the Local Shopping REIT plc

Annual Report
for the year ended 30 September 2016

Stock Code: LSR

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. As at 30 September 2016 the Company's directly owned portfolio comprised 327 properties, with over 1,000 letting units.

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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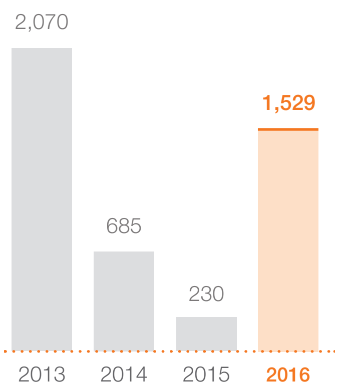
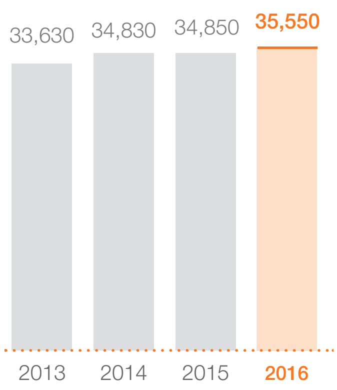
Highlights

Recurring Profit
(£'000)



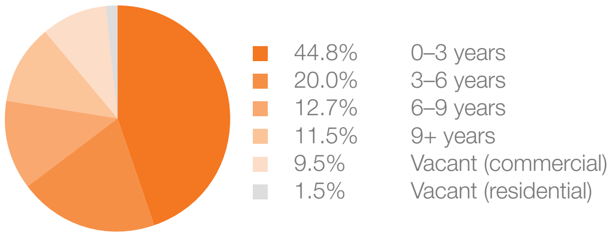
Net Asset Value
(£'000)



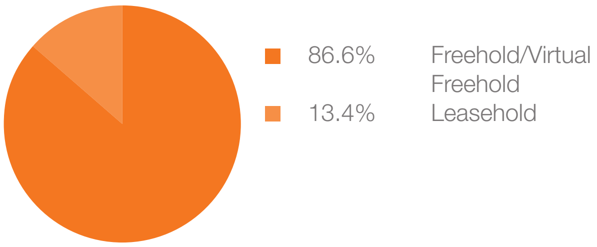
- Profit for the financial period of £0.63m or 0.76 pence per share ("pps") (2015: £0.02m or 0.02 pps).
- Recurring operating profit* for the period of £1.53m or 1.9 pps (2015: £0.23m or 0.3 pps).
- Portfolio valued at 30 September 2016 at £75.3m, reflecting an equivalent yield (excluding the residential element) of 9.5% (30 September 2015: £81.2m, equivalent yield 9.3%).
- Net Asset Value (NAV): £35.55m or 43 pps (30 September 2015: £34.85m, 42 pps).
- Total net debt (taking account of cash reserves) of £39.54m, reflecting a Group LTV on all investment properties of 52.5% (2015: £42.95m; 52.9%).
- Following the year end, HSBC borrowing facilities extended to 31 December 2019 at the current rate of 2% over LIBOR, at which time LTV on borrowings fell from 71% to 61%.

* Recurring operating profit is explained in the Finance section below.

Lease Expiry Profile
As a percentage of Market Rent

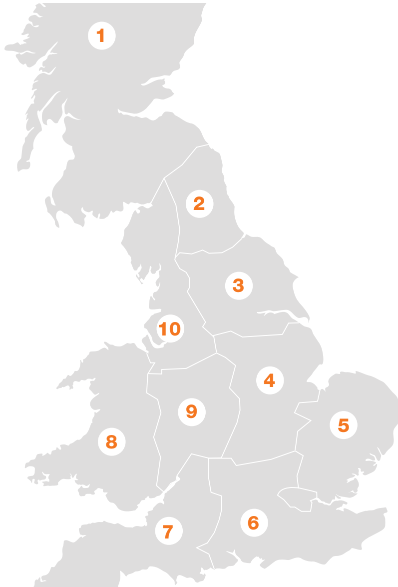


Tenure
As a percentage of Valuation

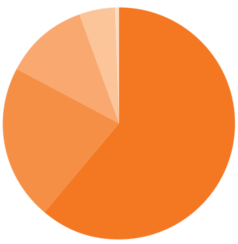


Portfolio construction
(%)

		Market Rent	Value
1	Scotland	12.2%	11.1%
2	North East	4.1%	3.6%
3	Yorkshire & Humberside	8.8%	8.2%
4	East Midlands	7.1%	7.7%
5	East Anglia	2.2%	2.2%
6	London and South East	19.7%	24.0%
7	South West	12.5%	13.1%
8	Wales	3.8%	3.2%
9	West Midlands	9.6%	9.4%
10	North West	19.9%	17.5%

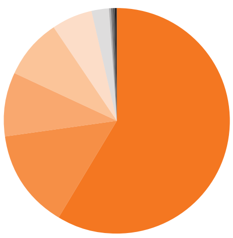


Tenant Grade
As a percentage of Market Rent



61.2%	Individual
21.7%	National multiple
11.8%	Local company
4.9%	Regional multiple
0.4%	Government

Planning Use
As a percentage of Market Rent



58.6%	A1 Shops
14.2%	C3 Residential
9.1%	A3 Cafes/restaurants
8.7%	A2 Financial
5.9%	A5 Takeaways
2.3%	B1 Offices
0.5%	D1 Institutional
0.3%	A4 Pubs
0.2%	Miscellaneous
0.1%	D2 Leisure

The directors consider that, in accordance with the UK Corporate Governance Code 2014, 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.

