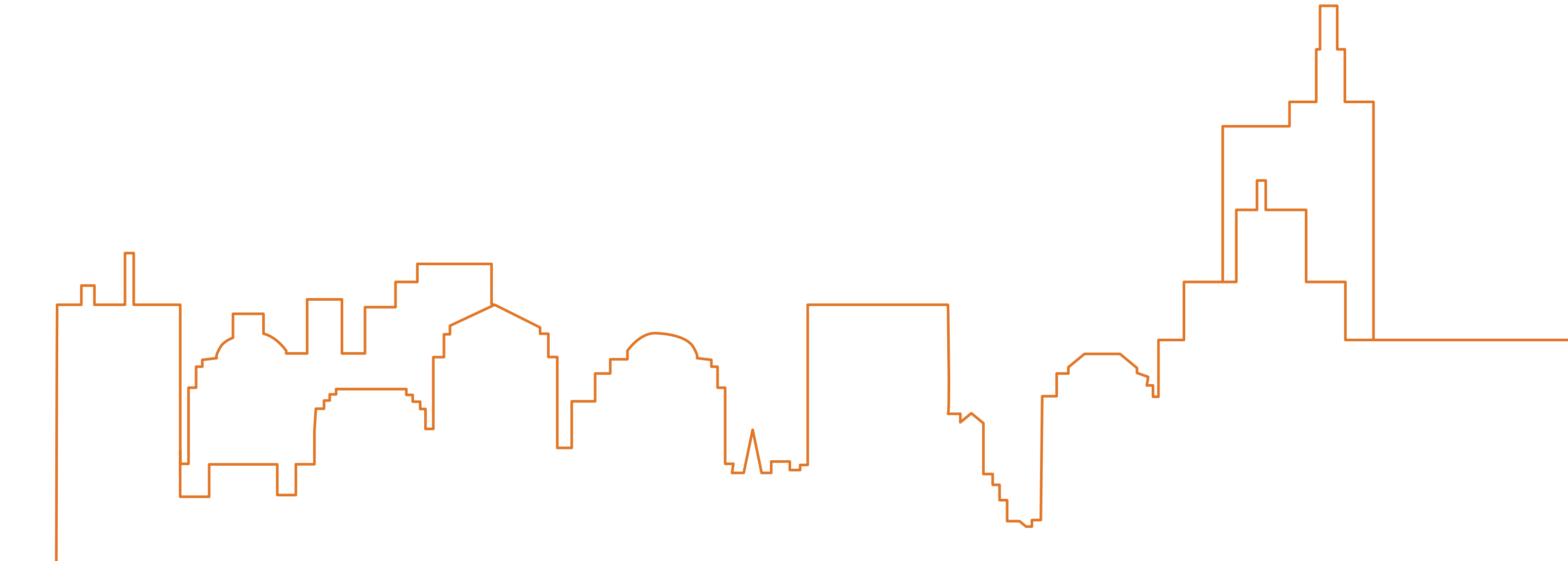
the Local Shopping REIT plc

Annual Report

for the year ended 30 September 2017

Stock Code: LSR



the Local Shopping REIT plc

What we do

The Local Shopping REIT plc ("LSR") is a Real Estate Investment Trust ("REIT") invested in a portfolio principally comprising local shopping assets in urban and suburban centres throughout the UK.

Typical of the portfolio are shops in local shopping parades and neighbourhood venues for convenience or "top-up" shopping and the provision of local services. As at 30 September 2017 the Company's portfolio comprised 182 properties, with over 740 letting units.

The Company's investment policy is to undertake a progressive disposal of its assets, to enable the repayment of bank facilities and the return of surplus value to its shareholders, whilst maximising returns from the residual property portfolio through sound asset management.

What is a REIT?

Real Estate Investment Trusts are listed property investment companies or groups not liable to corporation tax on their rental income or capital gains from their qualifying activities.

Local Shopping REIT plc online

See further information online: www.localshoppingreit.co.uk

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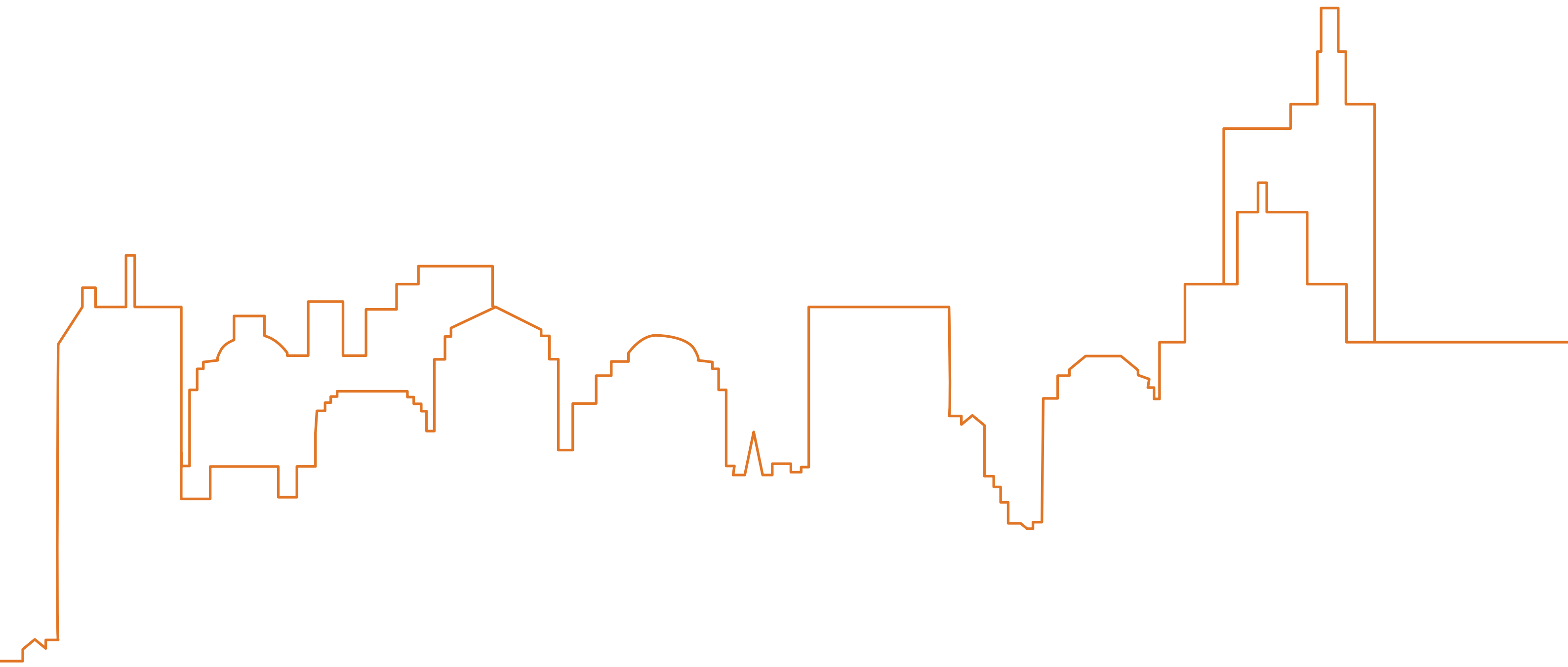
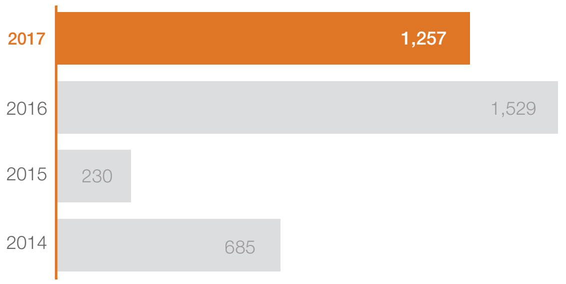
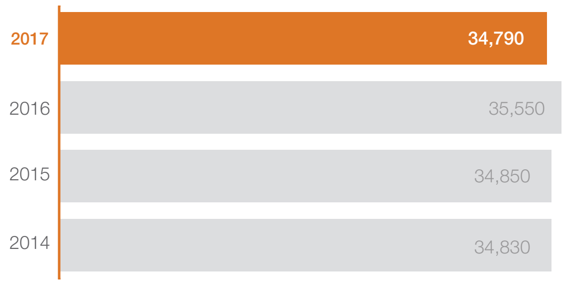


Highlights

Adjusted Profit
(£'000)



Net Asset Value
(£'000)



- IFRS loss for the year of £0.86m or 1.04 pence per share ("pps") (2016: profit £0.63m or 0.76 pps).
- Adjusted Operating Profit* for the year of £1.26m or 1.5 pps (2016: £1.53m or 1.9 pps).
- Portfolio valued at 30 September 2017 at £55.46m, reflecting an Equivalent Yield (excluding the residential element) of 9.47% (30 September 2016: £75.3m, Equivalent Yield 9.5%).

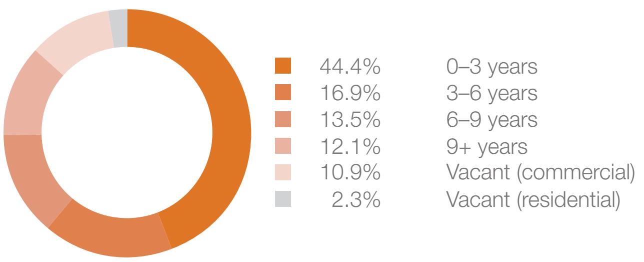
*Adjusted Operating profit was referred to in previous reports as Recurring Operating Profit. This change conforms to the requirements of the Financial Reporting Council. The calculation of Adjusted Operating Profit, which remains unchanged, is explained in the Finance section below.

- Net Asset Value ("NAV"): £34.8m or 42 pps (30 September 2016: £35.55m, 43 pps).
- Total Net Debt of £20.2m, reflecting a Group LTV on all investment properties of 36.5% (2016: £39.54m; 52.5%).
- During the year, the Company sold 142 properties for a combined gross consideration of £19.3m, reflecting a 1.9% discount to property valuation. Transaction costs for the sales were 4.7% of the prices achieved.

As at reporting date, property sales exceed all of the targets for the period to December 2017 contained in the Roadmap for Property Disposals published in the previous annual report.

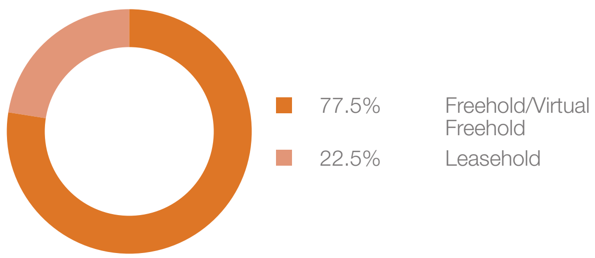
Lease Expiry Profile

As a percentage of Market Rent



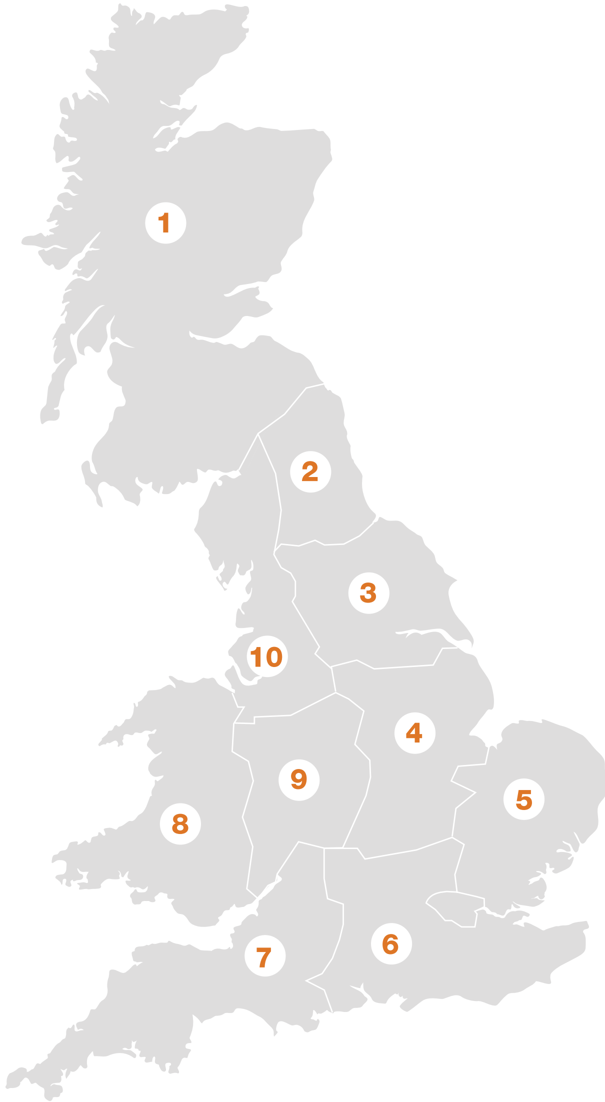
Tenure

As a percentage of Valuation



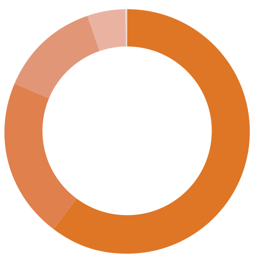
Portfolio construction
(%)

		Market Rent	Value
1	Scotland	**5.6%**	**4.5%**
2	North East	**5.2%**	**4.5%**
3	Yorkshire & Humberside	**7.1%**	**6.6%**
4	East Midlands	**9.5%**	**10.0%**
5	East Anglia	**1.3%**	**1.2%**
6	London and South East	**25.9%**	**30.7%**
7	South West	**14.3%**	**14.5%**
8	Wales	**3.1%**	**2.8%**
9	West Midlands	**9.9%**	**9.0%**
10	North West	**18.1%**	**16.2%**



Tenant Grade

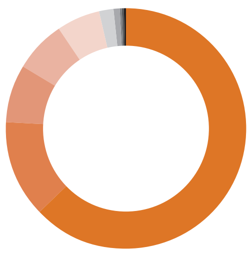
As a percentage of Market Rent



60.5%	Individual
21.2%	National Multiple
13.2%	Local Company
5.0%	Regional Multiple
0.2%	Government

Planning Use

As a percentage of Market Rent



63.1%	A1 Shops
12.9%	C3 Residential
7.8%	A3 Cafes/Restaurants
7.0%	A2 Financial
5.9%	A5 Takeaways
2.0%	B1 Offices
0.6%	D1 Institutional
0.5%	A4 Pubs
0.2%	D2 Leisure
0.1%	Sui Generis

Strategic Report

Chairman's Statement

The Strategic Report of the directors comprises:

- the Chairman's Statement, set out below;
- the Operating Review, on page 5;
- the Finance Review, on pages 7 and 8;
- the Corporate Responsibility Statement, on page 9.

The directors consider that, in accordance with the UK Corporate Governance Code 2016, the combination of the annual report and the financial statements is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. We hope you will find this report informative and helpful.

This report makes reference to a number of alternative performance measures in addition to the content of the financial statements, which the directors consider are helpful in assessing the performance of the business and the Company in the context of the UK property market. Explanations of these, and other terms used, are given in the Glossary at the rear of the document.

Financial Performance

The Company made a loss for the year of £0.86m (2016: profit £0.63m) on an IFRS basis. The Adjusted Operating Profit was £1.26m (2016: £1.53m).

Our portfolio was revalued at 30 September 2017 at £55.46m, reflecting an Equivalent Yield (excluding the residential element) of 9.47%.

A significant achievement during the year was the agreement with HSBC, in November 2016, to extend our banking facilities to 31 December 2019, at the prevailing interest margin of 2% above 3-month LIBOR. During the year the proceeds of the property sales programme, together with operational income, were applied to further reduce our indebtedness. As a result of this our overall loan-to-value ratio stood at 36.5% at the year end (2016: 52.5%) and our Capital Gearing, which peaked at 384% in 2013, had reduced to 58% (2016: 111%).

From 22 July 2017 the minimum base fee of £900,000 per annum payable to the Company's Investment Adviser, INTERNOS Global Investors Limited ("INTERNOS"), expired, as provided for in the Investment Advisory Agreement with INTERNOS. The base fee applying from that date equates to 0.70% of the Company's gross asset value, resulting in a significant and increasing saving in the Company's administration costs as properties are sold and debt is repaid.

