Company number 10638461

THE PRS REIT PLC

INTERIM REPORT AND FINANCIAL STATEMENTS 2017

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INTERIM REPORT AND FINANCIAL STATEMENTS

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HIGHLIGHTS

Financial Highlights

- Successful admission to the Main Market of the London Stock Exchange on 31 May 2017, with £250m (gross) raised via a Placing, Offer for Subscription and Intermediaries Offer.
- The Company is the UK's first quoted REIT exclusively focused on the Private Rented Sector ("PRS")
- IFRS Net Asset Value of £245.5m at period end, equating to 98.2p per share
- EPRA Net Asset Value of 98.2p at period end
- EPRA NNNAV of 98.2p at period end
- Total earnings per share over the period amounted to 0.22p

Post period:

- Further £250m (gross) secured raised in February 2018 under the Company's Placing Programme
- Credit approved terms secured in January 2018 for £200m debt, from Scottish Widows Investment Partnership and Lloyds Banking Group
- Maiden dividend of 1.5p per share paid in March 2018

Property Highlights

- IPO net proceeds fully committed by early January 2018, well ahead of schedule:
  - will deliver c.1,720 new rental homes in the North West, Midlands and South Yorkshire
  - total Estimated Rental Value ("ERV") per annum is £15.7m, once fully let
  - annualised rent roll at 31 December 2017 totalled £2.1m
- Investment in new homes in additional regions across the UK is currently underway
- Construction and supply chain resource has been significantly enhanced
- A further c. 3,800 new homes, representing c. £540m of gross development costs ("GDC") is under contract in Construction Framework Agreements with housebuilding partners

Steve Smith, Non-Executive Chairman, said:

"The PRS REIT has made excellent progress since its IPO last May, and our fundraising in February of £250m, together with expected gearing, will substantially increase our financial resource, to some £900m. This translates into the development of over 6,000 new rental homes.

"The supply of rental properties in the UK, especially for families, remains critically short of current and projected need, and our model of newly-built high quality, professionally managed homes, will help to bridge some of that shortfall.

"We have an unrivalled approach to delivery, using a partner-based platform, developed by Sigma Capital Group plc. With this and the ongoing support of all involved, including Homes England and local authorities, we remain confident that the PRS REIT will continue to make progress towards its objectives."

CHAIRMAN'S STATEMENT

This interim report is the Company's first since its ordinary shares were admitted to trading on the Specialist Fund Segment of the Main Market of the London Stock Exchange on 31 May 2017. At admission, the Company also successfully raised gross proceeds of £250 million, in an equity fundraising that was very well supported both by institutional and qualifying private investors. The PRS REIT's admission was notable, being the first quoted REIT to address PRS and the first to focus on family rental homes, a particularly undersupplied area.

The financial results presented in this report cover the seven month period from 31 May 2017, which was when the PRS REIT commenced its business operations, to 31 December 2017. The Company was incorporated on 24 February 2017.

The Company has made very good progress since its IPO, committing the net proceeds of its fundraising well ahead of schedule. This represents 1,720 new rental homes, with a total estimated rental value per annum of £15.7 million, once fully let. At the end of January 2018, credit secured terms were agreed for debt facilities totalling £200 million, which will provide additional capital for deployment when concluded, and, in February 2018, the Company raised a further £250 million (gross) of new funds via a second placing under its Placing Programme.

Supported by its Investment Adviser, Sigma PRS Management Ltd ("Sigma PRS"), a wholly-owned subsidiary of Sigma Capital Group plc ("Sigma"), a pipeline of additional investment opportunities is now available to the Company. These opportunities represent approximately, 3,800 new homes, and have a combined total gross development cost of c. £540 million. They are currently in detailed appraisal or in the process of acquisition. This pipeline is under contract in Construction Framework Agreements with housebuilding partners.

As set out in its IPO Prospectus, the PRS REIT's ambition is to create portfolios of high quality, newly-constructed PRS homes across the UK regions, predominantly catering for middle-income families. Its investment objectives are to provide investors with an attractive level of income together with the prospect of income and capital growth.

Financial Results

Net assets as at 31 December 2017 totalled £245.5 million, representing a NAV per share of 98.2p on an International Financial Reporting Standards ("IFRS") basis as adopted by the European Union. The NAV value per share on an EPRA basis is also the same at 98.2p.

The PRS REIT's revenue in its inaugural seven months to 31 December 2017 was £0.6 million, all of which was derived from rental income. The net rental income for this period was £0.5 million.

The Company's profit from operations was £0.3 million after total expenses of £1.8 million, and gains from fair value adjustments on investment property of £1.6 million.

Profit before tax for the period was £0.5 million and basic earnings per share was 0.22p.

Distributable Reserves

As stated in the Company's IPO Prospectus, in order to increase the distributable reserves available to facilitate the payment of future dividends, the Company resolved that, conditional upon First Admission and approval of the Court, the amount standing to the credit of the share premium account be cancelled and transferred to a special distributable reserve.

Court approval was obtained on 1 November 2017 and a certificate of cancellation was issued by Companies House on 2 November 2017.