Chairman's Statement

Financial Results and Portfolio Performance

The Company made a profit for the year of £0.63m (2015: £0.02m) on an IFRS basis. The recurring operating profit was £1.53m (2015: £0.23m).

Our portfolio was revalued at 30 September 2016 at £75.3m, reflecting an equivalent yield (excluding the residential element) of 9.5%.

A key achievement following the financial year end was the extension of the term of our borrowing facilities with HSBC to 31 December 2019, at the existing margin of 2% above LIBOR. This has strengthened our financial position and provides us with improved latitude to dispose of our remaining property assets in a manner which derives best value for shareholders.

During the year, we disposed of 27 properties for a combined gross consideration of £5.0m, the proceeds of which, together with operational income, enabled us to further reduce our overall loan-to-value ratio to 52.5% at the year end. Property sales have since accelerated, with a further 22 transactions having exchanged or completed following the financial year end.

At the date of this report we had sold 55.9% by value of the portfolio as it stood when shareholders approved the revised investment strategy in July 2013. This has involved the sale of over 360 properties representing £96.6m in aggregate value, via over one hundred individual transactions (including one large portfolio sale of 253 assets reflecting a property purchase price of £79.3m).

Our capital gearing has reduced from a peak of 384% in 2013 to 111% at 30 September 2016, and, following the elimination of our interest rate hedging contracts during the year, the Company enjoyed a positive operating cash flow in the second half of the financial year.

Road map for Property Disposals

As we have previously commented, our preferred approach was to dispose of the remainder of the portfolio, or the bulk of it, by way of a portfolio sale. Heads of terms were signed and significant work undertaken on three occasions with interested parties. However, for varying reasons none of these potential sales crystallised. Whilst that process was underway it significantly constrained our ability to dispose of individual assets.

Now that constraint has been removed, we have initiated the disposal strategy set out below. The pace of that programme is dictated by the number of properties we believe the market can absorb at sensible prices, but also the ability to process sales (particularly bearing in mind that a significant number of property sales will be subject to the statutory pre-emption procedures applying to residential leases).

Additionally, the road map below has been designed to maintain income whilst the smaller and less robust properties are sold.

1. October 2016 to December 2017:
   a. Dispose of approximately 90 smaller or management intensive properties for an aggregate sale price of £10m representing an average lot size of £110,000. These properties will be sold in regional and London auctions. There are auction cycles every two months, so we will aim to sell approximately 15 properties per auction cycle;
   b. Market for private treaty sale approximately 25 properties with a combined value of £5m, focussing on those that are geographically difficult to manage;
   c. Sell 10 low-yielding properties for an estimated £5m, by auction or private treaty.

   The three categories above total £20m in 125 lots. This equates to 25 property sales and £4m in aggregate proceeds per quarter.

   Since implementing the above strategy, the Company has completed or exchanged for sale on a total of 22 properties for an aggregate sale price of £2.0m representing a 1.75% premium to valuation before transaction costs. Furthermore, 25 assets have been scheduled for auctions in February, and agents have now been appointed on the majority of the planned private treaty sales.

2. Early 2018:

   The Company will be left with a 'core' portfolio of approximately £55m (based on current valuations), comprising 200 of the larger and better-quality assets in a tighter geographic concentration. Furthermore, time away from the market will allow us to reposition the portfolio and undertake asset management initiatives at the individual property level in order to achieve maximum value.

   In early 2018 the portfolio will be marketed as a whole for a limited period, as the Board believes that this will be the optimum disposal route (bearing in mind that the revised nature of the portfolio should make it easier for a purchaser to raise finance against it).

3. Remainder of 2018 – 2019:

   In the event the above portfolio sale is unsuccessful, the remaining assets will be liquidated via a mixture of auction, private treaty and possibly small portfolios and/or bespoke auctions. We estimate that it would take a further 18 months to dispose of the remaining assets.

At this stage of the liquidation process it is likely that the Company's profitability will tighten, as the diminishing asset base will provide less income to cover the fixed costs of running a public company.

Whilst the Board believes this programme is achievable, shareholders should be aware that the programme set out above is reliant on market conditions and other external factors.

Timeline

YEAR	2016	2017		2018		2019		2020
PERIOD	**Q4**	**H1**	**H2**	**H1**	**H2**	**H1**	**H2**	**Q1**
ACTION		Sell 125 of the smaller and more challenging properties (£20m)		Market core portfolio for sale	If successful: Immediate liquidation & wind-up			
					If unsuccessful: Sell remaining 200 properties (£55m)			Liquidation & wind-up
MILESTONES				1		2	3	4

1 Portfolio repositioned and LTV on borrowings below 50%.
2 Sufficient aggregate sales to fully repay borrowings.
3 Expiry of borrowing facilities.
4 Time for liquidation and wind-up will depend on methodology and other factors, including Court orders.

Outlook

The extension of the terms of our borrowing facilities, as described above, was a crucial achievement, which the Board believes now gives us time to repay the bank debt through asset sales at a measured pace. Recent sales undertaken by the Company have, on an aggregated basis, been broadly in line with book values. However, in some instances prices achieved have been as much as 25% above or below book value, with better quality properties sometimes exceeding expectations and some poorer assets (particularly where they include vacant units) falling short.

Although achieving the objective of liquidating the Company's assets and returning cash to shareholders is not strategically complex, it is a significant endeavour given the large number and granularity of the properties to be sold and a degree of patience will be required if shareholders are to receive fair value.