Update on Property Disposal Programme

In the last annual report released in December 2016, the Board announced that it had initiated an accelerated property disposal programme *(the Roadmap for Property Disposals)* focusing initially on smaller, weaker, and geographically non-core assets. This programme committed to sell 125 properties (generating £20m in sales proceeds) between October 2016 and December 2017, equating to 25 property sales generating £4.0m per quarter.

From October 2016 to the date of this report we have completed or exchanged for sale on 157 properties for a combined gross consideration of £21.2m, exceeding the above-mentioned targets for December 2017. Sales achieved during this period transacted at 1.6% below prior property valuations and also attracted an estimated 4.7% in sales costs.

Since the last update released to the market in November, we have sold five properties via private treaty for a gross consideration of £475,000, representing a 2.9% discount to valuation. In addition, four properties were sold in the year's last round of auctions in December for a total of £621,000, a 10% premium to book value, albeit that may not be reflective of values for the remainder of the portfolio.

As set out in the *Roadmap*, the Board indicated the intention to thereafter market the portfolio as a whole for a limited period, as the Board believed this to be the optimum disposal route subject to satisfactory pricing being achieved. The Board also stated that in the event that the above portfolio sale is unsuccessful, the remaining assets will be liquidated via a mixture of auction, private treaty and possibly small portfolios.

In view of the achievement of the December 2017 targets, the Company has over the past six weeks marketed a portfolio through Allsop LLP. This portfolio comprises larger and multiple-occupancy properties, reflecting approximately 70% by value of the Company's total property assets. Whilst a portfolio sale is our preferred route for disposal of these assets, the indicative offers that have been received have fallen substantially short of the proceeds that the Board believes can be achieved through sale by auction or in smaller concentrated private treaty disposals.

We will therefore continue and seek to further accelerate our current programme of individual asset sales, irrespective of lot size and location, with the aim of selling approximately 75% of the remaining assets by the end of the current financial year. This equates to approximately 125 property sales, totalling £40m by value. The average lot size of these properties is approximately £320,000 against an average of approximately £135,000 for the 157 sold since October 2016. Depending on progress with the sale programme, we also aim for the Company to be debt-free by end-June 2018. Whilst the Board believes this programme is achievable, it will be challenging and shareholders should be aware that the programme set out above is reliant on market conditions and other external factors. We will continue to provide updates on progress with the programme and will supply guidance on likely liquidation values as soon as sufficient information is to hand.

Although the INTERNOS base fee will reduce pro rata with the Company's gross assets there are fixed costs of running a public company and therefore shareholders can expect the Company's profitability to reduce. Accordingly, we will seek to complete the disposal programme as soon as feasibly possible.

We will, of course, continue to seek to maximise the sale value of our properties and the rental income derived from them through sound asset management.

Stephen East
Chairman
11 December 2017

Operating Review

Business Model

Our operating model focuses on maximising returns from our property portfolio whilst disposing of assets and repaying bank debt.

Core to the achievement of good returns on our properties, and thus the maximisation of disposal values, is letting space to reliable tenants at affordable rents and the minimisation of tenancy voids and their associated costs.

Business Review 2016–17

Market Context

No commentary on the market in which the Company operated during the financial year can avoid mentioning the impact of the Brexit process. The resultant uncertainty over the UK's longer term economic prospects, exacerbated by the outcome of the general election in June 2017, had a significant influence on the UK domestic economy throughout the year. A significant outcome for the UK retail sector was particularly affected by the fall in the value of sterling against other major trading currencies, substantially increasing the cost of imported goods.

Although economic growth and consumer spending had been maintained during the final quarter of 2016, the import pipeline had already begun to feel the effects of the fall in the sterling exchange rate. Household goods began to increase in price from the beginning of 2017, with a commensurate impact on sales volumes. Economic surveys have also pointed to the effect on the sector of an increasing disparity between consumer price inflation and wage rises. As a result, the rate of growth in consumer spending had fallen to pre-2013 levels by the end of the Company's financial year, with a major fall in retail sales occurring during the month immediately following the Company's year-end.

However, these overall movements masked the fact that, as in previous times of economic constraint, the greatest reductions were in non-essentials. Whilst consumers appeared to take an increasingly cautious approach to spending on non-essential items, spending on food and other non-discretionary items was broadly maintained.

Within the overall retail figures, on-line sales continued their steady rate of growth, reaching 17% of all retail sales at the end of September 2017.

Nevertheless, the overall economy continued to benefit from the creation of new jobs and towards the end of the Company's financial year, the unemployment rate reached its lowest level since 1975. The climate of economic uncertainty also affected the UK property investment market, with both investors and property lenders taking an increasingly cautious approach towards the retail sector. Whilst we made good progress with our programme for the disposal of individual properties, a risk averse sentiment amongst investors became increasingly apparent as the year progressed.

Operating Results & Portfolio Performance

The Group made an IFRS loss before tax for the year to 30 September 2017 of £0.86m (or 1.0 pps), compared with a profit of £0.63m (0.76 pps) for the year to 30 September 2016. The loss for the Group primarily reflects the loss on disposal of properties, resulting from prices achieved at a discount to valuation and the transaction costs incurred.

The portfolio achieved gross rental income for the year of £6.02m (2016: £6.99m). This reduction principally reflected the sale of property assets during the year.

At 30 September 2017 the portfolio comprised 182 properties, producing an annual gross rental income, after deducting head rent payments, of £5.00m (30 September 2016: 327 properties; annual rental income £6.99m). The portfolio included 742 letting units (30 September 2016: 1,014 letting units). Over the year like-for-like net rental income rose by 0.7% and the portfolio Market Rent rose on a like-for-like basis by 3.8%. Net rental income is equal to gross rental income less property operating expenses.

Further details of operating performance are given in the Finance Review.

Property Sales

During the year sales were completed on a further 142 properties at a combined gross sale price of £19.29m, which was 1.9% under the aggregate of the valuations at the time the properties went under offer. Transaction costs for the sales were 4.7% of the prices achieved, reflecting the higher frictional costs of selling smaller lots. As a result, the net loss on sales after transaction costs was 6.6%.

Since the year end, a further 15 transactions have exchanged or completed at an aggregate gross consideration of £2.0m, exceeding the targets for December 2017 set out in the *Roadmap for Property Disposals*.

At the date of this report we have sold 67.0% by value of the portfolio as it stood when shareholders approved the revised investment strategy in July 2013. This has involved the sale of 497 properties representing £115.8m in aggregate value, via 245 transactions.

Revaluation

The profit before tax reflected the movement in fair value of the property portfolio, which was valued at £55.46m at 30 September 2017 (30 September 2016: £75.3m). The movement during the period reflected both property disposals and value movements within the ongoing portfolio. On a like-for-like basis (excluding the value of properties disposed of during the year), the portfolio reduced in value by 0.10%, from £55.52m to £55.46m.

The investment property portfolio valuation as at 30 September 2017 reflected an Equivalent Yield (excluding the residential element) of 9.47% (30 September 2016, like-for-like: 9.49%).

Strategic Report

Operating Review continued

Investment Property Portfolio as at 30 September 2017

Value	£55.46m
Initial Yield ("IY")	8.54%
Reversionary Yield ("RY")	9.90%
Equivalent Yield ("EY")	9.47%
Rent per annum*	£5.00m
Market Rent per annum*	£5.55m

*Net of head rents payable.

Value Range	No. of Properties	Value £m	Equivalent Yield %
£0 – £100k	59	4.05	10.4
£101k – £200k	45	6.78	9.4
£201k – £500k	57	18.10	9.6
£501k – £1m	12	8.77	10.5
£1m – £3m	8	14.56	9.0
£3m +	1	3.20	6.6
Total	182	55.46	9.5

All yields quoted exclude the residential element which is valued at a discount to vacant possession value.

Regional variations for Market Rents and yields across the portfolio are illustrated by the table below:

Region	30 September 2017 Equivalent Yield %	30 September 2016 Equivalent Yield % (like-for-like)	Change bps
East Anglia	**12.4**	11.3	+111
London	**6.2**	5.9	+30
South East	**8.7**	8.5	+25
South West	**9.4**	9.3	+15
West Midlands	**10.5**	10.4	+11
Wales	**10.8**	11.7	-82
Yorkshire & Humberside	**10.4**	10.4	0
East Midlands	**9.1**	8.8	+33
North	**11.0**	10.8	+23
Scotland	**11.2**	10.2	+94
North West	**9.7**	10.4	-62

Asset Management

The table below summarises asset management activity during the year:

	Number	Aggregate Rent	Premium/ (discount) to ERV
Commercial property lettings:	45	371,000	0.8%
Lease renewals:	22	216,000	(0.5%)
Rent reviews (open market and fixed):	6	77,000	(0.5%)
		Aggregate Market Rent	Void Rate
Vacant properties:			
30 September 2017		727,000	12.9%
30 September 2016		825,000	10.9%
Change		-98,000	+2.0%
Deposits held for commercial units, % of quarterly rent roll			36%

Finance Review

The financial statements contained in this report have been prepared in accordance with International Reporting Standards ("IFRS"). In recognition of the terms applying to auction sales, it was decided during the year to recognise the sale of properties by way of auction at the date of the auction, rather than at completion of the sale, whilst providing for related fees in calculating gains or losses on disposal. Other than this, no new accounting policies were adopted during the year.

Result

The Group recorded an IFRS loss for the financial year of £0.86m, or 1.0 pps (2016: profit £0.63m, or 0.8 pps).

Key Performance Indicators

In addition to the property specific indicators described in the Operating Review, the following financial key performance indicators are monitored by the directors:

	30 September 2017	30 September 2016
Group interest cover	505%	182%
Group Loan to value (LTV) ratio	36.5%	52.5%
NAV per share	42p	43p
Gearing (net of cash held)	58%	111%
Adjusted operating profit	£1.26m	£1.53m
Adjusted operating profit per share	1.52p	1.85p

Adjusted Operating Profit

In order to measure operational performance, the Board monitors Adjusted Operating Profit. This measure excludes realised and unrealised gains and losses on investment properties and expenditure items that the Board considers to be of a non-recurring nature or not in line with the trading activities of the Group, as set out in the table below. The Adjusted Operating Profit was £1.26m, or 1.5 pps (2016: £1.53m, or 1.9 pps).

A reconciliation of the profit before tax to the adjusted operating profit is set out in the table below:

	30 September 2017 £000	30 September 2016 £000
(Loss)/Profit before tax (IFRS)	(858)	631
Movement in the fair value of the portfolio	689	1,073
Movement in the fair value of the interest rate swaps held	–	(2,294)
Swap termination charge	–	1,758
Loss on disposal of properties	1,298	199
Non-recurring expenditure	128	162
Adjusted Operating Profit	1,257	1,529

Non-recurring expenditure in 2017 relates to the costs incurred of the General Meeting, requisitioned by a shareholder, which was held in December 2016. In 2016, the non-recurring expenditure related to sales and marketing costs for an abortive corporate transaction.

Property Operating Expenses

Property operating expenses were £1.97m (2016: £1.86m). The increase primarily reflected the fact that insurance costs were unusually low in the prior year due to a correction of an over-provision. In addition, the accelerated property sales programme during the year increased property operating expenditure as a result of higher abortive sales costs.

Further detail of property operating expenses are contained in note 2 to the financial statements.

Administrative Expenses

Administrative expenses were £1.74m during the period (2016: £1.71m). Further detail of administration expenses is contained in note 4 to the financial statements.

Net Asset Value ("NAV")

During the period NAV fell to £34.79m or 42p per share, based on 82.5 million shares in issue, excluding those held in Treasury (30 September 2016: £35.55m, 43p per share).

As at 30 September 2017 the Group held £10.5m of cash (30 September 2016: £11.0m).

As at 30 September 2017 the amount outstanding on the Group's banking facilities was £30.9m (30 September 2016: £50.8m).

For the Group as a whole Allsop LLP, a firm of independent chartered surveyors, valued the Group's property portfolio at 30 September 2017, 31 March 2017, 30 September 2016 and 31 March 2016. On each of these dates Allsop LLP performed a full valuation of 25% of the Group's properties (including site inspections) and a desktop valuation of the remainder, such that all properties owned by the Group have been inspected and valued over the two-year period. The valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards on the basis of market value. Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Strategic Report

Finance Review continued

Financing

Throughout the year, the Group operated using the loan facilities provided by HSBC Bank plc ("HSBC").

On 21 November 2016 the Group agreed with HSBC to extend the term of the Group's two cross-collateralised loan facilities by an additional 20 months so that they expire on 31 December 2019. As part of the revised terms the balance of the loans was reduced by £7m on 30 November 2016, through the release of cash held by the Company (derived from the sale of properties and operational income).

Under the terms of the extended loan facilities, the interest margin remains at 2% above 3-month LIBOR. An arrangement fee of 0.5% was paid on the outstanding balance of the loans extended, and further property assets valued at £1m were added to the existing security pool. The loan to value ratio default covenant is 70%, the cash sweep covenant is 65% and the income cover ratio covenant is 120%.

The proceeds of sales of properties within the security pool (net of sales costs) are applied to reducing the balance of the loans.

The facilities as at 30 September 2017 are set out below:

Loan	Facility £m	Amount Outstanding £m	Default ICR Covenant	Margin	Default LTV Covenant	Amortisation	Expiry Date
NOS 4	45.7	31.6	120%	2% above 3-month LIBOR	70.0%	1.0% pq for 2 years, 0.25% pq thereafter (until the loan balance falls below £36m)	31 December 2019
NOS 6	19.4	0.0					
Total	**65.1**	**31.6**					

No other material changes have been made to the pre-existing loan agreements.

On each quarterly interest payment date, the loan facilities are subject to actual and forecast interest cover tests. At each testing date during the period the loans were determined to be compliant. The ICR covenant required for the combined loan facility is listed below (each reporting period includes an actual and forecast ratio).

Loan	Actual & Forecast ICR Covenant	Actual ICR quarter ended 30 September 2017	Forecast ICR quarter ended 30 September 2017
HSBC	120%	**489.5%**	**473.8%**

For the financial year ended 30 September 2017, the Group's average cost of debt, including margin and amortisation of debt arrangement fees, was 2.8% (2016: 3.8%).

At 30 September 2017, the Group held property assets valued at £0.85m with no debt secured against them (30 September 2016: £4.2m), together with cash of £10.5m (30 September 2016: £11.0m).

Since the year end, the Group has utilised £7.4m of cash in order to facilitate the release of £6.1m of property from the HSBC loan security pool. All cash utilised was from accounts under the control of HSBC, primarily the result of asset sales. As a result, the Group's liquidity has been enhanced whilst simultaneously reducing future financing costs. The Group now holds property assets valued at £6.9m with no debt secured against them whilst retaining sufficient cash to cover working capital requirements.

Taxation

The Group continued to operate as a UK REIT throughout the year, under which any profits and gains from the property investment business are exempt from Corporation Tax provided certain conditions continue to be met. The Group fulfilled the UK REIT conditions during the year.

Dividend

In line with the Company's current dividend distribution policy no dividend will be paid. The Board will continue to review the dividend policy in line with progress with the investment strategy.

Corporate Responsibility

During the year we continued to focus on the three principal contributors to the success of our business:

- the talent and commitment of our management team;
- our relationships with national and local advisers, partners and clients; and
- the well-being of the businesses that occupy our properties and the communities in which they operate.

The Company's asset management and accounts team are employed by our investment adviser, INTERNOS.

During the year, we have continued to work closely with national and local agents and other partners in the context of our property sales programme, as well as the ongoing maintenance and occupation of our properties. We are conscious that our ability to operate effectively rests on our reputation for fairness and a straightforward and honest approach to conducting business.

We therefore strive to transact business in accordance with the highest professional standards and all those who act on our behalf are expected to do the same. Besides complying with all relevant legislation and professional guidelines, this includes customer care and external complaint procedures. Our arrangements with INTERNOS, which is regulated by the Financial Conduct Authority, include the provision of all applicable compliance procedures.

We have considered whether it is appropriate to report on relevant human rights issues. In the context of our investment strategy, and we do not believe that the provision of detailed information in this area would provide any meaningful enhancement to the understanding of the performance of our business. However, we are confident that our approach to doing business does not contravene human rights principles or applicable legislation.

Our approach to corporate responsibility matters is underpinned by a whistle-blowing procedure, enabling perceived irregularities to be notified to members of the Board, principally the senior independent non-executive director.