Financing

In accordance with its stated strategy and after a review of the market undertaken by J C Rathbone Associates, the Company sought offers of debt funding from clearing and institutional lenders in order to enhance equity returns. At the end of January 2018, credit agreed terms for a blended debt facility totalling £200 million were agreed and are currently in the process of completion. These debt facilities will be provided by Scottish Widows Investment Partnership ("SWIP") and Lloyds Banking Group ("LBG").

CHAIRMAN'S STATEMENT

Dividends

On 31 January 2018, the Board was pleased to declare a maiden dividend of 1.5p per ordinary share for the period to 31 December 2017. The dividend was paid as an ordinary UK dividend on 16 March 2018 to shareholders on the register as at 16 February 2018.

As previously reported, the Company is targeting a total dividend of 5.0p per ordinary share for the period ending 30 June 2018, and 5.0p per ordinary share for the year from 1 July 2018 to 30 June 2019. The stabilised dividend yield target is 6% or more per annum and net total shareholder returns of 10% or more per annum are being targeted post stabilisation, based on the IPO issue price of 100p per share.

Placing Programme

On the 31 January 2018, the Company announced a proposed placing of up to 250 million new ordinary shares at 102.5p per share to qualified investors, having fully committed the net proceeds raised in the Company's IPO. This placing was completed on 20 February 2018, with gross proceeds of £250 million raised, both from existing and new shareholders. Homes England also participated in this second placing, taking its direct investment into the Company to c.£30 million.

Outlook

The supply of residential housing in the UK remains critically short of requirements. Whilst supply has improved in recent years, upward pressure on housing numbers is still acute, reflecting both population growth and the changing nature of household composition. Over the next 10 years, the UK population is predicted to increase by 5.4% and the number of households is expected to rise by 8.1%. Housing is high on the government policy agendas and there is agreement across the political spectrum that the nation needs to build over 300,000 new homes per annum not only to meet current need but also to address historic undersupply.

Commentators estimate that the private rental sector will make up some 25% of all households by 2020, from approximately 19% today. Currently, there is a pipeline of an estimated £17 billion of rented stock with a forecast requirement of £300 billion over the next five years, leaving a very large gap in delivery. There is now a growing understanding of how the emerging build-to-rent sector and institutional money can play a significant role in helping to accelerate housing delivery and further professionalise the rented sector.

Against this backdrop of critical undersupply and high demand, there is a significant opportunity for the PRS REIT to become a significant contributor to new housing delivery and a major participant in the still nascent UK build-to-rent sector. Our focus is on developing new rental houses for middle-income families, which account for a significant proportion of the occupier market and whose needs are unlikely to be met by the current build-to-rent pipeline, 90% of which comprises flats.

With Sigma's sophisticated delivery platform, which is supported by key house building partners as well as a productive relationship with Homes England, we remain confident that the Company is well positioned to deliver on its investment objectives. Once gearing is in place (based on 40 per cent. loan-to-value), our total capacity will reach up to £900 million of gross development costs, which we estimate will deliver over 6,000 high quality new, family homes for rent.

We take this opportunity to thank all our shareholders and other stakeholders, and look forward to providing a further update on the Company's progress in our next Quarterly Update, which we expect to publish in early April.

Steve Smith
Chairman
27 March 2018

CHAIRMAN'S STATEMENT

Key Performance Indicators ("KPI's")

KPI	Explanation	Performance
IFRS NAV	Unadjusted net asset value	98.2 p per share
EPRA NAV	Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long terms property business model	98.2 p per share
EPRA NNNAV	EPRA NAV adjusted to include the fair value of financial instruments, debt and deferred taxes	98.2 p per share
EPRA Cost Ratio	Administrative & operating costs (including & excluding costs of direct vacancy) divided by gross rental income	For the period from 31 May to 31 December 2017 the administrative and operating costs were higher than the rental income.
EPS	Unadjusted earnings per share	0.22 p per share

INVESTMENT ADVISER'S REPORT

Sigma PRS Management Ltd, the Investment Adviser to the Company, is pleased to report on the PRS REIT's progress in the period from IPO, on 31 May 2017, to 31 December 2017.

The first seven months since the IPO has seen strong and substantial progress, with the net proceeds of the initial £250 million of capital raised committed well ahead of target, and due to deliver c.1,720 new PRS homes. With the second placing, which raised an additional £250 million in February 2018, and the completion of £200 million of debt facilities underway, the Company is well-placed for further strong progress.

Investment Objective

The Company is addressing the significant undersupply of high quality, professionally managed rental stock in the UK, particularly for families.

The Company is seeking to provide investors with an attractive level of income, together with the prospect of income and capital growth, through investment in portfolios of newly constructed private rented sector sites of multiple individual units, comprising mainly family homes. Units are let on Assured Shorthold Tenancies (as defined in the Housing Act 1988) to qualifying tenants.

Investment Strategy and Delivery Progress

The Company is investing in high quality, newly-built homes across the UK (and outside London), predominantly in England, and is aiming to create a geographically diversified portfolio. The location of the new homes is important, with sites chosen for their proximity to the largest employment centres in the country and local amenities, and where they closely follow the main road and rail infrastructure. Sites near well-performing primary schools are especially favoured. The Company is predominantly focused on family houses but will also invest in some low rise flats in appropriate locations.