It is too early to give guidance on the final liquidation value of the Company, particularly as the gearing has a magnifying effect. In due course, when we have more visibility on sales, a clearer picture of the effect on cash flow as the portfolio runs off and a more precise view on asset disposal and liquidation costs, we will be in a position to provide better guidance on expectations for a liquidation value per share. To that end, the Board will provide shareholders with regular updates on sales. In the meantime, it is gratifying to see the Company enjoying positive operating cash flow, which can only assist in delivering value to shareholders.

Stephen East
Chairman
9 December 2016

Operating Review

Business Model

Our operating model focuses on two principal, inter-related, elements of the Company's investment policy:

- Disposing of the Company's remaining property assets and paying down its debt facilities;
- Sound asset management to maximise returns from the residual portfolio.

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 2015–16

Market Context

During the year, the overall UK economy continued its pattern of steady growth. The quarterly figures from the Office for National Statistics ("ONS") for 30 September 2016 indicate that this trend has not as yet been unduly affected by the Brexit vote, with gross domestic product ("GDP") growing throughout 2016, including the September quarter. Unemployment continued its downward trend, to 1.6m at the end of September, the lowest figure for eleven years. Household disposable income continues to rise, albeit with regional variations. In tandem with these trends, retail sales appear to have held up, despite the uncertainty in the run-up to the Brexit vote and thereafter. This appears to have fed through into the local shopping market, with the Association of Convenience Stores retailers reporting local retailers investing a total of £600m in store improvements to improve footfall in the face of competition from internet shopping and the expansion into convenience retail of the major supermarket chains.

Operating Results & Portfolio Performance

At 30 September 2016 the portfolio comprised 327 properties, producing an annual gross rental income, after deducting head rent payments, of £6.99m (30 September 2015: 353 properties; annual rental income £7.49m). The portfolio included 1,014 letting units (30 September 2015: 1,076 letting units). Over the year like-for-like net rental income fell by 1.8% and the portfolio Market Rent fell on a like-for-like basis by 1.1%.

Revaluation

The profit before tax reflected the movement in fair value of the property portfolio, which was valued at £75.3m at 30 September 2016 (30 September 2015: £81.2m). The movement during the period reflected both property disposals and value movements within the ongoing portfolio. On a like-for-like basis, the portfolio reduced in value by 1.1%.

The investment property portfolio valuation as at 30 September 2016 reflected an equivalent yield (excluding the residential element) of 9.5% (30 September 2015, like-for-like: 9.4%).

Investment Property Portfolio as at 30 September 2016

Value	£75.31m
Initial Yield ("IY")	9.13%
Reversionary Yield ("RY")	9.83%
Equivalent Yield ("EY")	9.49%
Rent per annum*	£6.99m
Market Rent per annum*	£7.55m

* Net of head rents payable.

Value Range	No. of Properties	Value £m	Equivalent Yield %
£0 – £100k	134	9.16	10.7
£101k – £200k	90	12.73	9.5
£201k – £500k	76	24.02	9.5
£501k – £1m	18	13.02	9.6
£1m – £3m	8	13.13	9.1
£3m +	1	3.25	6.5
Total	327	75.31	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 2016 Equivalent Yield	30 September 2015 Equivalent Yield (like-for-like)	Change bps
East Anglia	10.5	10.7	-22
London	6.0	6.2	-18
South East	8.3	8.2	+11
South West	9.3	9.2	+10
West Midlands	9.8	9.7	+12
Wales	11.6	11.6	+6
Yorks & Humberside	10.5	10.4	+6
East Midlands	8.6	8.9	-26
North	10.8	10.7	+9
Scotland	10.3	9.9	+43
North West	10.2	10.0	+15

Property Sales

During the year sales were completed on a further 27 properties at a combined gross sale price of £5.0m, which was 0.49% under the aggregate valuations at the time the properties went under offer.

Since the year end, sales have been completed or contracts exchanged on a further 22 properties at an aggregate price of £2.0m, a premium to their valuations of 1.75%.

As at the date of this report, total property sales since the change in the Company's investment strategy in July 2013 have reached £96.6m (55.9% of value of the July 2013 portfolio).

Portfolio Performance and Asset Management

The table below summarises asset management activity during the year:

	Number	Aggregate Rent	Premium/ (discount) to ERV
Commercial property lettings	59	£496,000	(2.0%)
Lease renewals	28	£270,000	(2.0%)
Rent reviews (open market and fixed)	14	£160,000	4.1%
Market Rent of vacant properties 30 September 2016 / overall void rate 30 September 2016		£825,000	10.9%
Void rate increase on 30 September 2015			+0.4%
Deposits held for commercial units, % of quarterly rent roll			26.0%

Financial Review

The financial statements contained in this report have been prepared in accordance with International Reporting Standards ("IFRS"). No new accounting policies were adopted during the year.

Result

The Group has recorded an IFRS profit for the financial year of £0.63m, or 0.8 pps (2015: £0.02m, or 0.02 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 2016	30 September 2015
Group interest cover	**182%**	188%
Group Loan to value (LTV) ratio	**52.5%**	52.9%
NAV per share	**43p**	42p
Gearing (net of cash held)	**111%**	123%
Recurring operating profit	**£1.53m**	£0.23m
Recurring operating profit per share	**1.85p**	0.28p

Recurring Operating Profit

In order to measure operational performance, the Board monitors recurring operating profit. This measure excludes realised and unrealised gains and losses on investment properties and financial derivatives and a range of expenditure items that the Board considers to be of a non-recurring nature. The recurring operating profit was £1.53m, or 1.9 pps (2015: £0.23m, or 0.3 pps). This improvement primarily reflected the lower cost of debt following the elimination of the Company's interest rate swap contracts.