Employees

The Company had one employee during the year, engaged on a contract which terminated in the first half of the year.

Health, Safety and Welfare

Subject to the overriding responsibilities held by the directors, INTERNOS is responsible for ensuring that the Company discharges its obligations for health, safety and welfare, including matters delegated to the Company's managing agents and other contractors. We are pleased with the priority that INTERNOS accords to this area, particularly in respect of the welfare of those engaged on the Company's activities. We note also that our property managers and contractors continue to be required to ensure that property management, maintenance and construction activities conform to all relevant regulations and that due consideration is given to the welfare of occupants and neighbours. Our managing agents, instructed by INTERNOS, undertake regular checks of gas and electrical installations within the residential elements of our portfolio in conformance with regulatory requirements, and address reported items for improvement. Risk assessments are in place covering fire safety and general health and safety matters for relevant multi-occupancy sites, and during the year our managing agents carried out an additional review of our compliance with fire safety requirements.

Community and Partnerships

We continue to take seriously our involvement in local communities as an owner of local property assets and we seek to deal constructively with all stakeholders in relation to any community issues that arise. On a day-to-day basis we prefer to use local advisers, agents and contractors whenever appropriate to do so.

Environment

We believe that our local asset investment model is by its nature supportive of reducing the carbon impact of retail shopping. To the extent that we undertake development activity, this is to return to profitable use redundant space that would otherwise remain vacant, potentially relieving development pressure elsewhere, including on greenfield sites. Construction is carried out in accordance with applicable energy and resource saving standards, noise impact reduction requirements, and, where relevant, the need to preserve the character of buildings, including listed properties. We continue to use local agents and contractors wherever possible. Our contractors are required to dispose of waste in accordance with best practice.

Our Governance

Board of Directors

Stephen East

Independent Non-Executive Chairman, aged 59

Stephen East joined the Board in September 2009, becoming Chairman of the Company in 2014. He previously served as Finance Director of MEPC plc and as Finance Director of Woolworth Group plc. He serves on the board of Genesis Housing Association and he has previously held non-executive appointments with Regus Group plc, Star Energy Group plc, CQS Diversified Fund Limited, Marwyn Asset Management Partners plc and Snoozebox Holdings plc. Stephen is a Chartered Accountant and a Fellow of the Association of Corporate Treasurers. Stephen also chaired the Remuneration Committee during the year and he serves on the Audit Committee and Nomination Committee.

Nicholas Vetch

Senior Independent Non-Executive Director, aged 56

Nick Vetch trained as a Chartered Surveyor before becoming Chief Executive of Edge Properties which he founded in 1989. In 1998 he founded Big Yellow Group PLC, of which he is Executive Chairman. He has previously been a non-executive director of Blue Self Storage SL, which operates in Spain. Nick chaired the Audit Committee during the year and also serves on the Remuneration Committee and Nomination Committee.

Brett Miller

Independent Non-Executive Director, aged 49

Brett Miller graduated from the University of the Witwatersrand with a bachelor's degree majoring in Law and Economics, subsequently relocating to the UK, where he gained a Law degree from the London School of Economics. He qualified as a solicitor and practised law until December 1997. He is currently an executive director of Damille Partners Limited and Damille Investments II Limited. He is also a non-executive director of M&L Capital Management Global Fund ICAV, M&L Property & Assets plc, Manchester and London Investment Trust plc and EIH plc. He serves on the Audit Committee and Remuneration Committee.

William Heaney

Non-Executive Director

Appointed 10 November 2016, resigned 8 December 2016.

Company Secretary

William Heaney

Corporate Governance

The Company is subject to, and complies with, the Listing Rules and the Disclosure & Transparency Rules of the Financial Conduct Authority. During the year the Company was also subject to the UK Corporate Governance Code 2016 promulgated by the Financial Reporting Council (the "Code"). This Report sets out the ways in which the Company applies the Main Principles of the Code. Subject to matters set out below, the directors consider that the Company complies with all provisions of the Code to the extent to which they apply to companies outside the FTSE 350.

Board Responsibilities and Operation

The Company is led by the Board, which is responsible for determining the strategy of the business and its effective stewardship. All major strategic and investment decisions are taken by the Board as a whole. There is a formal schedule of items reserved for consideration by the Board. The Board meets regularly to review the Company's operations and progress with its strategy. The Board held eight meetings during the year. Each scheduled Board meeting has a formal agenda. All material aspects of the business are reviewed on a regular basis, with key items highlighted, to enable the Board to monitor the Company's well-being and progress. These include progress with the investment strategy, portfolio performance and asset management, together with finance, business development and health, safety and welfare and environmental matters. Risk management and controls are reviewed in the light of advice from the Audit Committee and the external Auditors. In consultation with the Board and committee Chairmen, the Company Secretary ensures that all directors receive relevant reports and papers prior to each meeting. Additional meetings and discussions are arranged outside the Board's regular schedule as necessary and the directors are in regular liaison outside formal meetings.

During the year the relevant executives of the Company's investment adviser INTERNOS, to whom the Board delegated day-to-day operational management, consulted the directors on a regular basis. The directors also make themselves available to provide advice to the management team.

The division of responsibilities between the executive team and the non-executive directors is clearly defined and recorded via the Company's investment advisory agreement with INTERNOS. The Chairman is charged with responsibility for corporate governance and effective leadership of the Board and INTERNOS is responsible to the Board for the executive management of the business. The Board also benefits from the expertise of INTERNOS in the wider property investment market, regulatory compliance and banking.

The Chairman is responsible for ensuring that due consideration is given to key items of business. The senior independent director provides a separate communication channel for shareholders and other interested parties, and has a remit under the Company's "whistle-blowing" arrangements.

The responsibilities of each non-executive director are set out clearly in his letter of appointment, which is available for inspection by members at the Company's registered office during normal office hours. All directors ensure that they provide sufficient time to fulfil their obligations. All directors have access to the advice and services of the Company Secretary, and there is an agreed procedure whereby directors can take independent professional advice at the Company's expense.

Board Composition

Biographical details for each of the directors as at the date of this report, including their membership of the Board's committees, are set out on the preceding page. Stephen East and Nicholas Vetch held office throughout the year to 30 September 2017. William Heaney held office as a non-executive director from 10 November to 8 December 2016. Brett Miller joined the Board on 12 December 2017.

From 1 October 2016 to 10 November 2016 the Board comprised an independent non-executive Chairman and one further independent non-executive director (who was also the senior independent non-executive director). From 10 November 2016 the Board comprised an independent non-executive Chairman and two further independent non-executive directors (one of whom was also the senior independent non-executive director). No executive directors held office and non-executive directors were in the majority throughout the year.

Having considered the criteria set out in the Code and the character and attributes of each individual, the Board considers each of its non-executive directors (Stephen East, Brett Miller and Nicholas Vetch) to be independent within the spirit of the Code and that no individual or group can dominate decision-making.

The Company's Articles of Association require any director appointed to the Board during the year to be reappointed at the next Annual General Meeting. Under the Articles, all directors are, as a minimum, subject to retirement and re-election at every third Annual General Meeting following their initial election. However, in 2012 the Board adopted a best-practice policy whereby each director resigns and may offer himself or herself for re-election at each Annual General Meeting, even though this is not a strict requirement for companies outside the FTSE 350. This policy was applied at the 2017 Annual General Meeting, when all directors then holding office were reappointed.

Corporate Governance continued

Board Committees

The Board has established Audit, Remuneration and Nomination Committees. The minutes of each committee meeting are circulated to the Board as a whole. Each committee operates within terms of reference determined by the Board having regard to independent external guidance. Terms of reference for each committee are available on the Company's website www.localshoppingreit.co.uk. The work of the committees is described below.

Nomination Committee

The composition of the Nomination Committee is determined by the Board as the need for it to meet arises. The Committee comprises a minimum of two directors, the majority of whom must be independent non-executive directors. The Committee is responsible for approving all director appointments and is responsible for ensuring that the required standards of skills, experience and stewardship ability are met. In appointing new directors, the Committee and the Board consider advice from external professional consultants. The Committee has formal terms of reference approved by the Board and is chaired by the Company's senior independent non-executive director. The Committee met twice during the year.

Audit Committee

The Audit Committee comprises the Board's independent non-executive directors, Stephen East, Brett Miller and Nick Vetch, and is chaired by Mr Vetch. The Board considers Mr Vetch to have the requisite skills and experience to chair the Committee. The Company Secretary acts as secretary to the Committee. The Committee's responsibilities include:

- monitoring the integrity of the Company's financial statements and formal announcements relating to its financial performance and reviewing significant financial reporting judgements contained in them (subject to the Board's overall responsibility for reviewing and approving the annual directors' report and financial statements);
- reviewing the adequacy and effectiveness of the Company's internal financial controls, internal control and risk management systems, fraud detection, regulatory compliance and whistle-blowing arrangements;
- making recommendations to the Board for the approval of shareholders on the appointment, re-engagement or removal of the external Auditors and approving the Auditors' terms of engagement and remuneration;
- overseeing the Company's relationship with the external Auditors, reviewing and monitoring the Auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration UK professional and regulatory requirements;
- approving the annual audit plan and reviewing the Auditors' findings and the effectiveness of the audit programme;
- developing and implementing policy on the engagement of the external Auditors to supply non-audit services, taking account of relevant ethical guidance, and making recommendations to the Board in respect of any action or improvement that may be needed;
- reporting to the Board on how the Committee has discharged its activities.

The Committee met four times during the year. The report of the Audit Committee can be found on page 24.

Other members of the Board may attend the Committee's meetings by invitation. Representatives of the Company's Auditors, KPMG LLP ("KPMG"), also attend the Committee's meetings and the Committee's Chairman also holds discussions with the Auditors in the absence of the management team. KPMG LLP have provided the directors with written confirmation of their independence.

The Committee continues to consider that the Company's size and activities do not warrant the establishment of an internal audit function.

Remuneration Committee

Full details of the membership of the Remuneration Committee and the Company's remuneration policy are set out in the Remuneration Report, which can be found on page 20. The Committee met twice during the year.

Attendance

Each member's attendance record at Board and Committee meetings is set out in the table below:

Director	Board	Audit	Remuneration	Nomination
Stephen East	8	4	2	2
William Heaney*	3	n/a	n/a	n/a
Brett Miller†	3	3	–	–
Nick Vetch	8	4	2	2

* Appointed 10 November 2016, resigned 8 December 2016.

† Appointed 12 December 2016.

Performance Evaluation of the Board and its Committees

The membership, remits and operations of the Board and its Committees are subject to annual evaluation, a process led by the senior independent director supported by the Company Secretary.

Directors' interests in contracts

During the year:

1. The Company had a contract with INTERNOS Global Investors Limited, with whom William Heaney, who was a director of the Company between 10 November and 8 December 2016, has a contractual relationship. Jonathan Short and Rupert Wallman, who are executives of INTERNOS Global Investors Limited, hold office as directors of the Company's operating subsidiaries and during October/November 2016 Rupert Wallman was engaged by the Company, though not as a director. Subject to this, no director had any material interest in any contract or arrangement with any company within the Group.
2. No director had any beneficial interest in any subsidiaries of the Company.

The interests of the directors who held office during the year in the issued share capital of the Company as at the date of this report, all of which were beneficial, are set out below:

	Ordinary 20p Shares	
Director	**2017**	2016
Stephen East	**75,000**	75,000
William Heaney*	**58,182**	38,182
Brett Miller†	**517,890**	517,890
Nicholas Vetch	**2,873,563**	2,873,563

* Appointed 10 November 2016, resigned 8 December 2016.

† Appointed 12 December 2016.

Brett Miller is a director of Damille Investments II Limited and holds an indirect interest of 2.83% in that company. Damille Investments II Limited holds 18,300,000 shares in the Company.

During his period of office Mr Heaney was interested in The Local Shopping REIT plc Employee & Former Employee Incentive Scheme 2016. Details of the scheme are set out in the Remuneration Report.

The Company's Articles of Association provide a framework for directors to report actual or potential situational conflicts, enabling the Board to give such situational conflicts appropriate and early consideration. All directors are aware of the importance of consulting the Company Secretary regarding possible situational conflicts.

Directors' Indemnities and Insurance Cover

To the extent permitted by law, the Company indemnifies its directors and officers against claims arising from their acts and omissions related to their office. In accordance with the Code, the Company also maintains an insurance policy in respect of claims against directors.

Directors' Performance Appraisal

During the year, the non-executive directors provide feedback on the performance of the management team within the terms of the investment advisory agreement with INTERNOS.

Director Induction

Arrangements are made to provide new directors with an induction programme into the Company's activities. Non-executive directors visit the Company's offices between formal meetings and discuss the Company's activities with members of the management team on an informal basis. The asset management team is pleased to arrange for directors to inspect investment properties.

Corporate Governance continued

Principal Risks and Uncertainties

The directors recognise that commercial activities invariably involve an element of risk. The directors recognise that a number of the risks to which the business is exposed, such as the condition of the UK domestic economy and sentiment in the UK property market, are beyond the Company's influence. However, such risk areas are monitored and appropriate mitigating action, such as reviewing the substance and timing of the Company's operational plans, is taken in response to significant changes. The Audit Committee considers the risk areas the Company is exposed to in the light of prevailing economic conditions and the risk areas set out in this section are subject to review. The approach to risk management takes account of the investment strategy adopted by shareholders in July 2013. In relation to asset management it reflects the Company's granular business model and position in the market and involves the expertise of its fund management team and third party advisers. The management team evaluates each investment, disinvestment and asset management decision on its own merits within the Company's overall investment policy. Operational progress and key investment and disposal decisions are considered in regular management team meetings as well as being subject to informal peer review.

Higher level risks and financial exposures are subject to constant monitoring. Major investment and disposal decisions are subject to review by non-executive directors in accordance with a protocol set by the Board. This approach is adopted for large portfolio sales, proposals for which are considered carefully by the Board.

Potential Risk	Impact	Mitigation
Property Portfolio Performance		
Effect on tenants of downturn in macroeconomic environment	• Tenant defaults • Reduced rental income • Increased void costs • Reduction in Net Asset Value and realisation value of assets	• Actual and prospective voids and rental arrears continually monitored. • Early identification of / discussions with tenants in difficulties • Regular review of all properties for lease terminations and tenant risk, with early action to take control of units when appropriate • Limited requirement for tenant incentives within sub-sector • Close liaison with local agents enables swift decisions on individual properties • Tendency of small traders to take early action in response to economic conditions • Diverse tenant base • Sustainable location and property use
Higher than anticipated property maintenance costs	• Costs not matched by income streams and/or improvement in property value	• All material expenditure subject to authorisation regime • Capital expenditure subject to regular review
Changes to legal environment, planning law or local planning policy	• Adverse impact on portfolio • Loss of development opportunity • Reduction in realisation value of assets	• Monitoring of UK property environment and regulatory proposals • Close liaison with agents and advisers • Membership of and dialogue with relevant industry bodies
Failure to comply with regulatory requirements in connection with property portfolio, including health, safety and environmental	• Tenant and third party claims resulting in financial loss • Reputational damage	• Guidance on regulatory requirements provided by managing agents and professional advisers • Individual properties monitored by asset managers and agents • Managing agents operate formal regulatory certification process for residential accommodation • Ongoing programme of risk assessments for key multi-tenanted sites • Key risks covered by insurance policies

Corporate Governance & Management		
Non-availability of information technology systems or failure of data security	• Impact on operations and reporting ability • Financial claims arising from leak of confidential information	• Provision by investment adviser of effective security regime with automatic off-site data and systems back-up
Financial and property market conditions	• Insufficient finance available at acceptable rates to fulfil business plans • Inability to execute investment property disposal strategy owing to fall in property market values • Financial impact of debt interest • Breach of banking covenants	• Debt facilities in place • Reducing finance risks resulting from property disposal programme • Impact of interest rates on property yields monitored and investment/disposal policy adjusted accordingly

Internal Governance

The directors recognise that the Company's ability to operate successfully is largely dependent on the maintenance of its straightforward approach to doing business and its reputation for integrity. All those who act on the Company's behalf are therefore required to behave and transact business in accordance with the highest professional standards. This includes compliance with the requirements of the Market Abuse Regulations, Anti-Money Laundering Regulations, the Data Protection Act and the Bribery Act, as well as customer care and external complaint guidelines. The Company has adopted a Code, Policy and procedures under the Market Abuse Regulations. The Company's arrangements with INTERNOS, which is regulated by the Financial Conduct Authority, include the provision of all applicable compliance procedures. The directors are satisfied that the governance procedures adopted by INTERNOS in relation to its clients are appropriate and protect the Company's interests. The Company's corporate governance regime is underpinned by a whistle-blowing procedure, enabling perceived irregularities to be notified to members of the Board, principally the senior independent non-executive director.