The PRS REIT is building its portfolios in two ways:

- the PRS REIT will acquire undeveloped sites sourced by Sigma PRS, with development subsequently managed by Sigma PRS (or another member of Sigma as development manager), with the intention of letting the new completed PRS units.

  The PRS REIT aims to fund a minimum of two-thirds of the new properties this way. All pre-development risks are identified and underwritten by Sigma and its partners, and sites will have an appropriate certificate of title, detailed planning consent and a fixed price design and build contract with one of Sigma's housebuilding partners. During the construction phase, the properties are pre-let and subsequently occupied as they complete.

- the PRS REIT will acquire completed PRS sites from Sigma (and/or one of its subsidiaries), or from third parties, as stabilised developments that accord with the PRS REIT's investment objectives and satisfy both return and occupancy hurdles. The Company intends to fund up to a maximum of one third of new properties in this manner.

Sigma's well-established PRS delivery platform plays a central role in sourcing and developing investment opportunities. The platform comprises well-established relationships with construction partners, which include Countryside Properties, Keepmoat Regeneration and Engie, and local authorities. These relationships enable Sigma PRS to identify, source and deliver land and properties on behalf of the Company in the target geographies. Homes England, which is an executive non-departmental public body sponsored by the Ministry of Housing, Communities & Local Government, continues to work closely with Sigma in the common goal of accelerating new housing delivery in England.

The c.1,720 new rental homes that were secured in the period are expected to generate an Estimated Rental Value ("ERV") of £15.7 million per annum. As at 28 February 2018, 247 units were built and let, equating to an annualised rental income of £2.2 million. These assets comprise the majority of 'The First Acquisition Portfolio' and the 'Initial Development Portfolio' as identified in the Company's prospectus of 4 May 2017.

Over the period and into 2018, Sigma has continued to expand its geographic reach, construction and supply chain resource as well as its access to suitable development land to support the PRS REIT's investment objectives.

In particular, Sigma is in discussions with its key construction partner, Countryside, to accelerate the volume of completed new homes for rent over the course of 2018. These homes will be predominantly located across the North West, West Midlands and South.

In addition, the Company has entered into a new framework agreement with Engie, covering Sheffield and South Yorkshire, which will help to expand the PRS REIT's presence in these regions.

Summary

We are delighted with the progress made so far by the Company, and it remains on track to deliver its targeted total dividend of 5.0p per ordinary share for the period ending 30 June 2018. We continue to target a stabilised dividend yield of 6% or more per annum, with a net total shareholder return target of 10% post stabilisation, based on the IPO issue price of 100p per share.

Sigma PRS Management Ltd
27 March 2018

DIRECTORS

Stephen Smith, Non-Executive Chairman (Age 64)
Stephen Smith has over 40 years of experience in the real estate industry. Stephen is currently non-executive Chairman of Starwood European Real Estate Finance Limited, non-executive Director of Gatehouse Bank Plc and non-executive Chairman of AEW Long Lease REIT. Previously, he was the Chief Investment Officer of British Land Company PLC, the FTSE 100 real estate investment trust from January 2010 to March 2013 with responsibility for the group's property and investment strategy. Prior to joining British Land, Stephen was Global Head of Asset Management and Transactions at AXA Real Estate Investment Managers, where he was responsible for the asset management of a portfolio of more than €40 billion on behalf of life funds, listed property vehicles, unit linked and closed end funds. Before joining AXA in 1999 he was Managing Director at Sun Life Properties for five years. Steve has recently completed his time as non-executive Director of Tritax Big Box REIT plc.

Steffan Francis, Non-Executive Director (Age 62)
Steffan Francis has almost 40 years of experience in the real estate industry. Until early 2016, Steffan was a Director at M&G Real Estate where he was responsible for the £6 billion "Long Income" business. He also was involved in creating and ensuring the long term success of a number of real estate funds, including the M&G Secured Property Income Fund, which within 10 years of being launched, became the largest property fund on the AREF/IPD UK Quarterly Property Fund Index. Currently Steffan acts as a consultant to M&G Real Estate and sits on the investment committee of the British Steel Pension Fund.

Roderick MacRae, Non-Executive Director (Age 54)
Rod has over 20 years' experience in the financial services sector. He was until recently an Executive Director at Aberdeen Asset Management PLC as the Group Head of Risk with responsibility for UK and Global operational risk and regulatory compliance. He was also chairman of the Aberdeen group executive risk management committee, the senior risk oversight function of the group. He has extensive involvement in corporate activity including transformational acquisitions and defence strategies. Previously he was Chief Operating Officer at Edinburgh Fund Managers, which he joined in 1991 and was acquired by Aberdeen in 2003. Rod is a member of the Institute of Chartered Accountants of Scotland having qualified with Coopers & Lybrand and is the Chairman of the Audit Committee.