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

	30 September 2016 £000	30 September 2015 £000
Profit before tax (IFRS)	**631**	20
Movement in the fair value of the portfolio	**1,073**	1,638
Movement in the fair value of the interest rate swaps held	**(2,294)**	(1,728)
Swap termination charge	**1,758**	–
Loss on disposal of properties	**199**	7
Non-recurring expenditure	**162**	65
Adjustment to portfolio sale proceeds	**–**	225
Recurring operating profit	**1,529**	227

Property Operating Expenses

Property operating expenses were £1.86m (2015: £1.96m). This reduction reflected the sale of properties in accordance with the investment policy.

Net Asset Value ("NAV")

During the period NAV rose to £35.55m or £0.43 per share, based on 82.5m shares in issue, excluding those held in Treasury (30 September 2015: £34.85m, £0.42 per share).

As at 30 September 2016 the Group held £11.0m of cash (30 September 2015: £12.7m).

During the year, the Group utilised £1.76m of its cash reserves to cancel its interest rate hedging facilities.

For the Group as a whole Allsop LLP, a firm of independent chartered surveyors valued the Group's property portfolio at 30 September 2016, 31 March 2016, 30 September 2015 and 31 March 2015. 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 Institute 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.

Banking Facilities

During the year, the Group operated using the loan facilities provided by HSBC Bank plc ("HSBC"). The facilities in place as at 30 September 2016 were as set out below:

Loan	Facility £m	Amount Outstanding £m	Default ICR Covenant	Default LTV Covenant	Amortisation	Expiry Date
HSBC NOS 4 Loan	45.7	42.7	130%	82.5%	0.45% pq for LTV 65%+ 0.25% pq for LTV 60–65% Nil below 60% LTV	30 April 2018
HSBC NOS 6 Loan	19.4	8.1				
Total	**65.1**	**50.8m**				

On 21 November 2016, following the year end, the Group agreed with HSBC to extend the term of the two cross-collateralised loan facilities described above 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). As a result of this, and other repayments from asset sales, the balance of the loans outstanding on 30 November 2016 was £42.9m.

Under the terms of the extension, the interest margin remained at 2% above 3 month LIBOR and an arrangement fee of 0.5% was paid on the outstanding balance of the loans extended. Further property assets valued at £1m are to be 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) will be applied to reducing the balance of the loans.

The facilities as they now apply are set out below:

Loan	Facility £m	Amount Outstanding £m	Default ICR Covenant	Default LTV Covenant	Amortisation	Expiry Date
HSBC NOS 4 Loan	45.7	42.5	120%	70.0%	1.0% pq for 2 years 0.25% pq thereafter (until the loan balance falls below £36m)	31 December 2019
HSBC NOS 6 Loan	19.4	0.4				
Total	**65.1**	**42.9m**				

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 2016	Forecast ICR quarter ended 30 September 2016
HSBC	130%	**380.5%**	**354.5%**

Financial Review continued

For the financial year ending 30 September 2016, the Group's average cost of debt, including margin was 3.8%, having reduced from 5.3% at 30 September 2015. Immediately following the extension of the loan facility, the average cost of debt was 2.7%.

Improvements in the cost of debt have been driven primarily by the expiry and early termination of the Group's interest rate hedging liabilities during the year. In October 2015 and in January 2016, the Group terminated the remaining two interest rate swaps otherwise due to expire in January 2017 and July 2016.

At 30 September 2016, the Group held property assets valued at £4.2m with no debt secured against them (30 September 2015: £5.3m), together with cash of £11.0m (30 September 2015: £12.7m). Following the extension of the HSBC loan facility, the Group continues to hold a cash reserve which could be deployed to repay debt in the unlikely event that a loan covenant is at risk of being breached.

Taxation

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

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 fund manager, INTERNOS, having transferred to INTERNOS from the Company following the change of the Company's investment strategy in 2013.

During the year, we developed our relationships with national and local agents and other partners in the context of our property sales programme. We are conscious that our ability to operate effectively rests on our reputation for fairness and a straightforward and honest approach 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 business, 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 after the year end.

Health, Safety and Welfare

Subject to the overriding responsibilities held by the directors, INTERNOS is responsible for ensuring that the Company's discharges its obligations for health, safety and welfare, including that of those engaged on the Company's activities. We are pleased with the priority that INTERNOS accords to this area and 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, together with a continuing programme of risk assessments covering relevant multi-occupancy sites.

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 use local advisers, agents and contractors whenever appropriate.

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.

Board of Directors

Stephen East
Independent Non-Executive Chairman, aged 58

Stephen East joined the Board in September 2009, become Chairman of the Company in 2014. He previously served as Finance Director of MEPC plc and as Finance Director of Woolworth Group plc. He holds non-executive directorships of Marwyn Management Partners plc and Snoozebox Holdings plc. He also serves on the board of Genesis Housing Association. He has previously held non-executive appointments with Regus Group plc, Star Energy Group plc and CQS Diversified Fund Limited. 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.

Nicholas Vetch
Senior Independent Non-Executive Director, aged 55

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.

Brett Miller
Non-Executive Director, aged 49

Appointed 12 December 2016.
Brett Miller practised as a solicitor before moving into investment management. He is an executive director of Damille Investments II Limited and a non-executive director of M&L Property & Assets plc and Manchester and London Investment Trust plc. He will serve on the Audit and Remuneration Committees.