Internal Controls

The Board has overall responsibility for the Company's internal control system and for monitoring its effectiveness. The Board's approach is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable assurance against material misstatements or loss. The directors do not believe that it is appropriate to establish a separate internal audit function, having regard to the Company's size. The Board has examined and is satisfied that the control processes adopted by INTERNOS are appropriate to the Company's business. The Board's approach to internal controls covers all companies within the Group and there are no associate or joint venture entities which it does not cover.

A summary of the principal risks to which the business is exposed may be found on page 14. The principal foundations of the Company's internal control framework are:

- statements of areas of responsibility reserved to the Board and its committees, with prescribed limits to executive authority to commit to expenditure and borrowing;
- effective committee structure with terms of reference and reporting arrangements to the Board;
- clear remits for the delegation of executive direction and internal operational management functions, set out in the investment advisory agreement with INTERNOS;
- framework for independent directors to provide advice and support to executives on an individual basis;
- top-level risk identification, evaluation and management framework monitored by the Audit Committee;
- effective systems for authorising capital expenditure and significant revenue items and monitoring actual cost incurred;
- regular reporting to the Board of operational activity and results against expectations with commentary on variances;
- regular review of operational forecasts and consideration by the Board on a quarterly basis;
- regular review of the Company's funding requirements against the status of the financial markets; and
- quarterly reporting to the Board of health, safety and environmental matters.

As part of its half-year and year-end activities, the Board reviews the effectiveness of the Company's risk management systems against the principal risks facing the business and their associated mitigating factors, taking account of the findings and recommendations of the Auditors. Following its review of the Auditors' findings during 2016–17, including the control framework established by INTERNOS, the Board considers that the Company's approach is acceptable.

Corporate Governance continued

Investor Relations

The directors place considerable emphasis on effective communications with the Company's investors. Directors are happy to comply with shareholder requests for meetings as soon as practicable, subject to regulatory constraints. The Board is provided with feedback on these meetings, as well as regular commentary from investors and the Company's bankers and advisers. The Board provides reports and other announcements via the regulatory news service in accordance with regulatory requirements. Regulatory announcements and key publications can also be accessed via the Company's website. The Company's Annual General Meeting provides a further forum for investors to discuss the Company's progress and the Board encourages shareholders to attend. The Company complies with relevant regulatory requirements, and also the UK Corporate Governance Code, in relation to convening the meeting, its conduct and the announcement of voting on resolutions. The Annual Report and Notice of the Annual General Meeting are sent to shareholders at least 20 working days prior to the meeting and are available on the Company's website. The results of resolutions considered at the Annual General Meeting are announced to the Stock Exchange and are also published on the website and lodged with the National Storage Mechanism. Investors may elect to receive communications from the Company in electronic form and be advised by email that communications may be accessed via the Company's website.

Acquisitions and Disposals

The Group made no material acquisitions during the year.

During the year, the Company continued to sell properties in accordance with its investment policy, details of which are given on the inside front cover of this document.

Group Companies

The subsidiary undertakings of the Company are set out in note 21 to the financial statements.

Group Result and Dividend

The loss for the Group attributable to shareholders for the year was £0.86m (2016: profit £0.63m). The Adjusted Operating Profit for the year was 1.5p per share (2016: 1.9p). The definition of Adjusted Operating Profit is set out in the glossary of terms at the end of the Report. In accordance with the revised investment policy, no interim dividend has been or will be distributed in respect of the financial year. The directors will keep the dividend distribution policy under review.

Use of financial instruments

The Company did not utilise financial instruments during the year.

Share Capital

Details of the Company's issued share capital are set out in note 13 to the financial statements. All of the Company's issued shares are listed on the London Stock Exchange. The Company's share capital comprises one class of Ordinary Shares of 20p each. All issued shares are fully paid up and rank equally. Shares acquired through the Company's employee share schemes rank pari passu with shares in issue and no shares carry special rights regarding control of the Company. The Company's Articles impose requirements on shareholders in relation to distributions and the size of individual holdings, in order to ensure that the Company continues to conform to the UK REIT regime. Subject to this, there are no restrictions on the transfer of shares or the size of holdings. A description of arrangements for The Local Shopping REIT plc Employee Benefit Trust to supply shares to meet obligations arising from the Company's employee share schemes is set out in the Employee Share Schemes section, below. The directors are not aware of any agreements between shareholders in relation to the Company's shares. The Company's issued share capital did not alter during the year.

Transactions in the Company's shares

The Company's previous authority to purchase its own shares was extended at the Annual General Meeting in March 2017, which authorised purchases of up to 14.99% of the Company's issued Ordinary Share capital (excluding shares held in treasury). This authority will expire at the 2018 Annual General Meeting, at which a resolution will be proposed for its replacement. The directors exercise their authority to purchase the Company's shares only when they consider it in the Company's best interests to do so. No share purchases were made during the year.

The directors are also authorised to offer shareholders the alternative of receiving fully paid Ordinary Shares in lieu of dividends. This authority was not used during the year.

Substantial Interests

As at 30 November 2017, the last practicable reporting date before the production of this document, the Company had been notified of the following major interests (of 3% or more) in its issued share capital:

Shareholder	Ordinary Shares	%
Thalassa Holdings Ltd	21,021,195	25.48
Damille Investments II Limited	18,300,000	22.18
Hargreaves Lansdown Asset Management	5,248,007	6.36
EFG Harris Allday	5,235,753	6.35
N J Vetch	2,873,563	3.48
Value Investments Limited	2,793,500	3.39
Thames River Capital LLP	2,704,324	3.28
Alliance Trust Savings Limited	2,620,405	3.18

Effect of change of control on significant contracts

Funding agreements entered into by certain Group companies require the written approval of the relevant bank before any change can be made to the nature, constitution, management or ownership of the business. The employment contracts of directors do not contain any provisions specifically relating to a change of control. The Company's employee share schemes contain change of control provisions that are considered to be standard for such schemes.

Key Contracts

The Company has in place an agreement with INTERNOS Global Investors Limited ("INTERNOS") to execute the Group's new investment policy and to take responsibility for the management and performance of the Company's investment property portfolio. Details of the investment advisory agreement with INTERNOS, including remuneration arrangements, are contained in note 22 to the financial statements. Details of the Group's continuing loan and banking facility agreements with HSBC Bank plc are set out in the Banking Facilities section of the Finance Review.

Carbon Reporting

Scope

The directors believe that the Company's outsourced business model, which focuses on the employment of agents, advisers and contractors who are local to our property assets, is inherently environmentally friendly. However, the collection of consumption data from such businesses is not practicable. It is also not possible for our national agents and advisers to separately identify such data in relation to the proportion of their work devoted to the Company's activities and it is not possible to measure the energy consumed by the Company's tenants (nor is this consumption within the Company's control). The consumption of water, waste output and greenhouse gases other than CO_2 within the Company's control is negligible.

Accordingly, the scope of the Company's environmental reporting focuses on energy consumed by the Company and its wholly owned subsidiaries through:

- the activities of INTERNOS in relation to the Company's business;
- shared facilities provided by the Company within its property portfolio;
- activities within vacant properties within the Company's control.

Corporate Governance continued

Carbon Emissions Data

In relation to Scope 1 figures (consumption of gas and fuel), it is not possible to separately identify the gas consumed on the Company's activities within the INTERNOS office and the only meaningful data that can be supplied relates entirely to fuel consumed on journeys between our property sites. As we do not have a company car fleet, all such journeys are made in employees' private vehicles or on public transport. We have assessed vehicles used against the categories given on the DEFRA website. As in previous years, the use of hire cars and air flights has been minimal.

The Scope 2 figures incorporate an estimate (on a per desk basis) of the energy consumed in relation to our activities within the London office of INTERNOS, together with consumption in our vacant properties for which we are responsible. This includes any electricity used in relation to development work in the conversion or remodelling of premises, as well as standing charges for electricity connections. Given the granularity of the Company's property portfolio it is not been practicable to separate this element from the amount of electricity actually consumed.

Our direct usage and emissions of water is minimal, being largely confined to hygiene and refreshment purposes within the INTERNOS office. Again, it is not practicable to apportion this for the Company's activities. A small element of utility supply within vacant premises will relate to water and to gas. However, this largely relates to standing charges and consumption is negligible.

	2017 Kg CO_2e	Kg CO_2e per £1m t/o	2016 Kg CO_2e	Kg CO_2e per £1m t/o
Scope 1 (gas and fuel)	1,230	204	1,508	197
Scope 2 (electricity)	10,992	1,826	9,450	1,233
Total gross emissions	12,223		10,958	

Employee Share Schemes

During the year the Company operated The Local Shopping REIT plc Employee & Former Employee Incentive Scheme 2015 and The Local Shopping REIT plc Employee & Former Employee Incentive Scheme 2016, details of which are set out in the Remuneration Report.

The Local Shopping REIT plc Employee Benefit Trust (the "Trust") operates to supply shares as appropriate to meet obligations arising from the Company's employee share schemes. The voting rights of shares held by the Employee Benefit Trust are identical to the remainder of the Company's issued share capital. During the year the Trust supplied 99,846 shares in relation to the exercise of share options (2016: 205,602).

REIT Regime

The Company is subject to the regulatory regime for UK Real Estate Investment Trusts.

Political Donations

During the year the Company made no donations for political purposes (2016: nil).

Amendment of Articles

The Company has no rules in place in relation to the amendment of its Articles in addition to statutory provisions.

Auditors

During the year, on the advice of the Audit Committee in accordance with professional standards, the Company re-tendered its audit engagement. Following this exercise, the Board decided to retain KPMG LLP as the Company's Auditors. However, KPMG LLP resigned its appointment as the Company's tax adviser, in compliance with the regulatory changes for auditors in relation to audit independence. On 24 March 2017 the Company appointed BDO UK LLP to provide tax advisory services.

Viability Statement

In accordance with the UK Corporate Governance Code 2016, the directors have assessed the Company's viability over the coming financial years to 30 September 2019, taking account of:

- likely progress with the execution of the Company's investment strategy;
- the continuation of the Company's current loan finance facilities to 31 December 2019;
- the potential impact of the principal risks and mitigation factors described in the Principal Risks section above.

The directors consider that the period to 30 September 2019 is appropriate for assessing the Company's viability, bearing in mind the Company's investment policy of liquidating the property portfolio, paying down debt and returning surplus funds to shareholders, together with the expiry of the Company's current banking facilities in December 2019. The directors are pursuing a number of approaches for selling down the property portfolio and note that the exact timetable for achieving this is dependent on market conditions. The directors review progress with the investment strategy on a regular basis. The directors note that a number of alternative strategies remain available to the Company, such as selling the Company as a going concern or continuing to trade as a going concern. They will continue to evaluate these, and will make recommendations to shareholders on alternative strategies if appropriate.

The directors' review noted the diversity of the Company's tenant base across retail sectors and its geographical spread around the country, reducing reliance on a few significant tenants or a single region. The directors also note that the Company has conformed to all covenants throughout the year and that the Company's overall loan to value ratio has progressively diminished since the revised investment strategy was adopted in July 2013. The directors have prepared profit and cash flow forecasts for the period to 30 September 2019 which include assumptions on the timing and manner of the disposal of the property portfolio (whilst recognising the inherent uncertainty regarding these assumptions). These forecasts project the Company's funding needs will be comfortably met by its existing banking facilities agreements without any breach of related covenants over the remaining life of the facilities to 31 December 2019. Based on this assessment, the directors have a reasonable expectation that the Company will be able to remain in operation and meet its liabilities as they fall due over the financial years to 30 September 2019. In providing this opinion the directors recognise the possibility that selling down the property portfolio and returning cash to shareholders may be achieved prior to that date. Accordingly, the directors consider it appropriate that the financial statements have been prepared on the going concern basis.

Diversity

The Company qualifies as a medium company in relation to the diversity statements otherwise required under Disclosure and Transparency Rule 7.2 of the Financial Conduct Authority.

Responsibilities Statement

The directors confirm that to the best of their knowledge:

- the report of the directors includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.

Remuneration Report

Remuneration Committee Chairman's Statement

During the year the Remuneration Committee operated in accordance with formal terms of reference set by the Board, within which it has been responsible for:

- determining the broad policy for the remuneration and benefits of the Company's executive directors and senior managers;
- approving the design and performance targets for share-related performance plans for the Company; and
- determining the individual remuneration packages of each director, giving due regard to the provisions and recommendations of the Code and the Listing Rules.

The Committee comprises the Company's independent non-executive directors, Stephen East, Brett Miller and Nick Vetch. The Committee is chaired by Stephen East. Biographical details of the members of the Committee are set out on page 10. The Committee met twice during the year and each member's attendance record is set out in the table on page 12.

Other directors or executives attend meetings of the Committee only by invitation. The Company Secretary serves as secretary to the Committee. The Committee has access to independent remuneration consultants.

Remuneration Policy

This report should be considered bearing in mind that the Company had no employee directors during the year. However, should the Company make relevant appointments in the future, the Company will apply a remuneration policy based on the principles set out below:

- within a competitive market, enabling the recruitment and retention of individuals whose talent matches the entrepreneurial and leadership needs of the business, enabling the Company to fulfil its investment objectives for its shareholders; and
- placing emphasis on performance-related rewards and focusing on incentive targets that are closely aligned with the interests of shareholders.

The Committee is responsible for the operation of the Company's share-related performance plans. Whilst these include the Long Term Incentive Plan and the Share Option Plan, neither of these plans were operated during the year.

The independent non-executive directors engage with INTERNOS with the aim of ensuring that those working on the Company's portfolio, including the Company's former employees, are appropriately incentivised. During the year the Company put in place a share-based retention and incentive plan, The Local Shopping REIT plc Employee & Former Employee Incentive Scheme 2016 ("the 2016 Scheme"), applying to members of the asset management team eligible to participate in such arrangements under the terms of the Company's Employee Benefit Trust. This is a short-term arrangement by which options over the Company's shares are granted subject to vesting criteria linked to the achievement of the Company's investment strategy. The 2016 Scheme replaced a similar scheme, The Local Shopping REIT plc Employee & Former Employee Incentive Scheme 2015 ("the 2015 Scheme"), that operated during the previous year. No option awards vested in either of the schemes during the year.

In the event that the directors consider it to be in shareholders' interests for the Company to directly engage members of staff, including executive directors, the remuneration policy set out in this report will be applied. In applying the remuneration policy, the Committee will use its discretion, within the terms of schemes previously adopted by the Company, to provide a tailored mix of benefits that encourages individuals to maximise their efforts in the best interests of shareholders. In particular, the remuneration policy would be subject to any special considerations that may arise in relation to the execution of the Company's revised investment policy.

Director Appointments

Under the Company's Articles one-third of the directors are subject to retirement at each Annual General Meeting. However, recognising the best practice provisions of the UK Corporate Governance Code, the Board has implemented a policy for directors to be subject to re-election at each Annual General Meeting. Stephen East and Nick Vetch were re-appointed pursuant to this policy at the Company's Annual General Meeting in March 2017.

Additionally, the Articles require that director appointments made by the Board directors are ratified at the subsequent General Meeting of the Company. Brett Miller was re-appointed under this provision at the Company's Annual General Meeting in March 2017.

For non-executive directors, the Company's policy is for initial appointments to be for a term of 12 months, subject to extension by periods of 12 months thereafter and also subject at any time to termination on notice by the Company or the director. This policy is reflected in the terms of the formal appointment document which is in place for each non-executive director, which also sets out the expected time commitment of the non-executive directors to the Company's affairs.

For executive directors, the Company's policy is for service contracts to be capable of termination by the Company at not more than one year's notice.

See Table 2 on page 22.

Non-Executive Pay

The Company's policy is for reviews of non-executive remuneration to be conducted by independent consultants commissioned by the Company Secretary and for such reviews to take place every three years. However, given the Company's changed circumstances, the Board has not considered it appropriate to review non-executive pay and the level of non-executive pay has not changed since the Company's flotation in May 2007.