Graham Barnet, Director (Age 53) (resigned 24 April 2017)
Graham is the Chief Executive Officer of Sigma Capital Group plc, the ultimate holding company of the Company's Investment Adviser, Sigma PRS Management Ltd. A qualified lawyer, Graham worked for Noble Grossart Limited, Edinburgh Financial Trust Limited and Shepherd & Wedderburn, specialising in corporate finance and corporate law, prior to forming his own company in 1994. This company, Merchant Investments Limited, was a specialist consultancy involved in the management of businesses both in the traditional and technology sectors.

Mike Scott, Director (Age 44) (resigned 24 April 2017)
Mike is Group Legal Counsel and Business Development Director of Sigma Capital Group plc, the ultimate holding company of the Company's Investment Adviser, Sigma PRS Management Ltd. He has significant experience providing corporate finance and structuring advice both as a lawyer and for several years as a partner of Newgate Partners, a corporate finance boutique he co-founded in 2003.

Mike joined Sigma Capital in 2015 as Group Legal Counsel from UK law firm, HBJ Gateley, where he was a partner in the firm's corporate department specialising in equity funds.

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period from 31 May 2017 to 31 December 2017

	Notes	31 May to 31 December 2017 (unaudited) £'000
Rental Income	4	**583**
Cost of sales		**(99)**
Net rental income		**484**
Expenses		
Directors' remuneration	5	**(9)**
Investment advisory fee	7	**(1,382)**
Administrative expenses	8	**(364)**
Total expenses		**(1,755)**
Gain from fair value adjustment on investment property	11	**1,618**
Operating profit		**347**
Finance income net of finance costs	9	**192**
Profit before taxation		**539**
Taxation	10	**-**
Profit after tax attributable to the equity holders of the Company		**539**
Earnings per share attributable to the equity holders of the Company:		
Basic IFRS earnings per share	19	**0.22p**

All of the Group activities are classed as continuing and there were no comprehensive gains or losses in the period other than those included in the statement of comprehensive income.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	At 31 December 2017 (unaudited) £'000
ASSETS		
Non-current assets		
Investment property	11	**56,957**
		56,957
Current assets		
Other receivables	12	**451**
Cash and cash equivalents	13	**194,255**
		194,706
Total assets		**251,663**
Current liabilities		
Trade and other payables	14	**6,124**
Total liabilities		**6,124**
Net assets		**245,539**
EQUITY		
Called up share capital	15	**2,500**
Share premium account	16	**-**
Capital reduction reserve	17	**242,500**
Redeemable preference shares	18	**-**
Retained earnings		**539**
Total equity attributable to the equity holders of the Company		**245,539**
IFRS net asset value per share	20	**98.2p**

As at 31 December 2017, there is no difference between IFRS NAV per share and the EPRA NAV per share.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 31 May 2017 to 31 December 2017

	Share capital £'000	Share premium account £'000	Capital Reduction Reserve £'000	Redeemable Preference Shares £'000	Retained earnings £'000	Total equity £'000
Share capital issued in the period	2,500	247,500	-	50	-	250,050
Share capital issue costs paid	-	(5,000)	-	-		(5,000)
Cancellation of share premium		(242,500)	242,500	-	-	-
Share capital redeemed in the period	-	-	-	(50)	-	(50)
Profit for the period	-	-	-	-	539	539
At 31 December 2017	2,500	-	242,500	-	539	245,539

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period from 31 May 2017 to 31 December 2017

	Notes	31 May to 31 December 2017 (unaudited) £'000
Cash flows from operating activities		
Profits before tax		539
Adjustments for:		
less Finance Income		(192)
less fair value adjustment on investment property		(1,618)
add interest received		54
Cash generated from operations		(1,217)
Increase in trade and other receivables		(313)
Increase in trade and other payables		390
Net cash outflow from operating activities		(1,140)
Net cash used in operating activities		**(1,140)**
Cash flows from investing activities		
Acquisition of subsidiaries		**(34,754)**
Purchase of investment property at fair value through profit and loss		**(14,851)**
Net cash invested in investing activities		**(49,605)**
Cash flows from financing activities		
Issue of shares		**250,000**
Cost of share issue		**(5,000)**
Net cash generated from financing activities		**245,000**
Net increase in cash and cash equivalents		**194,255**
Cash and cash equivalents at beginning of period		**-**
Cash and cash equivalents at end of period	13	**194,255**

NOTES TO THE FINANCIAL STATEMENTS

1. **General information**
The PRS REIT plc (the "Company") is a public limited company incorporated on 24 February 2017 in England and having its registered office at Floor 3, 1 St. Ann Street, Manchester, M2 7LR with company number 10638461.

The Company is quoted on the Specialist Fund Segment of the Main Market of the London Stock Exchange.

This condensed consolidated interim financial information was approved and authorised for issue by a duly appointed and authorised committee of the Board of Directors on 27 March 2018.

This condensed consolidated interim financial information has not been audited or reviewed by the Company's auditor.

2. **Financial Risk Management**
The Group is exposed to market risk, interest rate risk, credit risk and liquidity risk in the current and future periods. The Board of Directors oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks that are summarised below.

