted in the Company experiencing a £183k (35%) annual rent reduction at its Leighton Buzzard unit, which decreased the valuation by £2.9m;
- In Milton Keynes, the CVA of Office Outlet (formerly Staples) resulted in the tenant contracting into 50% of the space previously occupied, with rent halving to £209k, which decreased the valuation by £1.7m. Office Outlet subsequently went into administration but continues to trade from the unit;
- The CVA of Paperchase resulted in a £68k (45%) annual rent reduction at the Company's Shrewsbury unit, which decreased the valuation by £0.4m;
- The CVA of Carpetright resulted in a £25k (25%) annual rent reduction at the Company's Grantham unit, which decreased the valuation by £0.3m; and
- In Crewe we took the difficult decision to implement a forfeiture of the lease of a bowling operator which failed to pay its rent, thereby regaining control and opening up the opportunity of re-letting to a stronger tenant, which decreased the valuation by £0.9m.

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

Portfolio risk

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

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

Outlook

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

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

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

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

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

Portfolio

	31 March 2019	31 March 2018
Portfolio value	**£572.7m**	£528.9m
Separate tenancies	**269**	254
EPRA occupancy rate	**95.9%**	96.5%
Assets	**155**	147
WAULT	**5.6 years**	5.9 years
NIY[29]	**6.6%**	6.6%

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

Principal risks and uncertainties

The Board has overall responsibility for reviewing the effectiveness of the system of risk management and internal control which is operated by the Investment Manager. The Company's risk management process is designed to identify, evaluate and mitigate the significant risks the Company faces. At least annually, the Board undertakes a risk review, with the assistance of the Audit Committee, to assess the effectiveness of the Investment Manager's risk management and internal control systems. During this review, no significant failings or weaknesses have been identified in respect of risk management, internal control and related financial and business reporting.

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

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

Risk	Assessment	Mitigating factors
Loss of revenue • An increasing number of tenants exercising contractual breaks or not renewing at lease expiry • Tenant default or enforced reduction in contractual rents through a CVA. • Expiries or breaks concentrated in a specific year. • Unable to re-let void units. • Low UK economic growth impacting the commercial property market.	Likelihood: High. Impact: Moderate.	• Company's largest tenant accounts for 3.2% of the rent roll. • Investment policy limits the Company's rent roll to no more than 10% from a single tenant. • Target institutional grade tenants. • Focused on established business locations for investment. • Active management of lease expiry profile and impact on WAULT considered in forming acquisition decisions. • Building specifications typically not tailored to one user.
Decreases in portfolio valuation • Market pricing affecting value. • Change in demand for space. • Properties concentrated in a specific geographical location or sector. • Reduced property market sentiment and investor demand.	Likelihood: High. Impact: Moderate.	• Active portfolio diversification between office, industrial (distribution, manufacturing and warehousing), retail warehousing, high street retail and other. • Investment policy limits the Company's portfolio to no more than 50% in any specific sector or geographical region.

Risk	Assessment	Mitigating factors
Financial • Reduced availability or increased cost of arranging or servicing debt. • Breach of borrowing covenants. • Significant increases in interest rates.	Likelihood: Low. Impact: High.	• Target net gearing of 25% LTV on property portfolio. • 72% of agreed debt facilities at a fixed rate of interest. • Existing facilities sufficient for spending commitments and agreed until 2020. • Ongoing monitoring and management of the forecast liquidity and covenant position.
Operational • Inadequate performance, controls or systems operated by the Investment Manager.	Likelihood: Low. Impact: High.	• Ongoing review of performance by independent Board of Directors. • Outsourced internal audit function reporting directly to the Audit Committee. • External depositary with responsibility for safeguarding assets and performing cash monitoring.
Regulatory and legal • 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 real estate investment trust ("REIT") regime[30] or changes to the Company's tax status.	Likelihood: Low. Impact: High.	• 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.
Business interruption • Cyber-attack results in the Investment Manager being unable to use its IT systems and/or losing data. • Terrorism interrupts the Company's operations through impact on either the Investment Manager or the Company's assets or tenants.	Likelihood: Low. Impact: High.	• Data is regularly backed up and replicated and the Investment Manager's IT systems are protected by anti-virus software and firewalls that are regularly updated. • Fire protection and access/security procedures are in place at all of the Company's managed properties. • Comprehensive property damage and business interruption insurance is held, including three years' lost rent and terrorism. At least annually, a fire risk assessment and health and safety inspection is performed for each property in the Company's managed portfolio.
Acquisitions • Unidentified liabilities associated with the acquisition of new properties (whether acquired directly or via a corporate structure).	Likelihood: Low. Impact: High.	• Comprehensive due diligence is undertaken in conjunction with professional advisors and the provision of insured warranties and indemnities are sought from vendors where appropriate.