Steven Faber
Executive Director

Resigned 11 April 2016.

William Heaney
Non-Executive Director

Appointed 10 November 2016, resigned 8 December 2016.

Company Secretary
William Heaney

Corporate Governance Report

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 2014 ("the Code") promulgated by the Financial Reporting Council. 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 six 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 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 auditor. 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 fund manager, 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 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 wider property, investment market and banking matters.

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 the preceding page. Stephen East and Nicholas Vetch held office throughout the year to 30 September 2016. Steve Faber resigned from the Board in April 2016, Following Mr Faber's departure, the Board comprised an independent non-executive Chairman and one further independent non-executive director (who was also the senior independent non-executive director). Non-executive directors were in the majority throughout the year. Following the year end, William Heaney joined the Board as a non-executive director on 10 November 2016 and resigned on 8 December 2016.

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 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 offers himself 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 2016 Annual General Meeting, when all directors then holding office were reappointed.

Corporate Governance Report 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. As the Committee did not meet during the year and bearing in mind the programme for liquidating the Company's investments, the directors consider that to provide a detailed report on the Committee's activities and policies would not enhance an understanding of the Company's corporate governance regime.

Audit Committee

The Audit Committee comprises the Board's two independent non-executive directors, Stephen East 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 report of the Audit Committee can be found on page 26. 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 Auditor and approving the Auditor's terms of engagement and remuneration;
- overseeing the Company's relationship with the external Auditor, reviewing and monitoring the Auditor's 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 Auditor's findings and the effectiveness of the audit programme;
- developing and implementing policy on the engagement of the external Auditor 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 maybe needed;
- reporting to the Board on how the Committee has discharged its activities.

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

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

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 23. 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	6	3	2	–
Steve Faber*	3	n/a	n/a	–
Nick Vetch	6	3	2	–

* Resigned 16 April 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, which, until 16 April 2016, employed Steve Faber as a senior executive, for the provision of investment advisory and fund management services. Subject to this no director had any material interest in any contract or arrangement with any company within the Group; and
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	2016	2015
Stephen East	75,000	75,000
Steve Faber*	3,574	3,574
Nicholas Vetch	2,873,563	2,873,563

* Resigned 16 April 2016.

None of the Directors had any interest in employee share schemes.

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, including the executive director (whilst in place), 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 are pleased to arrange for directors to inspect investment properties.

Corporate Governance Report continued

Principal Risks

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, are external and beyond the Company's power to 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 revised 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	— 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 authorised by asset manager and director — Capital expenditure subject to regular review — Focus on sale of assets with high potential capital expenditure
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

Potential Risk	Impact	Mitigation
Property Portfolio Performance		
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 INTERNOS of effective security regime with off-site data 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 — Disposal programme aimed at lowering loan finance risks — Impact of interest rates on property yields monitored and investment/disposal policy adjusted accordingly

Corporate Governance Report continued

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, as appropriate, complying with the requirements of the Model Code, Anti-money Laundering regulations, the Data Protection Act and the Bribery Act, as well as customer care and external complaint guidelines. During the year, the Company adopted a new Code, Policy and procedures under the Market Abuse Regulations, in replacement of the Model Code which is no longer in force. The Company's arrangements with INTERNOS, which is regulated by the Financial Conduct Authority, include the provision of all applicable compliance procedures. 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 systems 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 16. 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 directors' 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 executive directors 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 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 the continuing effectiveness of the Company's hedging arrangements; 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 Auditor. Following its review of the Auditor's findings during 2015–16 and its examination of the control framework established by INTERNOS the Board considers that the Company's approach is acceptable.

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 page 6.

Group Companies

The subsidiary undertakings of the Company are set out in note 19 to the financial statements.

Group Result and Dividend

The profit for the Group attributable to shareholders for the year was £0.63m (2015: profit £0.02m). The recurring operating profit for the year was 1.9p per share (2015: 0.3p). The definition of recurring 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's use of financial instruments to reduce its exposure to risks arising from interest rate fluctuations is described in notes 14 and 15 to the financial statements.

Share Capital

Details of the Company's issued share capital are set out in note 11 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. 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.

Corporate Governance Report continued

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 2016, 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 2017 Annual General Meeting, at which a resolution will be proposed for its renewal. 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 31 December 2016, 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	19,231,218	23.31
Damille Investments II Limited	18,300,000	22.18
Hargreaves Lansdown Asset Management	5,283,513	6.40
EFG Harris Allday	4,284,973	5.19
Thames River Capital LLP	3,204,324	3.88
N J Vetch	2,873,563	3.48
Equiniti Financial Services Limited	2,869,638	3.48
Value Investments Limited	2,793,500	3.39
Alliance Trust Savings Limited	2,480,479	3.01

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 20 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.

Carbon Emissions Data

In relation to the Scope 1 figures it is not possible to separately identify the gas consumed on our 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. 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.

Comparisons of the Scope 1 and Scope 2 figures between 2014–15 and 2015–16 are likely to be affected by the disposal of properties immediately prior to and during the year.

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.

The data has been compiled using the software tools available on the DEFRA website.

	2016 Kg Co_2e	Kg Co_2e per £1m t/o	2015 Kg Co_2e	Kg Co_2e per £1m t/o
Scope 1 (gas and fuel)	1,508	197	2,183	285
Scope 2 (electricity)	9,450	1,233	9,437	1,231
Total gross emissions	10,958		11,620	

Employee Share Schemes

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

The Company's Employee Benefit Trust operates to supply shares as appropriate to meet obligations arising from 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.