Market Risk

Risk relating to Investment Property
Investment in property is subject to varying degrees of risk. Some factors that affect the value of the investment in property include:

- changes in the general economic climate;
- competition from available properties; and
- government regulations, including planning, environmental and tax laws.

Interest Rate Risk
The Group has limited interest rate risk. Its risk is on income and cash flows from changes in market interest rates. From time to time, certain of the Group's cash resources are placed on short term fixed deposits to take advantage of preferential rates otherwise cash resources are held in current, floating rate accounts.

Credit Risk
Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Property rental income arises from the Group's investments in PRS assets. Rental income is paid monthly in advance.

Liquidity Risk
The Group seeks to manage liquidity risk to ensure sufficient liquidity is available to meet the requirements of the business and to invest cash assets safely and profitably. The Board reviews regularly available cash to ensure that there are sufficient resources for working capital requirements.

3. **Accounting policies**
The principal accounting policies applied in the preparation of the condensed consolidated interim financial statements are summarised below and will be used in the audited financial statements for the period ended 30 June 2018

Basis of accounting
This condensed consolidated interim financial information has been prepared on a going concern basis. The Group's cash balances at 31 December 2017 were £194.3m of which £118.5m was readily available. The Group has no debt borrowing. In addition, on 20 February 2018, the Group raised additional gross proceeds of £250m through a placing of shares in the Specialist Fund Segment of the Main Market of the London Stock Exchange. As a consequence, the Directors believe the Group is well placed to manage its business risks successfully. After making enquiries, the Directors have a reasonable expectation that the Group have adequate resources to continue in operational assistance for the foreseeable future and for a period of at least 12 months from the date of the Group's condensed consolidated interim financial statements. The Board is therefore of the opinion that the going concern basis adopted in the preparation of the condensed consolidated interim financial statements is appropriate.

NOTES TO THE FINANCIAL STATEMENTS

This condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the EU.

This condensed consolidated interim financial information does not constitute statutory accounts within the meaning of s434 of the Companies Act 2006 and are unaudited.

The financial statements have been prepared on the historical cost basis, except where IFRS requires an alternative treatment. The principal variations from historical cost relate to financial instruments (IAS 39).

Adoption of new and revised standards
The following are new standards, interpretations and amendments, which are not effective and have not been early adopted in these condensed consolidated interim financial statements that may have an effect on the Company's future financial statements.

IFRS 9 Financial Instruments
The standard is effective for periods beginning on or after 1 January 2018.

The standard makes substantial changes to the measurement of financial assets and financial liabilities. There will only be three categories of financial assets whereby financial assets are recognised at either fair value through profit and loss, fair value through other comprehensive income or measured at amortised cost. On adoption of the standard, the Group will have to re-determine the classification of its financial assets based on the business model for each category of financial asset. This is not considered likely to give rise to any significant adjustments other than reclassifications.

IFRS 15 – Revenue from contracts with customers
The date the standard is effective from 1 January 2018.

The standard has been developed to provide a comprehensive set of principles in presenting the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is based around the following steps in recognising revenue:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price; and
- Recognise revenue when a performance obligation is satisfied.

On application of the standard the disclosures are likely to increase. The standard includes principles on disclosing the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, by providing qualitative and quantitative information.

Basis of consolidation
The condensed consolidated financial statements comprise of the financial information of The PRS REIT plc and its subsidiary undertakings. Subsidiaries are all entities over which the Group has control. The financial information of the subsidiaries are included in the consolidated financial statements from the date that control commences. All intra group transactions are eliminated on consolidation.

Segmental reporting
For the period from 31 May 2017 to 31 December 2017, the Directors regard the Group as having just one reportable segment, Property, and the business only operates in the United Kingdom.

Investment Property
Property that is held for long-term rental yields or for capital appreciation or both is classified as investment property under IAS 40. Investment property, including that which is being constructed for future use as investment property, is measured initially at its cost including related transactions costs. After initial recognition, investment property is carried at fair value. The investment properties are externally valued by Savills. Savills are qualified external valuers who hold a recognised and relevant professional qualification. Gains or losses arising from changes in the fair value of the Group's investment properties are included in profit from operations in the income statement of the period in which they arise. Investment property falls within level 3 of the fair value hierarchy as defined by IFRS 13. Further details are provided in note 11.

Trade and other receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The movement in the provision is recognised in the comprehensive income statement.

Cash
Cash and cash equivalents comprise cash in hand, cash at bank, cash held in treasury deposits and cash held by solicitors. Further details are provided in note 13.

Trade payables
Trade payables are not interest bearing and are stated at their amortised cost.

Taxation
Taxation on the profit or loss for the period not exempt under UK REIT regulations is comprised of current and deferred tax. Tax is registered in the Condensed Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised as a direct movement in equity, in which case it is recognised as a direct movement in equity. Current tax is expected tax payable on any non REIT taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be recognised.

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Revenue recognition
Rental income from investment properties is accounted for on an accruals basis.

Expenses
All expenses are recognised in the Condensed Consolidated Statement of Comprehensive Income on an accruals basis.

Finance Income
Finance income is recognised as it accrues on cash balances and treasury deposits held by the Group.