30 As defined by the Corporation Tax Act 2010.

Emerging risks

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

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

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

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

Longer-term viability statement

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

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

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

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

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

Current debt and associated covenants are summarised in Note 15, with no covenant breaches during the year. The Company's dividend policy is set out in Business Model and Strategy. The principal and emerging risks and uncertainties faced by the Company, together with the steps taken to mitigate them, are highlighted above. 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.

Business model and strategy

Investment objective and policy

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

The Company's investment policy is:

(a) To invest in a portfolio of UK commercial real estate properties, principally characterised by individual values of less than £10m at acquisition.

(b) The portfolio should be diversified by sector, location, tenant and lease term, but not exceed a maximum weighting to any one property sector, or to any geographic region, of greater than 50%.

(c) 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.

(d) No one tenant or property should account for more than 10% of the total rent roll of the Company's portfolio at the time of purchase, except:

  (i) In the case of a single tenant which is a governmental body or department for which no percentage limit to proportion of the total rent roll shall apply; or

  (ii) In the case of a single tenant rated by Dun & Bradstreet as having a credit risk score higher than two, where the exposure to such single tenant may not exceed 5% of the total rent roll (a risk score of two represents "lower than average risk").

(e) To seek to minimise rental voids and enhance the WAULT of the portfolio by managing lease expiries and targeting property acquisitions which will in aggregate be accretive to WAULT at the point of acquisition, on a rolling 12-month basis.

(f) The Company will not undertake speculative development (that is, development of property which has not been leased or pre-leased), save for refurbishment of existing holdings, but may invest in forward funding agreements or forward commitments (these being, arrangements by which the Company may acquire pre-development land under a structure designed to provide the Company with investment rather than development risk) of pre-let developments where the Company intends to own the completed development.

(g) The Company may use gearing, including to fund the acquisition of property and cash flow requirements, provided that the maximum LTV shall not exceed 35%. Over the medium term the Company is expected to target net gearing of 25% LTV.

(h) The Company reserves the right to use efficient portfolio management techniques, such as interest rate hedging and credit default swaps, to mitigate market volatility.

(i) Uninvested cash or surplus capital or assets may be invested on a temporary basis in:

  (i) cash or cash equivalents, money market instruments, bonds, commercial paper or other debt obligations with banks or other counterparties having a single-A (or equivalent) or higher credit rating as determined by an internationally recognised rating agency; or

  (ii) any "government and public securities" as defined for the purposes of the rules of the Financial Conduct Authority ("FCA").

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

Key performance indicators

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

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

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

Alternative performance measures

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

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

Financing

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

Debt

The Company has the following facilities available:

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

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

Equity

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

Dividends

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

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

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

Employees

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

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

Corporate social responsibility

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

Environmental policy

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

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

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

- Sites are visited periodically and any obvious environmental issues are reported to the Board; and
- All leases prepared after the adoption of the policy commit occupiers to observe any environmental regulations. Any problems would be referred to the Board.

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

Case study – Lancaster House, Birmingham

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

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

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

Social policy

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

Approval of Strategic report

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

David Hunter
Independent Chairman
5 June 2019

Independent auditor’s report to the members of Custodian REIT plc on the Preliminary Announcement of Custodian REIT plc

As the independent auditor of Custodian REIT plc we are required by UK Listing Rule LR 9.7A.1(2)R to agree to the publication of Custodian REIT Plc’s proposed preliminary announcement for the year ended 31 March 2019.

The preliminary statement of annual results for the year ended 31 March 2019 includes disclosures requires by the Listing Rules, Financial highlights and performance summary, Chairman’s statement, Investment Manager’s report, Strategic report, the Consolidated statement of comprehensive income, the Consolidated and Company statements of financial position, the Consolidated and Company statements of cash flows, the Consolidated and Company statements of changes in equity and Notes to the financial statements. We are not required to agree to the publication of additional information published alongside the preliminary statement of annual results, which may include: presentations to analysts and a trading statement or interim management statement.