Payments on Loss of Office

The Company's policy on payments to directors on loss of office, in the absence of a breach of contract or other misconduct by the director, is to seek agreement to a termination settlement based on the value of base salary and contractual entitlements that would have applied to the director during his or her contractual notice period. The Remuneration Committee will determine the extent to which it is in the Company's best interests for the director to work during his or her notice period, or (to the extent permissible under his or her contract) to be required not to undertake duties or attend at the Company's premises or receive a payment in lieu of notice. The Committee may seek to require mitigation where it appears to it that it is reasonable in all the circumstances to do so.

Should it appear to the Company that the director may pursue a claim against the Company in respect of a breach of employment rights in addition to his or her contractual entitlement, the Committee may authorise settlement terms with the director that it considers to be reasonable in all the circumstances and in the best interests of the Company.

Shareholder Approval

A resolution concerning shareholder approval of the implementation of the Company's remuneration policy, as described in the Remuneration Implementation Report, below, will be put to the Company's Annual General Meeting in March 2018.

Remuneration Implementation Report

This section sets out the ways in which the Company applied its remuneration policy during 2016–17.

The level of fees paid to non-executive directors was set at the time of the Company's admission to the Official List of the London Stock Exchange in 2007, having regard to market levels at that time. The level of remuneration for non-executive directors, which is set out in the table below, did not change during the year.

At the Company's 2017 Annual General Meeting shareholders passed resolutions approving the Remuneration Policy and the Remuneration Implementation Report for 2015–16. Proxy votes for the resolutions showed a majority of 99.85% of votes cast in favour of the Remuneration Policy and 100% in favour of the Remuneration Implementation Report.

Directors' Contracts and Terms of Appointment

Nick Vetch has an appointment document dated 30 March 2007, subject to annual extensions. Stephen East has an appointment document dated 9 September 2009, subject to annual extensions. William Heaney did not have a separate appointment document during the period of his appointment as a director of the Company. Brett Miller has an appointment document effective from 12 December 2016, subject to annual extensions.

Copies of the directors' service agreements are kept at the Company's registered office, where they are available for inspection by shareholders during usual business hours on weekdays.

Remuneration Report continued

Investor Commentary

During the year the Company did not receive any communications from shareholders specifically regarding directors' pay.

Only the tables in this report are considered to comprise audited information.

Table 1: Directors' Total Remuneration 2016–17

Non-executive directors	Salary	Short-term incentives	Long-term incentives	Pension contributions	Benefits in kind	Total
Stephen East	30,000	–	–	–	–	30,000
William Heaney*	6,318	–	–	–	–	6,318
Brett Miller†	24,113	–	–	–	–	24,113
Nick Vetch	30,000	–	–	–	–	30,000
Total	90,431	–	–	–	–	90,431

* Appointed as a director 10 November 2016, resigned as a director 8 December 2016.

† Appointed as a director 12 December 2016.

William Heaney was appointed as a director of the Company on 10 November 2016 and resigned as such a director on 8 December 2016. Mr Heaney received no remuneration in relation to his appointment as a director and the figure disclosed for Mr Heaney relates solely to his remuneration in respect of other qualifying services (within the meaning of paragraph 44 of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008) performed by Mr Heaney during the period of his appointment as a director, including his services as Company Secretary. Mr Heaney was granted an award pursuant to The Local Shopping REIT plc Employee & Former Employee Incentive Scheme 2016 prior to his appointment as a director of the Company. Further details of this award are set out under the heading "Scheme interests awarded during the financial year".

Other than the new entries for Mr Heaney and Mr Miller, the figures in the above table were unchanged from 2016.

Table 2: Directors' Service Contracts

Non-executive directors	Date of initial appointment	Date of current appointment letter	Expiry of term
Stephen East	10 September 2009	10 September 2017	9 September 2018
William Heaney*	N/A	N/A	N/A
Brett Miller†	12 December 2016	12 December 2016	12 December 2017
Nick Vetch	30 March 2007	30 March 2017	29 March 2018

* Appointed as a director 10 November 2016, resigned as a director 8 December 2016.

† Appointed as a director 12 December 2016.

Scheme interests awarded during the financial year

The table below provides details of the scheme interest awarded during the year. The scheme interest was awarded pursuant to The Local Shopping REIT plc Employee & Former Employee Incentive Scheme 2016:

Director	Type of Interest Awarded	Basis of Award	Face Value of Award(2)	Number of shares under award	Percentage vesting at threshold performance	End of Performance Period
William Heaney	Nil cost option to acquire ordinary shares in the capital of the Company(1)	The award was granted over a specific number of shares determined at the discretion of the Remuneration Committee	£70,848(3)	239,151	100%	30 September 2019

(1) The exercise price per share is set at nil.

(2) The face value has been calculated using the closing price of an ordinary share in the capital of the Company on 12 October 2016 (the dealing day prior to the date of grant of the award) which was 29.625 pence per share.

(3) The scheme interest summarised above also carries dividend enhancement rights pursuant to which whenever the award is exercised (but not before), William Heaney shall be entitled to receive a payment in cash determined in accordance with the formula, A × B, where "A" is the number of shares in respect of which the award is exercised on that occasion and "B" is the amount of the aggregate dividends received or receivable in respect of a share held by the trustee of the Company's employee benefit trust (net of any tax payable by the trustee in respect of such dividend) by reference to any record date for such dividends which fall within the period commencing on the date of grant of the award and ending on the date of exercise of the award.

A summary of the performance measures and targets that apply in respect of the scheme interest awarded to William Heaney are set out in the following table:

Measure	Targets	
Time based vesting target	On 30 September 2018, 50% of the shares subject to the award vest	On 30 September 2019, 100% of the shares subject to the award vest
Performance based vesting target based on Gross Income from Property Sales	If at any time before 30 September 2019, Gross Income from Property Sales reaches or exceeds £156.519m, 100% of the shares subject to the award will vest(1)	

(1) For the purpose of the performance based target:

a. a Property Sale will be any sale of any interest in any property asset of the Company or its subsidiaries, including but not limited to, sales of any beneficial or legal title to any such property asset or the sale of any subsidiary of the Company holding the legal or beneficial title to such property asset to a third party that has occurred or occurs at any time after 25 July 2013;

b. Gross Income will be the aggregate gross consideration receivable (whether immediately or on deferred terms) by the Company or any subsidiary of the Company in respect of all Property Sales. (In any case where a Property Sale is made by way of a sale of a subsidiary of the Company to a third party, the gross consideration receivable shall be the gross value attributed to the property asset(s) held by the subsidiary concerned as stated in the sale and purchase agreement relating to the disposal of such subsidiary.)

The award granted to William Heaney as disclosed above was granted prior to him being appointed as a non-executive director of the Company on 10 November 2016 and at the time the award was granted there was no intention that Mr Heaney would become a director of the Company. Although Mr Heaney resigned as a director of the Company on 8 December 2016, the fact that he had served as a director of the Company, albeit after the award was granted to him, meant that the award might be considered to be at variance with the Company's directors' remuneration policy. Accordingly at the Company's Annual General Meeting on 2 March 2017, a resolution pursuant to section 226B(1)(b) of the Companies Act 2006 was put to shareholders to specifically approve the payment to Mr Heaney of a remuneration payment equating to the benefits comprised in the award. The resolution was duly passed by the Company's shareholders at such Annual General Meeting.

Directors' Interests in the Company's Shares

The interests of the directors in Ordinary Shares of 20 pence each in the capital of the Company as at 30 September 2017 are set out in the table below:

Director	Number of shares owned outright (including connected persons)	Number of shares subject to performance targets	Share Options which are vested but unexercised	Share Options exercised	Total interest as at 30 September 2017
Stephen East	75,000	Zero	Zero	Zero	75,000
William Heaney*	58,182	239,151(1)	Zero	Zero	58,182(2)
Brett Miller†	517,890(3)	Zero	Zero	Zero	517,890
Nicholas Vetch	2,873,563	Zero	Zero	Zero	2,873,563

(1) The 239,151 shares stated represent the number of shares subject to the scheme interest granted as a nil cost option under the Local Shopping REIT plc Employee & Former Employee Incentive Scheme 2016 as described above under the heading "Scheme interests awarded during the financial year". Further details of the scheme interest are set out under that heading, including: when the award was made; the exercise price payable per share subject to the award; the provisions governing the vesting of the award; and the closing share price of an ordinary share in the capital of the Company on the dealing day immediately prior to the date of grant of the award.

(2) Excludes the 239,151 shares subject to the award under The Local Shopping REIT plc Employee & Former Employee Incentive Scheme 2016 which are unvested as at 30 September 2017.

(3) Brett Miller is a director of Damille Investments II Limited and holds an indirect interest of 2.83% in that company. Damille Investments II Limited holds 18,300,000 shares in the Company.

* Appointed as a director 10 November 2016, resigned as a director 8 December 2016.

† Appointed as a director 12 December 2016.

Stephen East
Remuneration Committee Chairman
11 December 2017

Our Governance

Audit Committee Report

The Committee met four times during the year and each member's attendance record is set out in the table on page 12. During the year, the Committee paid particular attention to the significant areas set out below, which were discussed in detail with the Auditors.

Valuation of Investment Properties

Key areas of focus for the Committee were the methodology adopted and valuations provided by Allsop LLP ("Allsop"). During the year, we reviewed the valuations for 30 September 2016 and 31 March 2017. Following the year-end, the Committee reviewed the valuations for 30 September 2017.

Going Concern Assumption

Consideration was given to technical implications for the Going Concern assumption in connection with the sales during the year in furtherance of the investment policy, and ongoing initiatives for its execution. In concluding that it was appropriate for the Going Concern assumption to apply, the Committee noted the inherent uncertainty regarding the timing and manner of the execution of the investment policy, as well as alternative strategic options available to the Company. The Committee took particular note of the extension of the Company's banking facilities to 31 December 2019 and management forecasts that the Company should continue to operate comfortably within its banking facilities during the lifetime of the facilities.

The Committee also covered the following items:

- ensuring that the format of the financial statements and the information supplied meets the standards set by the International Accounting Standards Board;
- reviewing the accounting treatment of receivables and ensuring effective co-ordination between the Company's records and those of its managing agents;
- ensuring that the audit scope properly reflected the risk profile of the business;
- ensuring that the Committee's terms of reference continued to accord with the Code.

Following the year-end review in 2016, the Committee decided that it would be appropriate to re-tender the Company's audit and proposals from a number of suitably qualified auditors were carefully considered. Following this exercise, and bearing in mind the likely timetable for the execution of the Company's investment policy, it was decided that KPMG LLP should be retained as Auditors to the Company.

Until 24 March 2017, KPMG LLP and its related entities provided non-audit services to the Company, principally tax advice in connection with the Company's REIT status. This engagement was subject to strict procedures aimed at safeguarding the objectivity of the Auditors. All non-audit work undertaken by KPMG was notified to the Chairman of the Audit Committee and careful consideration was given to whether such work might give rise to a conflict of interest. Any item of non-audit work that could result in fees being paid in excess of 50% of the audit fee in any year was required to be separately authorised by the Chairman of the Audit Committee.

During the year, KPMG LLP notified the Company of their intention to resign as the Company's tax adviser, in compliance with recently promulgated best practice standards. On 24 March 2017, following consideration of a number of appropriately qualified advisers, BDO UK LLP were appointed as tax advisers to the Company in place of KPMG.

Nicholas Vetch
Audit Committee Chairman
11 December 2017

Directors' Report

The directors of The Local Shopping REIT plc ("the Company") present their report and the audited financial statements of the Company together with its subsidiary and associated undertakings ("the Group") for the year ended 30 September 2017.

The Directors' Report also includes the information set out on pages 10 to 24, together with the description of the Company's investment policy and business model described on the inside front cover of this document.

The Company is a public limited company incorporated in England under registered number 05304743, with its registered office at 65 Grosvenor Street, London, W1K 3JH.

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report/directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

The foregoing reports were approved by the directors on 11 December 2017.

William A Heaney
Company Secretary

Independent Auditors' Report

to the members of the Local Shopping REIT plc only

1 Our opinion is unmodified

We have audited the financial statements of the Local Shopping REIT plc ("the Company") for the year ended 30 September 2017 which comprise the Consolidated Income Statement and Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity, the Company Balance Sheet, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 September 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with *International Standards on Auditing (UK)* ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 3 May 2017. The period of total uninterrupted engagement is for the ten financial years ended 30 September 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2016), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Valuation of investment property portfolio £54.6m (2016: £74.2m), Risk vs 2016: ◀▶

Refer to Audit Committee Report (page 24), accounting policy (page 35), and financial disclosures (page 40).

The risk: Subjective valuation

Investment property is the Group's single largest asset category. Its valuation requires significant judgements and estimates, from both directors and external valuers, particularly in relation to sensitivity of the valuation of assumptions regarding yield rates, void levels and comparable market transactions.

Our response

Our procedures, assisted by our own property valuation specialist (for procedures 1, 2, 3 and 4), included:

1. **Understanding of valuation approach:** We met the Group's external valuer to understand the assumptions and methodologies used in valuing the investment properties and the market evidence used by the external valuer to support these assumptions.
2. **Assessing valuer's credentials:** We assessed the independence, professional qualifications, competence and experience of the external valuer used by the Group.
3. **Methodology choice:** We assessed the results of the valuer's report by checking their valuations were in accordance with the RICS Valuation Professional Standards ("the Red Book") and relevant accounting standards and that the methodology adopted was appropriate by reference to acceptable valuation practice.
4. **Assessing assumptions:** We challenged the key assumptions used in the valuations, in particular yield rates, void levels and comparable market transactions, for a sample of "outliers". Our sample of "outliers" was determined as: properties with significant movement in yields; properties experiencing the most significant valuation movements; and properties with movements in valuation that were unexpected given the movements in yield.
5. **Input assessment:** We agreed observable inputs used in the valuations, such as rental income, occupancy rates, lease incentives, break clauses and lease lengths to source data.

6. **Retrospective testing of disposals:** We compared the sales price achieved on disposals during the year and after the balance sheet date to the carrying amounts of the disposed properties in the accounting records.
7. **Assessing transparency:** We assessed the adequacy of the Group's disclosures about the degree of estimation and sensitivity to key assumptions made when valuing properties.

Our results
We found the valuation of investment properties to be acceptable.

Going concern, Risk vs 2016: ◀▶

Refer to Audit Committee Report (page 24) and basis of preparation (page 34).

The risk: Going concern
During the current year the Group continued its operational strategy announced in July 2013 and disposed of a number of properties. The directors note that alternative strategies remain available to the Company, which include continuing to hold properties and trade as a going concern. As such, assessing whether the going concern basis of preparation remains appropriate requires significant judgement and it is important that the disclosure of the directors' judgements in this regard are transparent.

Our response
Our procedures included:

1. **Strategy assessment:** We evaluated the viability of the Group's strategies by analysing the variety of the properties held by the Group and overall market conditions.
2. **Liquidity analysis:** We assessed whether the Group has appropriate financing under any possible strategies above by reviewing the contractual terms of the Group's existing loan facilities and assessing the Group's compliance with the debt covenants under those facilities. We further assessed the Group's cash flow forecasts by considering the historical accuracy of the previous budgets and evaluating key assumptions used in the forecasts, in particular, net rental income and fair value of investment properties, as described in the investment property valuation risk above.
3. **Assessing transparency:** We assessed whether the Group's disclosures in respect of the going concern assumption are adequate.

Our results
We found the Group's assessment of its intention and ability to continue as a going concern as acceptable.

Recoverability of parent Company's investments in subsidiaries £26.4m (2016: £27.2m), Risk vs 2016: ◀▶

Refer to Audit Committee Report (page 24), accounting policy (page 34) and financial disclosures (page 52).

The risk: Forecast-based valuation
The carrying amount of the parent Company's investments in subsidiaries is the most significant item on the parent Company balance sheet and at risk of irrecoverability as certain subsidiaries have historically been loss-making. The estimated recoverable amount of investments is subjective due to the inherent uncertainty in judgements and estimates used in the impairment test.

Our response
Our procedures included:

1. **Test of details:** We compared the carrying value of the investments to their recoverable amount to assess the accuracy of the recognized impairment loss.
2. **Input assessment:** We challenged the key input used in the valuation of the subsidiaries' net assets by assessing the fair values of investment properties owned by the relevant subsidiaries, as described in the investment property valuation risk above.
3. **Assessing transparency:** We assessed the adequacy of the parent Company's disclosures in respect of the investments in subsidiaries.