Share Issue Costs
The costs of issuing equity instruments are accounted for as a deduction from equity.

Critical judgements in applying the Group’s accounting policies
In the process of applying the Group’s accounting policies, the Directors have made the following judgements which have the most significant effect on the amounts recognised in the consolidated financial statements.

Application of acquisition accounting to the transaction which took place on the 5 June 2017

The Directors have considered the accounting treatment of the acquisition which took place on the 5 June 2017 by The PRS REIT plc and its subsidiary The PRS REIT Holding Company Limited of the issued share capital of Sigma PRS Investments I Limited ("SPRSI) and the application of IFRS 3 'Business Combinations' and IFRS 10 'Consolidated Financial Statements'.

Taking these reporting standards into consideration the Directors have concluded that the consolidated financial statements should be prepared on the acquisition accounting basis. In the consolidated accounts, all the assets and liabilities of the Group are shown as analysed on a line by line basis with the activity of the subsidiary being consolidated from the acquisition date of 5 June 2017.

The reasons for the adoption of the acquisition accounting are:

(a) the acquisition of SPRSI was conditional on the IPO proceeding and an integral part of the transaction; and

(b) there is a substantial change in ownership of SPRSI by virtue of the IPO.

Acquisition of subsidiaries

During the period, the Group acquired four property owning special purpose vehicles. The Directors considered whether these acquisitions met the definition of the acquisition of a business or the acquisition of a group of assets and liabilities. It was concluded that acquisitions met the criteria for the acquisition of a business as outlined in IFRS 3. All assets acquired and liabilities assumed in a business combination are measured at acquisition date fair value. The fair value of the assets and liabilities as at the date of the acquisitions were as follows:

	Sigma PRS Investments I Limited £'000	**Sigma PRS Investments II & III Limited £'000**	**Sigma PRS Investments (Baytree II) Limited £'000**
Investment properties acquired	7,300	24,395	3,059
Other receivables	16	75	396
Other payables	(17)	(52)	-
Total consideration paid	7,299	24,418	3,455

- Investment property is measured at fair value as at the date of the acquisition of the subsidiary by an independent valuation expert.
- Other receivables are taken as being the value recorded in the accounts of the Company acquired, being the best estimate of their fair value.
- Other creditor balances are measured at the amounts actually payable.
- The total consideration paid was cash settled and no goodwill arose on acquisition

4. **Rental Income**

	31 May to 31 December 2017 £'000
Gross rental income from investment property	**583**
	583

NOTES TO THE FINANCIAL STATEMENTS

5. **Directors' Remuneration**

	31 May to 31 December 2017 £'000
Directors' emoluments	**9**
	9

The directors are remunerated for their services at such rate as the directors shall from time to time determine. The Chairman receives a director's fee of £45,000 per annum, and the other directors of the Board receive a fee of £30,000 per annum (with the exception of the Chairman of the Audit Committee who will receive an additional fee of £5,000 per annum).

6. **Particulars of Employees**
The Group had no employees during the period other than the directors.

7. **Investment Advisory Fees**

	31 May to 31 December 2017 £'000
Advisory fee	**1,382**
	1,382

Sigma PRS Management Ltd is appointed as the Investment Adviser of the Company. Under the current Investment Management Agreement, the Advisory Fee shall be an amount calculated in respect of each month, in each case based upon the Adjusted Net Asset Value on the following basis:

(a) 1 per cent per annum of the Adjusted Net Asset Value up to, and including, £250 million;

(b) 0.90 per cent per annum of the Adjusted Net Asset Value in excess of £250 million;

(c) 0.80 per cent per annum of the Adjusted Net Asset Value in excess of £500 million and up to, and including, £1 billion; and

(d) 0.70 per cent per annum of the Adjusted Net Asset Value in excess of £1 billion.

The appointment of the Investment Adviser shall continue in force unless and until terminated by either party giving to the other not less than 12 months' written notice, such notice not to expire earlier than 31 May 2023.

8. **General and Administrative Expenses**

	31 May to 31 December 2017 £'000
Legal and professional fees	36
Administration and secretarial fees	53
Audit and tax fees	23
Valuation fees	24
Depositary fees	17
Financial adviser and broker	35
Insurance	9
Public relations	20
Regulatory fees	75
Sundry expenses	4
Costs of acquisition of subsidiaries	19
Disallowed VAT	49
	364

9. **Finance Income**

	31 May to 31 December 2017 £'000
Interest on treasury reserve deposits	192
	192

10. **Taxation**

As a UK REIT, the Group is exempt from corporation tax on the profits and gains from its property investment business, provided it meets certain conditions as set out in the UK REIT regulations. For the current period ended 31 December 2017, the Group did not have any non-qualifying profits and accordingly there is no tax charge in the period. If there were any non-qualifying profits and gains, these would be subject to corporation tax.

It is assumed that the Group will continue to be a UK REIT for the foreseeable future, such that deferred tax has not been recognised on temporary differences relating to the property rental business. No deferred tax asset has been recognised in respect of the unutilised residual current period losses as it is not anticipated that sufficient residual profits will be generated in the future.