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 (2015: nil).

Amendment of Articles

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

Auditor

The current KPMG audit engagement partner will rotate off the Local Shopping REIT's audit account at the conclusion of the 2016 audit, having completed his permitted tenure of five years. It was decided by the Committee that, mindful of the regulatory changes and the longevity of the KPMG audit tenure, it would be appropriate to put the external audit out to tender aligned to the partner rotation.

During the year KPMG LLP supplied the Company with tax advice. However, following the year end and in compliance with the regulatory changes for auditors, KPMG LLP has resigned its appointment as the Company's tax advisor.

Corporate Governance Report continued

Viability Statement

In accordance with the UK Corporate Governance Code 2014, the directors have assessed the Company's viability over the coming three 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 finds to shareholders. 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' 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 cashflow forecasts for the period to 30 September 2019 which include assumptions on the timing and manner of the liquidation 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 three 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.

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 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 and Nick Vetch. The Committee was chaired by Stephen East. Biographical details of the members of the Committee are set out on page 12. The Committee met twice during the year.

Other than the Company Secretary, who serves as secretary to the Committee, other directors or executives attend meetings of the Committee only by invitation. 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 Remuneration Committee ("the Committee") is responsible for the operation of the Company's long-term share-related performance plans (the Long Term Incentive Plan and the Company Share Option Plan) during the year. However, neither of these plans were operated during the year, the participatory rights under each of them having lapsed during prior years.

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 had in place a share-based retention and incentive plan ("The Local Shopping REIT plc Employee & Former Employee Incentive Scheme 2015"), related to the execution of the investment strategy, which applied to members of the asset management team eligible to participate in such arrangements under the terms of the Employee Benefit Trust. This was a short-term arrangement linked to the achievement of property disposals under the Company's investment strategy, which expired on 30 September 2016. Option awards vested over 305,447 shares during the year. The Company has put in place a similar arrangement for 2016–17.

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.

Remuneration Report continued

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. Additionally, the Articles require that director appointments made by the Board directors are ratified at the subsequent General Meeting of the Company.

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 not to be capable of termination by the Company at not more than one year's notice.

See Table 2 on page 25.

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. Further consideration will be given to carrying out a review during 2016–17.

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 2017.

Remuneration Implementation Report

This section sets out the ways in which the Company applied its remuneration policy during 2015–16.

As no director of the Company was engaged as an employee during the year (Steve Faber being an employee of INTERNOS), this report does not refer to executive pay and benefits.

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 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 2016 Annual General Meeting shareholders passed a resolution approving the Remuneration Implementation Report for 2014–15, with no votes against at the meeting and proxy votes for each resolution showing a majority of 99.99% of votes cast.

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. During his appointment as a director of the Company, Steve Faber was an employee of INTERNOS Global Investors Limited.

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.

Investor Commentary

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

Save as indicated below, the remainder of this report has been audited.

Table 1: Directors' Total Remuneration 2015–16

Director	Salary	Short–term incentives	Long–term incentives	Pension contributions	Benefits in kind	Total
Non-executive directors						
Stephen East	30,000	–	–	–	–	30,000
Nick Vetch	30,000	–	–	–	–	30,000
Executive directors						
Steve Faber*	–	–	–	–	–	–
Total	**60,000**	–	–	–	–	**60,000**

The figures in the above table were unchanged from 2014–15.

Table 2: Directors' Service Contracts

	Date of initial appointment	Date of current appointment letter	Expiry of term
Non-executive directors			
Stephen East	10 September 2009	10 September 2016	9 September 2017
Nick Vetch	30 March 2007	30 March 2016	29 March 2017
Executive directors			
Steve Faber*	Not applicable	Not applicable	Not applicable

Table 3: Directors' Interests in the Company's Shares

Director	Ordinary 20p Shares 2016	2015
Stephen East	**75,000**	75,000
Steve Faber*	**3,574**	3,574
Nicholas Vetch	**2,873,563**	2,873,563

* Resigned 11 April 2016.

Stephen East
Remuneration Committee Chairman

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 15. During the year, the Committee paid particular attention to the significant areas set out below, which were discussed in detail with the Auditor.

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 2015 and 31 March 2016.

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 also took note of 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.

In accordance with the Code, as part of the Company's year-end process we also assessed the effectiveness of the external audit process during the year (including the full-year audit and the Auditor's half-year review). In doing so, the Committee again noted that KPMG have been the Company's Auditor since its stock market listing in 2007. Having carefully considered the outcome of this exercise and bearing in mind the Company's investment policy, the Committee decided that it would tender the audit following the publication of the annual report in order to comply with applicable statutory and regulatory requirements in audit rotation and tender process.

KPMG LLP and its related entities provide non-audit services to the Company, in particular tax advice in connection with the Company's REIT status. In order to safeguard the objectivity of the Auditor, strict procedures are in place for the engagement of KPMG entities in non-audit work. All work undertaken by KPMG is notified to the Chairman of the Audit Committee and careful consideration is given to whether such work might give rise to a conflict of interest. The Chairman of the Audit Committee must separately authorise any item of work that could result in fees being paid in excess of 50% of the audit fee in any year. Following the year end KPMG LLP resigned as the Company's tax adviser, in order to comply with recently promulgated best practice standards.

Nicholas Vetch
Audit Committee Chairman
9 December 2016

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 2016.

The Directors' Report also includes the information set out on pages 12 to 26, together with the description of the Company's investment policy and business model set out on page 6.