Our results
We found the Group's assessment of the recoverability of the investments in subsidiaries and the resulting impairment charge to be acceptable.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £685,000 (2016: £820,000) determined with reference to a benchmark of Group total assets, of which it represents 1% (2016: 0.9%).

Materiality for the parent Company financial statements as a whole was set at £279,000 (2016: £285,000), determined with reference to a benchmark of Company total assets, of which it represents 0.5% (2016: 0.6%).

We applied for the first time this year a lower materiality of £59,000 to certain Group income statement items, to address better the accounts and disclosures that could reasonably be expected to influence the Company's members assessment of the financial performance of the Group. These items are gross rental income, gain/losses on disposal of investment properties and management fees.

Independent Auditors' Report continued

to the members of the Local Shopping REIT plc only

We agreed to report to the Audit Committee any corrected and uncorrected identified misstatements exceeding £34,000 (2016: £41,000) in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group audit team performed the audit of the Group as if it was a single aggregated set of financial information. The Group audit was performed using the materiality levels specified above and covered 100% (2016: 100%) of total Group revenue, Group profit before tax, and Group total assets.

4 We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least 12 months from the date of approval of the financial statements; or
- If the related statement under the Listing Rules is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

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

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- a corporate governance statement has not been prepared by the Company.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

Based solely on our work on the other information described above:

- with respect to the Corporate Governance Statement disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
  - we have not identified material misstatements therein; and
  - the information therein is consistent with the financial statements; and
- in our opinion, the Corporate Governance Statement has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 25, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8 The purpose of our audit work and to whom we owe our responsibilities

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

Mark Flanagan (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
31 Park Row
Nottingham
NG1 6FQ

11 December 2017

Our Financials

Consolidated Income Statement

for the year ended 30 September 2017

	Note	2017 £000	2016 £000
Gross rental income		**6,023**	6,989
Property operating expenses	2	**(1,968)**	(1,862)
Net rental income		**4,055**	5,127
Loss on disposal of investment properties	3	**(1,298)**	(199)
Loss from change in fair value of investment properties	7	**(689)**	(1,073)
Administrative expenses including non-recurring items	4	**(1,738)**	(1,710)
Operating profit before net financing costs		**330**	2,145
Financing income	5	**5**	25
Financing expenses	5	**(1,193)**	(3,833)
Movement in fair value of financial derivatives	5	**–**	2,294
(Loss)/Profit before tax		**(858)**	631
Taxation	6	**–**	–
(Loss)/Profit the year from continuing operations		**(858)**	631
(Loss)/Profit for the financial year attributable to equity holders of the Company		**(858)**	631
Basic and diluted (loss)/profit per share on profit for the year	13	**(1.04)p**	0.76p
Basic and diluted (loss)/profit per share on continuing operations for the year	13	**(1.04)p**	0.76p

Consolidated Statement of Comprehensive Income

for the year ended 30 September 2017

	2017 £000	2016 £000
(Loss)/Profit for the financial year	**(858)**	631
Items that are or may be reclassified to profit and loss		
Total comprehensive (loss)/income for the year	**(858)**	631
Attributable to:		
Equity holders of the parent Company	**(858)**	631

Consolidated Balance Sheet

as at 30 September 2017

	Note	2017 £000	2016 £000
Non-current assets			
Investment properties	7	54,613	74,285
		54,613	74,285
Current assets			
Trade and other receivables	8	2,143	2,094
Investment properties held for sale	7	1,280	1,590
Cash	9	10,455	11,000
		13,878	14,684
Total assets		68,491	88,969
Non-current liabilities			
Interest bearing loans and borrowings	10	(29,462)	(49,635)
Finance lease liabilities	12	(431)	(567)
		(29,893)	(50,202)
Current liabilities			
Interest bearing loans and borrowings	10	(1,209)	(907)
Trade and other payables	11	(2,600)	(2,311)
		(3,809)	(3,218)
Total liabilities		(33,702)	(53,420)
Net assets		34,789	35,549
Equity			
Issued capital	13	18,334	18,334
Reserves	13	3,773	3,773
Capital redemption reserve	13	1,764	1,764
Retained earnings		10,918	11,678
Total attributable to equity holders of the Company		34,789	35,549

Our Financials

Consolidated Statement of Cash Flows

for the year ended 30 September 2017

	Note	2017 £000	2016 £000
Operating activities			
(Loss)/Profit for the year		**(858)**	631
Adjustments for:			
Loss from change in fair value of investment properties	7	**689**	1,073
Net financing costs	5	**1,188**	1,514
Loss on disposal of investment properties		**1,298**	199
Equity secured share-based payment expenses		**98**	66
		2,415	3,483
Increase in trade and other receivables		**(49)**	(66)
Increase/(Decrease) in trade and other payables		**388**	(423)
		2,754	2,994
Interest paid		**(1,087)**	(2,353)
Loan arrangement fees paid		**(280)**	(5)
Interest received		**5**	25
Net cash from operating activities		**1,392**	661
Investing activities			
Net proceeds from sale of investment properties		**18,373**	4,919
Acquisition and improvements to investment properties	7	**(514)**	(210)
Cash flows from investing activities		**17,859**	4,709
Net cash flows from operating activities and investing activities		**19,251**	5,370
Financing activities			
Repayment of borrowings		**(19,796)**	(5,352)
Payments to close swaps		**–**	(1,758)
Cash flows from financing activities		**(19,796)**	(7,110)
Net decrease in cash		**(545)**	(1,740)
Cash at beginning of year		**11,000**	12,740
Cash at end of year	9	**10,455**	11,000

Consolidated Statement of Changes in Equity

for the year ended 30 September 2017

	Share capital £000	Reserves £000	Capital redemption reserve £000	Retained earnings £000	Total £000
Balance at 1 October 2015	18,334	3,773	1,764	10,981	34,852
Total comprehensive income for the year					
Profit for the year	–	–	–	631	631
Total contributions by and distributions to owners	–	–	–	–	–
Share-based payments	–	–	–	66	66
Balance at 30 September 2016	18,334	3,773	1,764	11,678	35,549
Total comprehensive income for the year					
Loss for the year	–	–	–	(858)	(858)
Total contributions by and distributions to owners	–	–	–	–	–
Share-based payments				98	98
Balance at 30 September 2017	**18,334**	**3,773**	**1,764**	**10,918**	**34,789**

Our Financials

Notes to the Financial Statements

for the year ended 30 September 2017

1. Accounting Policies

Basis of Preparation

The Local Shopping REIT plc (the "Company") is a public company incorporated, domiciled and registered in England. The registered number is 05304743 and the registered address is 65 Grosvenor Street, London, W1K 3JH.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent Company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and in accordance with the provisions of the Companies Act 2006. The Company has elected to prepare its parent Company financial statements in accordance with FRS 102; these are presented on pages 49 to 53.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

Judgements made by the directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed later in this note under the heading "*Use of Estimates and Judgements*".

The financial statements are prepared in pounds sterling, rounded to the nearest thousand. They have been prepared under the historical cost convention except for the following assets which are measured on the basis of fair value: investment properties, derivative financial instruments and investment properties held for sale.

Going Concern

The directors have considered whether it is appropriate to prepare the financial statements on a going concern basis. The directors are pursuing a number of approaches for selling down the property portfolio and note that this may take several years to achieve, depending on market conditions. The directors review progress with the investment strategy on a regular basis. The directors note that a number of alternative strategies remain available to the Company, such as selling the Company as a going concern or continuing to trade as a going concern. They will continue to evaluate these, and will make recommendations to shareholders on alternative strategies if appropriate.

The directors have prepared profit and cash flow forecasts for the two year period to 30 September 2019 which include assumptions relating to the sale of properties under the current investment strategy which the directors consider to be reasonable. These forecasts project that the Group's and Company's funding needs will be comfortably met by the revised banking facility agreements entered into in November 2016 (see note 10) without any breach of related covenants .

On the basis of these projections the directors consider that the Group will continue to be compliant with its banking covenants and sufficient resources will be available to enable it to continue as a going concern for at least the next 12 months. The financial statements do not include the adjustments that would result from the going concern basis of preparation being inappropriate.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiary undertakings up to 30 September 2017. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements of subsidiaries are prepared using consistent accounting policies. Inter-company transactions and balances are eliminated.

1. Accounting Policies continued

Investment Property

Investment properties are those properties owned by the Group that are held to earn rental income or for capital appreciation or both and are not occupied by the Company or any of its subsidiaries.

For the Group as a whole Allsop LLP, a firm of independent chartered surveyors, valued the Group's property portfolio at 30 September 2017, 31 March 2017, 30 September 2016 and 31 March 2016. On each of these dates Allsop LLP performed a full valuation of 25% of the Group's properties (including site inspections) and a desktop valuation of the remainder, such that all properties owned by the Group have been inspected and valued over the two-year period. The valuations, using assumptions regarding yield rates, void levels and comparable market transactions, were undertaken in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards on the basis of market value. Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Investment properties are treated as acquired at the point the Group assumes the significant risks and returns of ownership. Subsequent expenditure is charged to the asset's carrying value only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of each item can be reliably measured. All other repairs and maintenance costs are charged to the Income Statement during the period in which they are incurred.

During the year an accelerated sales programme commenced, primarily via auction, where the economic risk transfers on the auction date. It was decided to recognise these sales at the auction date instead of the subsequent completion date in order to properly reflect the level of property sales activity. Provision is made for the relevant auction and legal fees arising on the sales in calculating the gain or loss on disposal. The effect of this change on the September 2016 financial statements is not material, and therefore no restatement of comparative figures has been made.

Interest on loans associated with acquiring investment properties is expensed on an effective interest rate basis.

Rental income from investment properties is accounted for as described below.

Investment Properties Held for Sale

Investment properties held for sale are included in the Balance Sheet at their fair value. In determining whether assets no longer meet the investment criteria of the Group, consideration has been given to the conditions required under IFRS 5.

An investment property shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

The asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable as at the year end.

Head Leases

Where a property is held under a head lease and is classified as an investment property, it is initially recognised as an asset based on the sum of the premium paid on acquisition and if the remaining life of the lease at the date of acquisition is considered to be material, the net present value of the minimum ground rent payments. The corresponding rent liability to the leaseholder is included in the Balance Sheet as a finance obligation in current and non-current liabilities.

The payment of head rent reduces the gross liability and the interest element of the finance lease is charged to the Income Statement. Head leases considered not to have a material life remaining at the date of acquisition are accounted for as operating leases with the head rent paid being expensed through the Income Statement.

Trade and Other Receivables

Trade and other receivables are initially recognised at fair value and subsequently held at amortised cost less impairment. Impairment is made where it is established that there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. The impairment is recorded in the Income Statement.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and deposits held on call. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less.

Notes to the Financial Statements continued

for the year ended 30 September 2017

1. Accounting Policies continued

Derivative Financial Instruments and Hedging

The Group has used derivative financial instruments such as interest rate swaps to economically hedge risks associated with interest rate fluctuations. The Group does not hold or issue derivatives for trading purposes.

Such instruments are initially measured at fair value on the date on which a contract is entered into and are subsequently remeasured at fair value. Financial derivatives are recognised as current and non-current based on the maturity profile of the associated cash flows.

The Group has determined that the derivative financial instruments held did not qualify as effective for hedge accounting under the criteria set out in IAS 39 and consequently any gains or losses arising from changes in their fair value are taken to the Income Statement. In the future and on an ongoing basis if new derivative financial instruments are entered into, the directors will review the derivative contracts to consider whether they qualify for hedge accounting.

During the year to 30 September 2016, all the outstanding interest rate swaps were paid down.

Financial Assets

Financial assets are impaired when there is objective evidence that the cash flows from the financial asset are reduced.

Trade and Other Payables

Trade and other payables are initially recognised at fair value and subsequently held at amortised cost.

Ordinary Share Capital

External costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Shares which have been repurchased are classified as treasury shares and shown in retained earnings. They are recognised at the trade date for the amount of consideration paid, together with directly attributable costs. This is presented as a deduction from total equity. Shares held by the Employee Benefit Trust are treated as being those of the Group until such time as they are distributed to employees, when they are expensed in the profit and loss account.

The nominal value of shares cancelled has been taken to a capital redemption reserve.

Rental Income

Rental income from investment properties leased out under operating leases is recognised in the Income Statement on a straight-line basis over the term of the lease. When the Group provides lease incentives to its tenants the cost of incentives are recognised over the lease term, on a straight-line basis, as a reduction to income.

Taxation

Corporation tax on the profit or loss for the year comprises current and deferred tax. Corporation tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

As a REIT, the Group will be exempt from corporation tax on the profits and gains from its property investment business, provided it continues to meet certain conditions. Non-qualifying profits and gains of the Group (the residual business) continue to be subject to corporation tax. Therefore, current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years. The REIT entry charge is expensed on the date of entry to the REIT regime. Deferred tax is provided using the balance sheet liability method. Provision is made for temporary differences between the carrying amounts of assets and liabilities in the financial statements for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is calculated after taking into account any indexation allowances and capital losses on an undiscounted basis. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are only offset if there is a legally enforceable right of set-off.

1. Accounting Policies continued

Pensions

The Company has no pension arrangements in operation.

Share-based Payments

Share-based payments are recognised as an employee expense, with a corresponding increase in equity.

Employee Benefit Trust

In 2007 the Group established an Employee Benefit Trust in connection with its various share-based incentive schemes. The Group either purchased its own shares directly or it funded the trust to acquire shares in the Company. Transactions of the Employee Benefit Trust are treated as being those of the Company and are therefore reflected in the Group financial statements

Use of Estimates and Judgements

To be able to prepare accounts according to generally accepted accounting principles, management must make estimates and assumptions that affect the asset and liability items and revenue and expense amounts recorded in the financial statements. These estimates are based on historical experience and various other assumptions that management and the Board of directors believe are reasonable under the circumstances. The results of these considerations form the basis for making judgements about the carrying value of assets and liabilities that are not readily available from other sources.

The areas requiring the use of estimates and judgements that may significantly impact the Group's earnings and financial position include the estimation of: the fair value of investment properties and derivative financial instruments.

The valuation basis of the Group's investment properties is set out above.

Segmental reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports that are regularly reported to the chief operating decision maker to allocate resources to the segments and to assess their performance.

Since the strategy review in July 2013 the Group has identified one operation and one reporting segment which is reported to the Board of directors on a quarterly basis. The Board of directors is considered to be the chief operating decision maker.

Adoption of new and revised standards

In the current year, the Group has applied a number of amendments to IFRS that are mandatorily effective. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Standards not affecting the reported results or the financial position

There are no changes to existing standards and interpretations listed below that have been enacted and adopted by the Group in the period in the preparation of these financial statements.

At the date of approval of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

Effective for periods beginning on or after:

- IFRS 9 Financial Instruments 1 January 2018
- Amendments to IAS 7 Disclosure Initiatives 1 January 2017
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses 1 January 2017
- Amendments to IFRS 2 Clarification and Measurement of Share-based Payment Transactions 1 January 2018
- IFRS 16 Leases 1 January 2019

None of the above standards is expecting to have a material impact on the future financial statements of the Group.

The IASB has issued IFRS 15 on revenue recognition, which has been endorsed by the European Union.

The Company presently recognises rental income under the principles set out in IAS 17, and will continue to do so under this standard. Consideration has been given to the impact of IFRS 15 on service charge income. Ninety per cent of the properties in the Group have no service charge; therefore, it is not anticipated that IFRS 15, when adopted, will have a significant, if any, effect on the Company's financial results.

Our Financials

Notes to the Financial Statements continued

for the year ended 30 September 2017

2. Property Operating Expenses

	2017 £000	2016 £000
Bad debt charge	(353)	(356)
Head rent payments	(31)	(31)
Repairs	(343)	(377)
Business rates and council tax	(245)	(246)
Irrecoverable service charge	(160)	(134)
Utilities	(66)	(70)
Insurance*	(92)	2
Managing agent fees	(242)	(279)
Leasing costs	(231)	(211)
Legal & professional	(73)	(72)
EPC amortisation, Abortives, and Misc	(132)	(88)
Total property operating expenses	**(1,968)**	(1,862)

* The negative insurance in 2016 was due to an overprovision.