	31 May to 31 December 2017 £'000
Current tax	
Corporation tax charge/(credit) for the period	-
Total current income tax charge/(credit) in the income statement	-

The tax charge for the period is less than the standard rate of corporation tax in the UK of 19 per cent.. The differences are explained below.

	31 May to 31 December 2017 £'000
Profit before tax	**539**
Tax at UK corporation tax standard rate of 19%	**102**
Change in value of exempt investment properties	**(307)**
Exempt REIT income	**(82)**
Amounts not deductible for tax purposes	**-**
Unutilised residual current year tax losses	**287**
	-

The standard rate of corporation tax in the UK for the period from incorporation to 31 March 2017 was 20%. From 1 April 2017 to 31 December 2017, the standard rate of corporation tax in the UK was 19%.

REIT exempt income includes property rental income that is exempt from UK Corporation Tax in accordance with Part 12 of CTA 2010.

11. **Investment Property**

In accordance with International Accounting Standard, IAS 40 'Investment Property', investment property has been independently valued at fair value by Savills, an accredited external valuer with a recognised relevant professional qualification and with recent experience in the locations and categories of the investment properties being valued. The valuation basis conforms to International Valuation Standards and is based on market evidence of investment yields expected gross to net income rates and actual and expected rental values.

The valuations are the ultimate responsibility of the Directors. Accordingly, the critical assumption used in establishing the independent valuation are reviewed by the Board.

	Total £'000
Properties acquired on acquisition of subsidiaries	34,754
Other property additions	20,585
Change in fair value	1,618
At 31 December 2017	**56,957**

Other property additions includes investment properties under construction. The fair value of these assets when complete is initially measured on acquisition and again as at the 31 December 2017 by Savills. The difference between cost and fair value is recognised over the development period.

Fair Values

IFRS 13 sets out a three-tier hierarchy for financial assets and liabilities valued at fair value. These are as follows:

Level 1 quoted prices (unadjusted) in active markets for identical assets and liabilities;
Level 2 inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3 unobservable inputs for the asset or liability.

Investment property falls within Level 3. The Investment valuations provided by the external valuation expert are based on RICS Professional Valuation Standards, but include a number of unobservable inputs and other valuation assumptions.

The significant unobservable inputs and the range of values used are:

Type	**Range**
Investment yield	4.5% to 4.65%
Gross to net assumption	21.5% to 23.5%

NOTES TO THE FINANCIAL STATEMENTS

12. Other Receivables

	As at 31 December 2017 £'000
Accrued income	193
Social security and other taxes	160
Prepayments and other receivables	98
	451

13. Cash and Cash Equivalents

	As at 31 December 2017 £'000
Cash held by solicitors	812
Treasury reserve deposits	75,000
Cash at bank	118,443
	194,255

Cash held by solicitors is money held in escrow for expenses expected to be incurred in relation to investment properties pending completion. These funds are available immediately on demand.

Treasury reserve deposits refers to money held on deposit for a fixed term and fixed interest rate. At 31 December 2017, the Group held one treasury reserve deposit which matured on 26 January 2018.

14. Trade and Other Payables

	As at 31 December 2017 £'000
Trade payables	5,486
Accruals and deferred income	157
Other creditors	481
	6,124

15. Share Capital

	As at 31 December 2017 £'000
Authorised:	
250 million Ordinary Shares of £0.01 each	2,500
Issued and fully paid:	
250 million Ordinary Shares of £0.01 each	2,500

The Company was admitted to the Specialist Fund Segment of the Main Market of the London Stock Exchange on 31 May 2017, raising £250 million.

NOTES TO THE FINANCIAL STATEMENTS

16. **Share Premium Reserve**

The share premium relates to amounts subscribed for share capital in excess of nominal value.

	As at 31 December 2017 £'000
Balance at beginning of period	-
Share premium arising on Ordinary Shares issued	247,500
Share issue costs	(5,000)
Transfer to capital reduction reserve	(242,500)
Balance at end of period	-

As stated in the Company's prospectus dated 4 May 2017, in order to increase the distributable reserves available to facilitate the payment of future dividends, the Company resolved that, conditional upon First Admission and approval of the Court, the amount standing to the credit of the share premium account be cancelled and transferred to a special distributable reserve.

The Company obtained court approval on 1 November 2017. An SH19 form was sent to Companies House with a copy of the court order on 1 November 2017 and the certificate of cancellation was issued by Companies House on 2 November 2017.

17. **Capital Reduction Reserve**

	As at 31 December 2017 £'000
Balance at beginning of period	-
Transfer from share premium reserve	242,500
Balance at end of period	242,500

18. **Redeemable Preference Shares**

On 24 April 2017, the Company allotted 50,000 redeemable preference shares of £1 each to meet the minimum capital requirements. On 31 May 2017 and on completion of the IPO, the shares were redeemed at par value.

19. **IFRS Earnings per Share**

Earnings per share (EPS) amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period. As there are no dilutive instruments, only basic earnings per share is quoted below.