The directors of Custodian REIT plc are responsible for the preparation, presentation and publication of the preliminary statement of annual results in accordance with the UK Listing Rules.

We are responsible for agreeing to the publication of the preliminary statement of annual results, having regard to the Financial Reporting Council’s Bulletin “The Auditor's Association with Preliminary Announcements made in accordance with UK Listing Rules”.

Status of our audit of the financial statements

Our audit of the annual financial statements of Custodian REIT plc is complete and we signed our auditor’s report on 5 June 2019. Our auditor’s report is not modified and contains no emphasis of matter paragraph. Our audit report on the full financial statements sets out the following key audit matter which had the greatest effect on our audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team, together with how our audit responded to those key audit matters and the key observations arising from our work:

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

This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we did not provide a separate opinion on this matter.

Procedures performed to agree to the preliminary announcement of annual results

In order to agree to the publication of the preliminary announcement of annual results of Custodian REIT plc we carried out the following procedures:

(a) Checked that the figures in the preliminary announcement covering the full year have been accurately extracted from the audited financial statements and reflect the presentation to be adopted in the audited financial statements;

(b) Considered whether the information (including the management commentary) is consistent with other expected contents of the annual report;

(c) Considered whether the financial information in the preliminary announcement is misstated;

(d) Considered whether the preliminary announcement includes a statement by directors as required by section 435 of CA 2006 and whether the preliminary announcement includes the minimum information required by UKLA Listing Rule 9.7A.1;

(e) Where the preliminary announcement includes alternative performance measures (“APMs”), considered whether appropriate prominence is given to statutory financial information and whether:

- the use, relevance and reliability of APMs has been explained;
- the APMs used have been clearly defined, and have been given meaningful labels reflecting their content and basis of calculation;
- the APMs have been reconciled to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period; and
- comparatives have been included, and where the basis of calculation has changed over time this is explained.

(f) Read the management commentary, any other narrative disclosures and any final interim period figures and considered whether they are fair, balanced and understandable.

Use of our report

Our liability for this report, and for our full audit report on the financial statements is 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 our audit report or this report, or for the opinions we have formed.

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

Consolidated statement of comprehensive income
For the year ended 31 March 2019

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

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

Consolidated and Company statements of financial position
As at 31 March 2019
Registered number: 08863271

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

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

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

David Hunter
Independent Chairman

Consolidated and Company statements of cash flows
For the year ended 31 March 2019

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

Consolidated and Company statements of changes in equity
For the year ended 31 March 2019

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

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

1 Corporate information

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

2 Basis of preparation and accounting policies

2.1. Basis of preparation

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

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

2.2. Basis of consolidation

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

2.3. Application of new and revised International Financial Reporting Standards

The Company adopted IFRS 9 ‘Financial instruments’ and IFRS 15 ‘Revenue from contracts with customers’ on 1 April 2018. The impact of the application of these new standards is shown below:

IFRS 9

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

The Company’s principal financial assets and liabilities are trade receivables, cash and cash equivalents, trade payables and other payables which will continue to be measured at amortised cost. The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than the incurred credit losses under IAS 39 ‘Financial Instruments: Recognition and Measurement’ and the main impact of this change is the methodology for the impairment of trade receivables using a provision matrix. Historically the Company has had minimal write offs of balances due from tenants and £5k additional impairment provision has been required as a result of this change, which has been recognised in the year as the Company has elected not to restate comparatives on initial application of IFRS 9.

IFRS 15

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

Revenue from the Company’s sole ‘turnover rent’ arrangement does not pass IFRS 15’s ‘highly probable’ test to recognise revenue over the service period, and quarterly rent is therefore no longer accrued. The impact of this change is a reduction in revenue of £46k, which has been recognised in the year as the Company has elected not to restate comparatives on initial application of IFRS 15.