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 their annual report and the Group and parent Company financial statements in accordance with applicable law and regulations. Company law requires that the directors 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 IFRSs as adopted by the European Union and applicable law and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice). 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 the parent Company and of their profit or loss for the relevant period.

In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable 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; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the parent Company will continue in business.

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 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 directors' report, a directors' remuneration report and a corporate governance statement, each of which conforms to the relevant law and 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. The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable in accordance with the UK Corporate Governance Code 2014, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Independent Auditor's Report can be found on page 28. So far as the directors are aware, there is no information relevant to the Auditor's preparation of their report that has not been disclosed to the Company's Auditor. Each director has taken all steps required of a director to ensure that he is aware of any information relevant to the audit and to establish that all such information has been disclosed to the Auditor. The directors consider that the sections headed Performance Review, Finance Review, Corporate Governance and the Remuneration Report together fulfil the requirement for an enhanced Business Review under section 417 of the Companies Act 2006. The Strategic Report and the Directors' Report together comprise the management report as required by the Disclosure and Transparency Rule 4.1.8R.

The Corporate Governance section is a statement for the purposes of the Disclosure and Transparency Rule 7.2.1.

The foregoing reports were approved by the directors on 9 December 2016.

William A Heaney
Company Secretary

Independent Auditor's Report

to the members of the Local Shopping REIT plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of the Local Shopping REIT plc for the year ended 30 September 2016 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Changes in Equity, and the related notes. 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 2016 and of the group's profit for the year then ended;

— the group financial statements have been properly prepared in accordance with International Financial Reporting Standards 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.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows:

Valuation of investment property portfolio £74.2m (2015: £79.4m) – Risk vs 2015: ◀▶
Refer to Audit Committee Report, accounting policy and financial disclosures.

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

Our response – In this area our audit procedures included using our own specialist real estate valuers to assist us in evaluating the assumptions used by the group. We have also reviewed the competence, capability and objectivity of the external valuers used by the Group. We compared the group's assumptions to externally derived data as well as our own assessments in relation to yield rates on a geographic as well as a property type basis. Further, 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; and assessed the portfolio valuation as a whole for 'outliers' such as yields in excess of, and significantly below, the average for the portfolio and those properties resulting in the most significant valuation uplift or decrease, which we then investigated with the Directors and the external valuers by assessing specific qualitative factors relevant to each outlier. We also assessed the adequacy of the group's disclosures concerning related estimates and judgments.

Going concern – Risk vs 2015: ◀▶
Refer to Audit Committee Report, basis of preparation and financial disclosures

The risk – During the current year the Group continued its operational strategy which was announced in July 2013, and disposed of a number of properties. 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. As such, assessing whether the going concern basis of preparation remains appropriate requires significant judgment and it is important that the disclosure of the directors' judgments in this regard are appropriate.

Our response – Our procedures in this area involved discussing with the directors the availability of other strategies that remain open to the Group such as continuing to trade as a going concern or the disposal of the Group as a going concern and assessed the viability of such strategies. With regards the group continuing to trade as a going concern we assessed whether the group's property portfolio was being actively marketed for sale as at the yearend (which would question the viability of the group continuing to trade). We also critically assessed the Group's cash flow forecasts, prepared by the directors, and the forecast level of cash and forecast headroom on debt covenants over the remaining life of the facilities to December 2019. We challenged the directors' assumptions included in the forecasts particularly around property disposals valuations, yield and void rates and tenant default rates using sensitivity analysis over these assumptions and evaluated the accuracy of the Directors' previous valuations by reference to property disposal values. We also considered the adequacy of the group's disclosures in respect of the going concern assumption.

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 £820,000 (2015: £900,000) determined with reference to a benchmark of total group assets of which it represents 0.9% (2015: 0.9%).

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

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

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

— the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;

— the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

— the information given in the Corporate Governance Statement set out on Corporate Governance Report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

5. We have nothing to report on the disclosures of principal risks

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

— the directors' statement of Viability and Going Concern on Principal Risks section, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the next three years to 2019; or

— the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

— we have identified material inconsistencies between the knowledge we acquired during our 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 Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

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; or

— a Corporate Governance Statement has not been prepared by the company.

Independent Auditor's Report continued

to the members of the Local Shopping REIT plc only

6. We have nothing to report in respect of the matters on which we are required to report by exception continued

Under the Listing Rules we are required to review:

- the directors' statements in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on Corporate Governance Report relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.
- We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

John Leech (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
9 December 2016

Consolidated Income Statement

for the year ended 30 September 2016

	Note	2016 £000	2015 £000
Gross rental income		**6,989**	7,664
Property operating expenses		**(1,862)**	(1,960)
Net rental income		**5,127**	5,704
Loss on disposal of investment properties		**(199)**	(7)
Loss from change in fair value of investment properties	5	**(1,073)**	(1,638)
Administrative expenses including non-recurring items	2	**(1,710)**	(1,699)
Operating profit before net financing costs		**2,145**	2,360
Financing income*	3	**25**	18
Financing expenses*	3	**(3,833)**	(4,086)
Movement in fair value of financial derivatives	3	**2,294**	1,728
Profit before tax		**631**	20
Taxation	4	**–**	–
Profit for the year from continuing operations		**631**	20
Profit for the financial year attributable to equity holders of the Company		**631**	20
Basic and diluted profit per share on profit for the year	13	**0.76p**	0.02p
Basic and diluted profit per share on continuing operations for the year	13	**0.76p**	0.02p

* Excluding movement in the fair value of financial derivatives.