The calculation of basic earnings per share is based on the following:

	Net profit attributable to ordinary shareholders £'000	**Weighted average number of Ordinary Shares**	**Earnings per share** pence
From 31 May to 31 December 2017	**539**	**250,000,000**	**0.22**

NOTES TO THE FINANCIAL STATEMENTS

20. **IFRS Net Asset Value per Share**
Basic NAV per share is calculated by dividing net assets in the Condensed Consolidated Statement of Financial Position attributable to ordinary equity holders of the parent by the number of Ordinary Shares outstanding at the end of the period. As there are no dilutive instruments, only basic NAV per share is quoted below.

Net asset values have been calculated as follows:

	As at 31 December 2017
Net assets at end of period (£'000)	245,539
Shares in issue at end of period	250,000,000
Basic IFRS NAV per share pence	98.2

The NAV per share calculated on an EPRA basis is the same as the Basic IFRS NAV per share for the period to 31 December 2017.

21. **Controlling Parties**
As at 31 December 2017, there is no ultimate controlling party.

22. **Consolidated Entities**
The Group consists of a parent company, The PRS REIT plc, incorporated in the UK and a number of subsidiaries held directly and indirectly by The PRS REIT plc, which operate and are incorporated in the UK.

The Group owns 100% equity shares of all subsidiaries listed below and has the power to appoint and remove the majority of the Board of Directors of those subsidiaries. The relevant activities of the below subsidiaries are determined by the Board of Directors based on simple majority votes. Therefore the directors of the Group concluded that the Group has control over all these entities and all these entities have been consolidated within the condensed consolidated financial statements.

<u>List of Subsidiaries</u>:

Ownership Name of Entity	**Principal Activity**	**Country of Incorporation**	**%**
The PRS REIT Holding Company Limited	Property Investment	UK	100%
The PRS REIT Development Company Limited	Property Investment	UK	100%
The PRS REIT Memberco Limited	Property Investment	UK	100%
The PRS REIT Investments LLP	Property Investment	UK	100%
Sigma PRS Investments I Limited	Property Investment	UK	100%
Sigma PRS Investments II Limited	Property Investment	UK	100%
Sigma PRS Investments III Limited	Property Investment	UK	100%
Sigma PRS Investments (Baytree II) Limited	Property Investment	UK	100%

The registered office for the subsidiaries across the Group is Floor 3, 1 St. Ann Street, Manchester, M2 7LR, except for Sigma PRS Investments I Limited whose registered office is at 18 Alva Street, Edinburgh, EH2 4QG.

23. **Capital commitments**
The Group have entered into contracts with unrelated parties for the construction of residential housing with a total value of £65,185,000. As at 31 December 2017, £47,845,000 of such commitments remained outstanding.

NOTES TO THE FINANCIAL STATEMENTS

24. **Related Party Disclosure**

The number of shares owned by the directors of the Company as at 31 December 2017 is as follows:

Company Director	No. of Shares held
Stephen Smith	80,000
Steffan Francis	30,000
Roderick MacRae	40,000

All of the shares of the directors were acquired on admission of the Company to the Specialist Fund Segment of the Main Market of the London Stock Exchange on 31 May 2017.

On 20 February 2018, Roderick MacRae acquired a further 60,000 shares as part of the Placing Programme. Further details are provided in note 26.

For the period from 31 May 2017 to 31 December 2017, directors fees of £9,000 were incurred.

25. **Transactions with Investment Adviser**

On 31 March 2017, Sigma PRS Management Ltd was appointed as the Investment Adviser of the Company.

For the period from 31 May 2017 to 31 December 2017, fees of £1,382,000 were incurred and payable to Sigma PRS Management Ltd in respect of investment advisory services. At 31 December 2017, £208,000 remained unpaid.

For the period from 31 May 2017 to 31 December 2017, development fees of £936,000 were incurred and payable to Sigma PRS Management Ltd. At 31 December 2017, £305,000 remained unpaid.

Subsequent to 31 December 2017, Sigma PRS Management Ltd has acquired shares in the Company equivalent to 50% of the development management fee earned for the period from 31 May 2017 to 31 December 2017.

During the period the Company acquired the following subsidiaries from Sigma Capital Group plc, the ultimate holding company of the Investment Adviser:

Sigma PRS Investments I for a consideration of £7,299,000
Sigma PRS Investments (Baytree II) Limited for a consideration of £3,455,000
Sigma PRS Investments II and III Limited for a consideration of £24,418,000

26. **Post Balance Sheet Events**

Dividend

On 31 January 2018, the Company declared its first dividend in respect of the period from incorporation to 31 December 2017 of 1.5p per Ordinary Share totalling £3,750,000. The dividend was paid on the 16 March 2018 to shareholders on the register at 16 February 2018.

Placing

On 20 February 2018, the Company completed the placing of 243,902,440 ordinary shares of 1 pence each raising gross proceeds of £250m.

Debt Finance

At the end of January 2018, credit agreed terms for a blended debt facility totalling £200m were agreed and are currently in the process of completion. These debt facilities will be provided by Scottish Widows Investment Partnership ("SWIP") and Lloyds Banking Group ("LBG").