3. Property Disposals

	2017 Number 000s	2016 Number 000s
Number of sales	142	27

	2017 £000	2016 £000
Average value	136	185
Sales		
Total sales	19,287	4,997
Carrying value	(19,671)	(5,025)
Loss on disposals before transaction costs	(384)	(28)
Transaction costs		
Legal fees	(307)	(67)
Agent fees, marketing and brochure costs	(499)	(74)
Disbursements	(23)	(12)
Non-recoverable VAT (on non-opted and residential elements)	(85)	(18)
Total transaction costs	(914)	(171)
Loss on disposals after transaction costs	(1,298)	(199)
Transaction costs as percentage of sales value	4.7%	3.4%

4. Administrative Expenses

	2017 £000	2016 £000
Investment manager fees	(918)	(963)
Legal and professional	(145)	(348)
Tax and audit*	(116)	(99)
Remuneration Costs[1]	(187)	(133)
Other	(44)	(39)
Irrecoverable VAT on Administration expenses[2]	(200)	(128)
December 2016 General Meeting costs	(128)	–
Total administrative expenses	**(1,738)**	(1,710)

[1] Remuneration costs include £98,000 (30 September 2016: £66,000) in respect of the expensing of employee share options which vest in 2018 onwards or if liquidation targets are met. This amount has a corresponding entry in equity and has no impact on the Company's net assets now or in the future.

[2] The Company's portfolio contains residential elements and commercial properties not opted for VAT. Accordingly, VAT on overheads is not fully recoverable.

* The following fees have been paid to the Group's Auditors:

	2017 £000	2016 £000
Auditors' remuneration for audit services:		
Audit of parent Company	34	33
Audit related assurance services	16	16
Statutory audit of subsidiaries	39	38
Auditors' remuneration for non-audit services:		
Tax services	–	24
Other services supplied	–	9

5. Net Financing Costs

	2017 £000	2016 £000
Interest receivable	5	25
Interest receivable excluding fair value movements	5	25
Fair value gains on derivative financial instruments (note 14)	–	2,294
Financing income	5	2,319
Bank loan interest	(961)	(1,924)
Amortisation of loan arrangement fees	(181)	(117)
Head rents treated as finance leases	(27)	(34)
Bank facility fees	(24)	–
Financing expenses excluding swap closing costs	(1,193)	(2,075)
Payments to close swaps	–	(1,758)
Financing expenses	(1,193)	(3,833)
Net financing costs	(1,188)	(1,514)

Our Financials

Notes to the Financial Statements continued

for the year ended 30 September 2017

6. Taxation

	2017 £000	2016 £000
(Loss)/Profit before tax	(858)	20
Corporation tax in the UK of 20% (2016: 20.5%)	(172)	4
Tax relief available from REIT status	114	(464)
Effects of:		
Revaluation deficit and other non-deductible items	(163)	445
Deferred tax asset/(liability) not recognised	221	15
Total tax	–	–

Factors that may affect future current and total tax charges

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2016) were substantively enacted on 2 July 2013. Further reductions to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2016. This will reduce the Company's future current tax charge accordingly and reduce the deferred tax asset at 30 September (which has been calculated based on the rate of 20% substantively enacted at the balance sheet date) by £0.24m. From 11 May 2007, the Group elected to join the UK REIT regime. As a result, the Group will be exempt from corporation tax on the profits and gains from its property investment business from this date, provided it continues to meet certain conditions. Non-qualifying profits and gains of the Group (the residual business) continue to be subject to corporation tax. The directors consider that all the rental income post-11 May 2007 originates from the Group's tax exempt business.

Due to the availability of losses no provision for corporation tax has been made in these accounts. The deferred tax asset not recognised relating to these losses can be carried forward indefinitely. It is not anticipated that sufficient profits from the residual business will be generated in the foreseeable future to utilise the losses carried forward as the current year losses will be adequate to cover foreseeable profits. The non-provided deferred tax asset at 30 September 2017 was £2.41m (2016: £2.35m).

7. Investment Properties

	Freehold Investment Properties £000	Leasehold Investment Properties £000	Total £000
At 30 September 2015	63,625	15,843	79,468
Additions	188	22	210
Disposals – property	(4,538)	(488)	(5,026)
Disposals – head leases	–	(92)	(92)
Fair value adjustments	(481)	(592)	(1,073)
Movement on Investment properties held for sale	540	258	798
At 30 September 2016	59,334	14,951	74,285
Additions	449	65	514
Disposals – property	(16,472)	(3,199)	(19,671)
Disposals – head leases	–	(136)	(136)
Fair value adjustments	(863)	174	(689)
Movement on Investment properties held for sale	122	188	310
At 30 September 2017	**42,570**	**12,043**	**54,613**

The investment properties have all been revalued to their fair value at 30 September 2017.

All rental income recognised in the Income Statement is generated by the investment properties held and all direct operating expenses incurred resulted from investment properties that generated rental income.

A reconciliation of the portfolio valuation to the total value given in the Balance Sheet for investment properties is as follows:

	2017 £000	2016 £000
Portfolio valuation	55,462	75,308
Investment properties held for sale	(1,280)	(1,590)
Head leases treated as investment properties held under finance leases per IAS 17	431	567
Total per Balance Sheet	54,613	74,285

8. Trade and Other Receivables

	2017 £000	2016 £000
Trade receivables	**620**	1,086
Other receivables	**840**	255
Prepayments	**683**	753
	2,143	2,094

9. Cash

	2017 £000	2016 £000
Cash in the Statement of Cash Flows	**10,455**	11,000

Included in bank balances are amounts held pending the next interest payment due in October 2017. Until the interest payment has been deducted from these balances the cash is not available for use by the Group. At the year end the amount held on such account was £1.218m (2016: £2.513m) with accruals for interest due of £0.118m (2016: £0.326m).

10. Interest Bearing Loans and Borrowings

	2017 £000	2016 £000
Non-current liabilities		
Secured bank loans	**29,723**	49,821
Loan arrangement fees	**(261)**	(186)
	29,462	49,635
Current liabilities		
Current portion of secured bank loans	**1,209**	907

All bank borrowings are secured by fixed charges over certain of the Group's property assets and floating charges over the companies which own the assets charged.

During November 2016 the bank borrowings were extended. The changes included a £7m cash payment of loan balance, and an extension of the repayment date from April 2018 to December 2019.

This was considered to be a modification and the costs associated with it were added to the loan arrangement fees for amortisation. One subsidiary company loan was fully repaid and costs of £0.046m in respect of this loan were expensed.

The remaining bank loan is in £ sterling and carries interest at 2% over 3-month LIBOR.

For more information about the Group's exposure to interest rate risk, see note 17.

11. Trade and Other Payables

	2017 £000	2016 £000
Trade payables	**346**	110
Other taxation and social security	**240**	180
Other payables	**991**	684
Accruals and deferred income	**1,023**	1,337
	2,600	2,311

Other payables include rent deposits held in respect of commercial tenants of £0.455m (2016: £0.459m).

Notes to the Financial Statements continued

for the year ended 30 September 2017

12. Leasing

Obligations Under Finance leases

Finance lease liabilities on head rents are payable as follows:

	Minimum Lease Payment £000	Interest £000	Principal £000
At 30 September 2015	4,599	(3,940)	659
Disposals	(470)	378	(92)
(Payments)/Charge	(34)	34	–
At 30 September 2016	4,095	(3,528)	567
Disposals	(993)	857	(136)
(Payments)/Charge	(27)	27	–
At 30 September 2017	**3,075**	**(2,644)**	**431**

In the above table, interest represents the difference between the carrying amount and the contractual liability/cash flow.

All leases expire in more than five years.

13. Capital and Reserves

Share Capital

	2017 Ordinary 20p Shares		2016 Ordinary 20p Shares	
	Number 000s	**Amount £000**	Number 000s	Amount £000
Allotted, called up and fully paid	**91,670**	**18,334**	91,670	18,334

Investment in Own Shares

At the year end, 9,164,017 shares were held in treasury (2016: 9,164,017).

Employee Benefit Trust ("EBT")

The number of shares held by the Company's Employee Benefit Trust, LSR Trustee Limited, at the year end was 791,098 (2016: 921,098). During the year:

1. Options over 130,000 shares which had vested in 2016 under the Local Shopping REIT plc Employee & Former Employee Incentive Scheme 2015 were exercised, and this number of shares was transferred from the EBT to beneficiaries of this scheme.
2. 791,098 shares (2016: Nil) were allocated to beneficiaries under the Local Shopping REIT plc Employee & Former Employee Incentive Scheme 2016. None of these shares had vested as at 30 September 2017.
3. The EBT transferred no shares to employees on the exercise of awards under either the Company's Long Term Incentive Plan or the Company's Share Option Scheme.

Reserves

The value of shares issued to purchase Gilfin Property Holdings Limited in excess of their nominal value has been shown as a separate reserve in accordance with the Companies Act 2006.

Capital Redemption Reserve

The capital redemption reserve arose in prior years on the cancellation of 8,822,920 Ordinary 20p Shares.

13. Capital and Reserves continued

Calculation of Net Asset Value Per Share (NAV)

	2017 £000	2016 £000
Net assets	**34,789**	35,549

	2017 Number 000s	2016 Number 000s
Allotted, called up and fully paid shares	**91,670**	91,670
Treasury shares	**(9,164)**	(9,164)
Number of shares	**82,506**	82,506
NAV per share	**42p**	43p

14. Dividends

No dividends were paid during the current and previous year.

15. Earnings Per Share

Basic Earnings Per Share

The calculation of basic earnings per share was based on the profit attributable to Ordinary Shareholders and a weighted average number of Ordinary Shares outstanding, calculated as follows:

Profit Attributable to Ordinary Shares

	2017 £000	2016 £000
(Loss)/Profit for the year	**(858)**	631
(Loss)/Profit on continuing operations for the year	**(858)**	631

Weighted Average Number of Ordinary Shares

	2017 Number	2016 Number
Issued Ordinary Shares at 1 October 2016	**91,670**	91,670
Treasury shares	**(9,164)**	(9,164)
Weighted average number of Ordinary Shares at 30 September 2017	**82,506**	82,506
Basic and diluted (loss)/profit per share on (loss)/profit for the year	**(1.04)p**	0.76p

Diluted Earnings Per Share

As shares held in the Employee Benefit Trust are entitled to dividends; these have been included in the weighted average number of shares. There are no other potentially dilutive securities and therefore no difference between basic and diluted earnings per share.

Notes to the Financial Statements continued

for the year ended 30 September 2017

16. Derivative Financial Instruments

Derivative financial instruments held by the Group are interest rate swaps used to manage the Group's interest rate exposure. These are shown in the Balance Sheet as follows:

	Fair Value 2015	Movements in Income Statement	Fair Value 2016	Movements in Income Statement	**Fair Value 2017**
Current liabilities	(2,294)	2,294	–	–	**–**
Fair value	(2,294)	2,294	–	–	**–**

A summary of the swaps and their maturity dates as they stood at 30 September 2015, and their movement in the year to 30 September 2016 is as follows:

Notional value of swap £000	Effective date	Maturity date	Rate payable on fixed leg %	Fair Value 2015 £000	Movements in Income Statement	**Fair Value 2016 £000**
20,178	16/07/2007	31/01/2017	4.85	(1,087)	1,087	–
22,500	30/04/2013	20/07/2017	5.05	(823)	823	–
10,500	30/04/2013	29/07/2017	5.05	(384)	384	–
				(2,294)	2,294	**–**

The swaps were fully paid down during 2016.

The derivative financial instruments included in the above tables are stated at their fair value based on quotations from the Group's bank.

More details of the Group's policy regarding the management of interest rate risk are given in note 17.

17. Financial Instruments and Risk Management

The Board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

As described in the Corporate Governance report, this responsibility has been assigned to INTERNOS with support and feedback from the Audit Committee. The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Group has identified exposure to the following financial risks from its use of financial instruments: capital management risk, market risk, credit risk and liquidity risk.

Capital Management Risk

The Group's capital consists of long-term borrowings, cash and equity attributable to the shareholders. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Board regularly reviews the Group's capital structure, cost of capital, gearing levels and other specific measures. From time to time, the Company has purchased its own shares when the Board considered that this course of action would enhance the value of the Group for shareholders. Since the restructuring in July 2013 dividend policy has been reviewed half-yearly by the Board. No dividend has been paid during the year. There were no other changes in the Group's approach to capital management during the year.

Market Risk

Market risk is the risk that changes in market conditions, such as interest rates, foreign exchange rates and equity prices, will affect the Group's profit or loss and cash flows. The Group's exposure to market risks is restricted to interest rate risk only. The Group borrows at floating rates of interest and has in the past used financial instruments to fix the floating rates of interest in accordance with its policy. The last of these instruments was fully paid down in 2016.

The Group does not speculate in financial instruments. They have only been used to limit exposure to interest rate fluctuations. The Company continues to monitor the interest rate environment, and may enter into some hedging arrangements in the future. However, given the currently low and stable rates and the Company's sales programme, this would not be advantageous at present.

Sensitivity Analysis

IFRS 7 requires an illustration of the impact on the Group's financial performance of changes in interest rates. The following sensitivity analysis has been prepared in accordance with the Group's existing accounting policies and considers the impact on the Income Statement and on equity of an increase of 100 basis points (1%) in interest rates. As interest rates were below 1% in the current and previous year, it has not been possible to consider the impact of a decrease of 100 basis points on interest income and expense as it would result in a negative rate of interest. Therefore, the impact of a fall in interest rates has been restricted to a floor of 0%. All other variables remain the same and any consequential tax impact is excluded. The analysis assumes that changes in market interest rates affect the interest income and interest expense of derivative financial instruments.

17. Financial Instruments and Risk Management continued

Actual results in the future may differ materially from these assumptions and, as such, these tables should not be considered as a projection of likely future gains and losses.

	2017				2016			
	Impact on Income		Impact on Equity		Impact on Income		Impact on Equity	
	Increase by 1%	Decrease to 0%	Increase by 1%	Decrease to 0%	Increase by 1%	Decrease to 0%	Increase by 1%	Decrease to 0%
Impact on Interest income and expense in £000s	(238)	79	(238)	79	(398)	228	(398)	228

Fair value measurements recognised in the statement of financial position

Investment properties and Investment properties held for sale are measured subsequent to initial recognition at fair value and have been grouped as Level 3 (2016: Level 3) based on the degree to which fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 fair value measurements are those derived from 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 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Investment properties have been valued using the investment method which involves applying a yield to rental income streams.

Inputs include yield, current rent, void rates and ERV. Void rates was 12.9% (2016:10.9%) and ERV 9.47% (2016: 9.5%). 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.

An increase or decrease in rental values will increase or decrease valuations, and a decrease/increase in yields will increase/decrease the valuation. There are interrelationships between these inputs as they are determined by market conditions. The valuation movement in a period depends on the balance of those inputs.

Credit Risk

Credit risk is the risk of financial loss to the Group if a tenant, bank or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from tenants, cash and cash equivalents held by the Group's banks and derivative financial instruments entered into with the Group's banks.

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each tenant. At 30 September 2017 the Group had over 740 letting units in 182 properties. There is no significant concentration of credit risk due to the large number of small balances owed by a wide range of tenants who operate across all retail sectors. Geographically there is no concentration of credit risk in any one area of the UK. An analysis of the business by region, user type and tenant grade is given in the Operating Review. The level of arrears is monitored monthly by the Group and more frequently on a tenant by tenant basis by the asset managers.

Cash, Cash Equivalents and Derivative Financial Instruments

Two major UK banks provide the majority of the banking services used by the Group. Financial derivatives were only entered into with one of these core banks.

The Group's financial assets which are exposed to credit risk are classified as follows and are shown with their fair value:

30 September 2017

	Available For Sale £000	At Amortised Cost £000	Total Carrying Amount £000	At Fair Value £000
Cash and cash equivalents	10,455	–	10,455	10,455
Trade receivables	–	620	620	620
Other receivables	–	840	840	840
	10,455	1,460	11,915	11,915

Notes to the Financial Statements continued

for the year ended 30 September 2017

17. Financial Instruments and Risk Management continued

30 September 2016

	Available For Sale £000	At Amortised Cost £000	Total Carrying Amount £000	At Fair Value £000
Cash and cash equivalents	11,000	–	11,000	11,000
Trade receivables	–	1,086	1,086	1,086
Other receivables		255	255	255
	11,000	1,341	12,341	12,341

For all classes of financial assets, the carrying amount is a reasonable approximation of fair value.