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

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

IFRS 16

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

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

Additional disclosure requirements include presenting:

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

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

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

IFRS 17

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

2.4. Significant accounting policies

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

Going concern

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

Income recognition

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

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

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

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

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

Taxation

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

Investment property

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

Group undertakings

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

Financial assets

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

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

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

Cash and cash equivalents

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

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

Financial liabilities and equity

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

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

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

Bank borrowings

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

Trade payables

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

Leases

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

Segmental reporting

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

2.5. *Key sources of judgements and estimation uncertainty*

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

Judgements

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

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

Estimates

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

3 Earnings per ordinary share

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

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

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

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

4 Revenue

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

5 Operating profit

Operating profit is stated after charging/(crediting):

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Profit on disposal of investment property	**(4,250)**	(1,606)
Investment property valuation decrease/(increase)	**8,890**	(5,647)
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	**85**	80
Fees payable to the Company's auditor and its associates for other services	**17**	15
Administrative fee payable to the Investment Manager	**427**	493
Directly incurred operating expenses of vacant rental property	**630**	236
Directly incurred operating expenses of let rental property	**862**	579
Lease and sublease expenses	**38**	37

6 Finance income

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

7 Finance costs

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

8 Income tax

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

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

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

9 Dividends

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

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

10 Investment property

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

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

The carrying value of investment property at 31 March 2019 comprises £462.3m freehold (2018: £446.9m) and £110.4m leasehold property (2018: £82.1m).

Investment property is stated at the Directors' estimate of its 31 March 2019 fair value. Lambert Smith Hampton Group Limited ("LSH"), a professionally qualified independent valuer, valued the property as at 31 March 2019 in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors. LSH has recent experience in the relevant location and category of the property being valued.

Investment property has been valued using the investment method which involves applying a yield to rental income streams. Inputs include yield, current rent and ERV. For the year end valuation, the equivalent yields used ranged from 4.8% to 9.3%. Valuation reports are based on both information provided by the Company e.g. current rents and lease terms, which are derived from the Company's financial and property management systems and are subject to the Company's overall control environment, and assumptions applied by the valuer e.g. ERVs and yields. These assumptions are based on market observation and the valuer's professional judgement. In estimating the fair value of each property, the highest and best use of the properties is their current use.

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

11 Investments

Shares in subsidiaries

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

* Held indirectly

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

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

12 Trade and other receivables

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

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

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

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

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

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

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

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

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

13 Trade and other payables

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

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

Amounts payable to subsidiary undertakings are due on demand.

14 Cash and cash equivalents

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

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

15 Borrowings

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

The Company has the following facilities available:

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

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

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

16 Share capital

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

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

Rights, preferences and restrictions on shares

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

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

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

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

The nature and purpose of each reserve within equity are:

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

17 Commitments and contingencies

Company as lessor

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

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

Company as lessee

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

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

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

18 Related party transactions

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

Transactions with directors

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

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

Investment Management Agreement

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

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

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

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

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

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

The Investment Manager receives a fee of 0.25% (2018: 0.25%) of the aggregate gross proceeds from any issue of new shares in consideration of the marketing services it provides to the Company.

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

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

Properties

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

19 Financial risk management

Capital risk management

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

Net gearing ratio

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

Externally imposed capital requirements

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

Financial risk management

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

Interest rate risk management

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

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

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

Interest rate sensitivity analysis

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

Market risk management

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

Market risk sensitivity

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

Credit risk management

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

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

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

Liquidity risk management

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

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

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

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

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 +*
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 +*
Trade and other payables	-	9,764	-	146	425
Borrowings:					
Variable rate	-	-	-	-	-
Fixed rate	3.935	197	590	3,148	21,867
Fixed rate	2.987	336	1,008	5,377	51,967
Fixed rate	3.020	264	793	4,228	44,533
Fixed rate	3.260	122	367	1,956	19,694
		10,683	2,758	14,855	138,486

Fair values

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 – inputs for the assets or liability that are not based on observable market data (unobservable inputs).

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

Investment property – level 3

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

Interest bearing loans and borrowings – level 3

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

Trade and other receivables/payables – level 3

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

Impact of Brexit

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

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

20 Events after the reporting date

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

21 Distribution of the Annual Report and accounts to members

The announcement above does not constitute a full financial statement of the Group's affairs for the years ended 31 March 2018 or 31 March 2019. The Company's auditor has reported on the full accounts of each year and accompanied them with an unqualified report. The accounts for the year ended 31 March 2019 have yet to be delivered to the Registrar of Companies.

The Annual Report and accounts will be posted to shareholders in due course, and will be available on our website (www.custodianreit.com) and for inspection by the public at the Company's registered office address: 1 New Walk Place, Leicester LE1 6RU during normal business hours on any weekday. Further copies will be available on request.

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

- Ends -