The ageing of trade receivables is as follows

	2017			2016		
	Total £000	**Impairment £000**	**After Impairment £000**	Total £000	Impairment £000	After Impairment £000
Not yet due	**123**		**123**	236		236
Past due by one to 30 days	**294**		**294**	375		375
Past due by 30–60 days	**87**		**87**	235		235
Past due by 60–90 days	**28**		**28**	38		38
Past due by 90 days	**630**	**(542)**	**88**	654	(452)	202
	1,162	**(542)**	**620**	1,538	(452)	1,086
Impairment as percentage of total debt		**46.64%**			29.39%	

Trade receivables that are not impaired are expected to be recovered.

The movement in the trade receivables' impairment allowance during the year was as follows:

	2017 £000	2016 £000
Balance at beginning of year	**452**	300
Impairment loss recognised	**353**	270
Trade receivables written off	**(263)**	(118)
Balance at end of year	**542**	452

The impairment loss recognised relates to the movement in the Group's assessment of the recoverability of outstanding trade receivables.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have adequate resources to meet its liabilities when they fall due for both the operational needs of the business and to meet planned future investments. This position is formally reviewed on a quarterly basis or more frequently should events require it.

The Group's financial liabilities are classified and are shown with their fair value as follows:

30 September 2017

	At Amortised Cost £000	**Total Carrying Amount £000**	**At Fair Value £000**
Interest bearing loans and liabilities	**30,671**	**30,671**	**30,671**
Finance lease liabilities	**431**	**431**	**431**
Trade payables	**346**	**346**	**346**
Other payables	**991**	**991**	**991**
Accruals	**1,023**	**1,023**	**1,023**
	33,462	**33,462**	**33,462**

17. Financial Instruments and Risk Management continued

30 September 2016

	At Amortised Cost £000	Total Carrying Amount £000	At Fair Value £000
Interest bearing loans and liabilities	50,542	50,542	50,542
Finance lease liabilities	567	567	567
Trade payables	110	110	110
Other payables	684	684	684
Accruals	1,337	1,337	1,337
	53,240	53,240	53,240

For all classes of financial liabilities, the carrying amount is a reasonable approximation of fair value.

The maturity profiles of the Group's financial liabilities are as follows:

30 September 2017

	Carrying Value £000	Contractual Cash Flows £000	Within One Year £000	One to Two Years £000	Two to Three Years £000	Three to Four Years £000	Four to Five Years £000	Over Five Years £000
Interest bearing loans and borrowings	**30,671**	**39,340**	**2,402**	**1,641**	**35,297**	**–**	**–**	**–**
Finance lease liabilities	**431**	**3,116**	**27**	**27**	**27**	**27**	**27**	**2,981**
Trade payables	**346**	**346**	**346**	**–**	**–**	**–**	**–**	**–**
Other payables	**991**	**991**	**991**	**–**	**–**	**–**	**–**	**–**
Accruals	**1,023**	**1,023**	**1,023**	**–**	**–**	**–**	**–**	**–**
	33,462	**44,816**	**4,789**	**1,668**	**35,324**	**27**	**27**	**2,981**

30 September 2016

	Carrying Value £000	Contractual Cash Flows £000	Within One Year £000	One to Two Years £000	Two to Three Years £000	Three to Four Years £000	Four to Five Years £000	Over Five Years £000
Interest bearing loans and borrowings	50,542	52,884	2,134	50,750	–	–	–	–
Finance lease liabilities	567	4,108	34	34	34	34	34	3,938
Trade payables	110	110	110	–	–	–	–	–
Other payables	684	684	684	–	–	–	–	–
Accruals	1,337	1,337	1,337	–	–	–	–	–
	53,240	59,123	4,299	50,784	34	34	34	3,938

As set out in note 10, the bank loans were restructured in November 2016. If these changes were reflected in the above table, the first row would be restated as follows:

	Carrying Value £000	Contractual Cash Flows £000	Within One Year £000	One to Two Years £000	Two to Three Years £000	Three to Four Years £000	Four to Five Years £000	Over Five Years £000
Interest bearing loans and borrowings	50,542	54,582	10,254	2,007	2,083	40,238	–	–

Contractual cash flows include the undiscounted committed interest cash flows and, where the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the year end.

Notes to the Financial Statements continued

for the year ended 30 September 2017

18. Operating Lease Arrangements

a) Leases as Lessee

The Company has no leases where it is a lessee

b) Leases as Lessor

The investment properties are let under operating leases. Future minimum lease payments receivable by the Group under non-cancellable operating leases are receivable as follows:

	2017 £000	2016 £000
Less than one year	1,407	1,976
Between one and five years	1,654	2,371
More than five years	1,996	2,709
	5,057	7,056

19. Capital Commitments

At 30 September 2017 the Group had contracted capital expenditure for which no provision has been made in these financial statements of £93,400 (2016: £52,500).

20. Related Parties

Transactions with Key Management Personnel

The only transactions with key management personnel relate to remuneration which is set out in the Remuneration Report.

The key management personnel of the Group for the purposes of related party disclosures under IAS 24 comprise all executive and non-executive directors.

See also note 22: Significant Contracts.

21. Group Entities

All the companies below are incorporated in the United Kingdom and 100% owned at 30 September 2016 and 2017:

NOS 4 Limited
NOS 5 Limited
NOS 6 Limited
NOS 7 Limited
Gilfin Property Holding Limited

22. Significant contracts

With effect from 22 July 2013 the Company entered into a management agreement with INTERNOS Global Investors Limited ("INTERNOS"). Under this agreement the Company pays to INTERNOS:

- An annual management fee of 0.70% of the gross asset value of the portfolio, subject to a minimum fee of £1m in each of the first two years, £0.95m for the third year and £0.9m for the fourth year.
- An annual performance fee of 20% of the recurring operating profits above a pre-agreed target recurring profit.
- Fees for property sales as follows:
  - Up to £50m: nil
  - £50m–£150m: 0.5% of sales
  - Over £150m: 1.0% of sales
- A terminal fee of 5.7% of cash returned to the Company's shareholders in excess of 36.1 pence per share from the Effective Date outside of dividend payments (the "Terminal Fee Hurdle"). The Terminal Fee Hurdle rises by 8% per annum after the first year but reduces on a pro rata daily basis each time equity is returned to shareholders outside of dividend payments from recurring operating profits. As at the year end the hurdle stood at 45.5p per share.

Under the terms of the agreement INTERNOS received fees of £0.918m (2016: £0.963m) during the year.

Company Balance Sheet

as at 30 September 2017

	Note	2017 £000	2017 £000	2016 £000	2016 £000
Fixed assets					
Investments	C5		26,435		27,268
			26,435		27,268
Current assets					
Debtors	C6	8,775		1,234	
Cash		591		8,094	
		9,366		9,328	
Creditors: Amounts falling due within one year	C7	(2,758)		(2,508)	
Net current assets			6,608		6,820
Total assets less current liabilities			33,043		34,088
Creditors: Amounts falling due after one year			–		–
Net assets			33,043		34,088
Capital and reserves					
Share capital	C8		18,334		18,334
Reserves	C8		3,742		3,742
Capital redemption reserve	C8		1,764		1,764
Profit and loss account	C8		9,203		10,248
Shareholders' funds			33,043		34,088

These financial statements were approved by the Board of directors on 9 December 2017 and were signed on its behalf by:

Stephen East
Chairman

The registered number of the Company is 05304743.

Our Financials

Notes to the Company Financial Statements

for the year ended 30 September 2017

C1. Accounting Policies

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("*FRS 102*") as issued in August 2014. The amendments to FRS 102 issued in July 2016 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The consolidated financial statements of The Local Shopping Reit plc are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 *Share Based Payments*; and,
- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

There were no judgements made by the directors, in the application of these accounting policies, that have significant effect on the financial statements, with a significant risk of material adjustment in the next year.

Measurement convention

The financial statements are prepared on the historical cost basis.

Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Basic financial instruments

Trade and other debtors / creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Investments in subsidiaries

These are separate financial statements of the Company. Investments in subsidiaries are carried at cost less impairment.

Judgements and Estimates

In testing for impairment, management assesses the recoverable amount of investments and inter-company debtors by reference to the subsidiaries' net assets and their ability to recover these assets.

C1. Accounting Policies continued

Impairment

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Expenses

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Profit for the Financial Year

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Company's loss for the year was £1.143m (2016: profit £2.774m).

C2. Remuneration of Directors

The detailed information concerning directors' emoluments, shareholdings and share options is shown in the Remuneration Report.

All directors of the Company are directors of the Group.

C3. Remuneration of Auditors

The detailed information concerning Auditors' remuneration is shown in note 4 to the Group financial statements.

C4. Staff Numbers, Costs and Share Option Schemes

The detailed information concerning staff numbers, costs and share option schemes is shown in note 4 to the Group financial statements.

Our Financials

Notes to the Company Financial Statements continued

for the year ended 30 September 2017

C5. Fixed Asset Investments

	Shares in Group Undertakings £000	Total £000
Cost		
At 30 September 2016	108,605	108,605
Disposals	–	–
At 30 September 2017	**108,605**	**108,605**
Provisions		
At 30 September 2016	81,337	81,337
Impairment charge for year	833	833
Disposals	–	–
At 30 September 2017	**82,170**	**82,170**
Net book value		
At 30 September 2017	**26,435**	**26,435**
At 30 September 2016	27,268	27,268

An impairment review of the carrying value of the Company's investments in its subsidiary undertakings has been performed. In carrying out this review, the directors had due regard to the nature of the property investments held, which is commensurate with the funding arrangements in place. On the basis of this review which included a review of the underlying assets of the individual subsidiaries the directors have written down the value of investments in subsidiary undertakings to their estimated realisable value.

The companies in which the Company's interests at the year end were more than 20% are as follows:

	Nature of business	Ownership interest*
NOS 4 Limited†	Property investment	100%
NOS 5 Limited†	Property investment	100%
NOS 6 Limited†	Property investment	100%
NOS 7 Limited†	Property investment	100%
Gilfin Property Holding Limited‡	Property investment	100%

* All interests are in Ordinary Shares.

† Incorporated in England, registered office: 65 Grosvenor Street, London, W1K 3JH

‡ Incorporated in Scotland, registered office: No 2 Lochrin Square, 96 Fountainbridge, Edinburgh, EH3 9QA

C6. Debtors

	2017 £000	2016 £000
Amounts owed by Group undertakings	**8,747**	1,163
Other debtors	**2**	36
Prepayments	**26**	35
	8,775	1,234

Amounts owed by Group undertakings are interest free and repayable on demand.

C7. Creditors

	2017 £000	2016 £000
Trade creditors	188	6
Amounts owed to Group undertakings	2,288	2,275
Other taxation and social security	50	9
Other creditors	4	4
Accruals	228	214
	2,758	2,508

Amounts owed to Group undertakings are interest free and repayable on demand.

C8. Reconciliation of Shareholders' Funds

Share Capital

	2017 Ordinary 20p Shares		2016 Ordinary 20p Shares	
	Number 000	Amount £000	Number 000	Amount £000
Allotted, called up and fully paid	91,670	18,334	91,670	18,334

Investment in Own Shares

At 30 September 2017, 9,164,017 shares were held in treasury (2016: 9,164,017).

Reserves

	Reserves £000	Capital Redemption Reserve £000	Profit and Loss Account £000	Total £000
At 1 October 2015	3,742	1,764	12,956	18,462
Dividend	–	–	–	–
Share-based payments	–	–	66	66
Loss for the financial year	–	–	(2,774)	(2,774)
At 30 September 2016	3,742	1,764	10,248	15,754
Share-based payments	–	–	98	98
Loss for the financial year	–	–	(1,143)	(1,143)
At 30 September 2017	3,742	1,764	9,203	14,709

The value of shares issued to purchase Gilfin Property Holdings Limited in excess of their nominal value has been shown as a separate reserve in accordance with the Companies Act 2006.

Capital Redemption Reserve

The capital redemption reserve arose in prior years on the cancellation of 8,822,920 Ordinary 20p Shares.

Dividends

No dividends were paid during the current and previous year.

Supplementary Information

Glossary

Actual and Forecast Interest Cover Test (ICR)
The ICRs given in the Finance Review are calculated as defined in the loan facility agreements. Each bank loan has a charge on a specific pool of property and the ICRs are calculated based on the gross rental income, less an adjustment for unrecoverable costs compared to the interest charged on that loan for that particular pool of assets.

Adjusted Net Asset Value ("Adjusted NAV") per share
Adjusted NAV is calculated as shareholders' funds, adjusted by the fair value of the derivative financial instruments held on the Balance Sheet, divided by the number of shares in issue at the year end, excluding treasury shares.

Adjusted Operating Profit
Adjusted operating profit is calculated by adjusting the statutory IFRS reported result for: the movement in the fair value of the property portfolio; the movement in the fair value of financial derivatives held; any profit or loss realised on the sale of properties or other fixed assets; and other one-off, non-recurring income or costs incurred which are not considered to be sustainable or of a recurring nature.

Capital Gearing
Capital Gearing is the ratio of the Group's Net Debt to its Net Asset Value.

Earnings Per Share ("EPS")
EPS is calculated as profit attributable to shareholders divided by the weighted average number of shares in issue in the year.

Equivalent Yield
Equivalent Yield is a weighted average of the Initial Yield and Reversionary Yield and represents the return a property will produce based upon the timing of the income received. In accordance with usual practice, the Equivalent Yields (as determined by the Group's external valuers) assume rent received annually in arrears and on gross values including prospective purchasers' costs (including stamp duty, and agents' and legal fees).

Funds From Operations ("FFO")
FFO is a term adopted by the National Association of Real Estate Investment Trusts. It is calculated as net income adjusted for depreciation of investment properties and gains/losses on sales of investment properties.

Head Lease
A head lease is a lease under which the Group holds an investment property.

Initial Yield
Initial yield is the annualised net rent generated by a property expressed as a percentage of the property valuation. In accordance with usual practice the property value is grossed up to include prospective purchasers' costs.

Interest Cover
Interest cover can be calculated in a number of ways. The Group interest cover given in the Finance Review is based on the percentage of times gross rental income covers financing expenses.

Interest Rate Swap
An interest rate swap is a financial instrument where two parties agree to exchange an interest rate obligation for a predetermined amount of time. These are used by the Group to convert floating rate debt to fixed rates.

Investment Property Databank Ltd ("IPD")
IPD produces an independent benchmark of property returns.

Initial Public Offering ("IPO")
An IPO is the first sale of shares by a privately owned company on a Stock Exchange. LSR issued its shares for sale on 2 May 2007.

Like-for-like Market Rent
This is the Market Rent for the Group's investment properties at the end of the financial year compared with the Market Rent for the same properties at the end of the prior year, i.e. excluding the Market Rent of those properties disposed of during the interim period.

Like-for-like Rental Income
This is the Rental Income for the Group's investment properties at the end of the financial year compared with the rental income for the same properties at the end of the prior year, i.e. excluding those properties disposed of during the interim period.

London Interbank Offered Rate ("LIBOR")
LIBOR is the interest rate charged by one bank to another bank for lending money.

Loan-to-value ("LTV")
Loan-to-value is the ratio of debt, excluding any mark-to-market adjustments, to the value of investment properties.

Group Loan-to-value ("LTV")
Group Loan-to-value is the ratio of debt (net of cash reserves) to the total value of investment properties.

Market Value
Market value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Market Rent
Market Rent is the estimated amount for which a property should lease on the date of valuation between a willing lessor and a willing lessee on appropriate lease terms, in an arm's length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Net Asset Value ("NAV") per share
NAV per share is calculated as shareholders' funds divided by the number of shares in issue at the year end excluding treasury shares.

Net Debt
The aggregate of the Group's indebtedness under its banking facilities, less unamortised loan costs and cash reserves held by the Group.

Real Estate Investment Trust ("REIT")
A REIT is a listed property company which qualifies for and has elected into a tax regime, which exempts qualifying UK property rental income and gains on investment property disposals from corporation tax. LSR converted to REIT status on 11 May 2007.

Rent Roll
Rent roll is the total contractual annualised rent receivable from the portfolio net of any head rent payments.

Reversionary Yield
Reversionary Yield is the annualised net rent that would be generated by a property if it were fully let at Market Rent expressed as a percentage of the property valuation. In accordance with usual practice the property value is grossed up to include prospective purchasers' costs.

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