Consolidated Statement of Comprehensive Income

for the year ended 30 September 2016

	2016 £000	2015 £000
Profit for the financial year	**631**	20
Share based transactions	**66**	–
Total comprehensive income for the year	**697**	20
Attributable to:		
Equity holders of the parent Company	**697**	20

The accompanying notes form an integral part of these financial statements.

Consolidated Balance Sheet

as at 30 September 2016

	Note	2016 £000	2015 £000
Non-current assets			
Investment properties	5	**74,285**	79,468
		74,285	79,468
Current assets			
Trade and other receivables	6	**2,094**	2,028
Investment properties held for sale	5	**1,590**	2,387
Cash	7	**11,000**	12,740
		14,684	17,155
Total assets		**88,969**	96,623
Non-current liabilities			
Interest bearing loans and borrowings	8	**(49,635)**	(54,688)
Finance lease liabilities	10	**(567)**	(659)
		(50,202)	(55,347)
Current liabilities			
Interest bearing loans and borrowings	8	**(907)**	(1,001)
Trade and other payables	9	**(2,311)**	(3,129)
Derivative financial instruments	14	**–**	(2,294)
		(3,218)	(6,424)
Total liabilities		**(53,420)**	(61,771)
Net assets		**35,549**	34,852
Equity			
Issued capital	11	**18,334**	18,334
Reserves	11	**3,773**	3,773
Capital redemption reserve	11	**1,764**	1,764
Retained earnings		**11,678**	10,981
Total attributable to equity holders of the Company		**35,549**	34,852

The financial statements were approved by the Board on 9 December 2016. They were signed on its behalf by:

Stephen East
Director

The registered number of the Company is 05304743.

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 30 September 2016

	Note	2016 £000	2015 £000
Operating activities			
Profit for the year		**631**	20
Adjustments for:			
Loss from change in fair value of investment properties	5	**1,073**	1,638
Net financing costs	3	**1,514**	2,340
Loss on disposal of investment properties		**199**	7
Employee benefit trust share vesting	2	**66**	–
		3,483	4,005
(Decrease)/increase in trade and other receivables		**(66)**	1,419
Decrease in trade and other payables		**(423)**	(147)
		2,994	5,277
Interest paid		**(2,353)**	(4,129)
Loan arrangement fees paid		**(5)**	(79)
Interest received		**25**	18
Net cash from operating activities		**661**	1,087
Investing activities			
Net proceeds from sale of investment properties		**4,919**	5,143
Acquisition and improvements to investment properties	5	**(210)**	(407)
Repayment of investment in jointly controlled entities		**–**	292
Cash flows from investing activities		**4,709**	5,028
Net cash flows from operating activities and investing activities		**5,370**	6,115
Financing activities			
Repayment of borrowings		**(5,352)**	(9,037)
Payments to close swaps		**(1,758)**	–
Cash flows from financing activities		**(7,110)**	(9,037)
Net decrease in cash		**(1,740)**	(2,922)
Cash at beginning of year		**12,740**	15,662
Cash at end of year	7	**11,000**	12,740

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 September 2016

	Share Capital £000	Reserves £000	Capital Redemption Reserve £000	Retained Earnings £000	Total £000
Balance at 1 October 2014	18,334	3,773	1,764	10,961	34,832
Total comprehensive income for the year					
Profit for the year	–	–	–	20	20
Share based payments	–	–	–	–	–
Balance at 30 September 2015	18,334	3,773	1,764	10,981	34,852
Total comprehensive income for the year					
Profit for the year	–	–	–	631	631
Share based payments	–	–	–	66	66
Balance at 30 September 2016	**18,334**	**3,773**	**1,764**	**11,678**	**35,549**

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

for the year ended 30 September 2016

1. Accounting Policies

Basis of Preparation

The Local Shopping REIT plc ("the Company") is a company incorporated and domiciled in the UK. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (adopted "IFRS") and in accordance with the provisions of the Companies Act 2006.

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, other investments and investment properties held for sale.

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 2018 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 8) 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 2016. Subsidiaries are consolidated from the date on which the Group obtains control, being the power to govern the financial and operating policies of the entity so as to obtain benefit from its activities. They continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries are prepared using consistent accounting policies. Inter-company transactions and balances are eliminated.

Investment Properties

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 2016, 31 March 2016, 30 September 2015 and 31 March 2015. 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 Institute 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.

Notes to the Financial Statements continued

for the year ended 30 September 2016

1. Accounting Policies continued

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.

Disposals of investment properties are recognised on completion; profits and losses arising are recognised through the Income Statement, the profit is determined as the difference between the sales proceeds and the carrying amount of the asset at the last valuation date plus any additional expenditure incurred since that date.

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 as a non-current asset 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 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.

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 re-measured 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.

1. Accounting Policies continued

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 less impairment.

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.

Other Income

Other income comprises administration fees charged on lease renewals.

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.

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. The Group operated a short-term incentive plan for employees and former employees who are currently engaged on delivering the Company's strategy. Share awards issued under this plan vest during the year of grant based on the achievement of certain non-market performance criteria.

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.

Notes to the Financial Statements continued

for the year ended 30 September 2016

1. Accounting Policies continued

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, derivative financial instruments and trade receivables.

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

The valuation of derivative financial instruments are also areas where judgement has been exercised by the Board. These assets and liabilities have been valued by the Group's bankers. These valuations have been relied upon by the Board.

The Group is required to assess whether there is sufficient objective evidence to require the impairment of individual trade receivables. It does this through a regular review of arrears with consideration given to any specific circumstances relating to the receivable.

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

At the date of authorisation 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 (and in some cases had not yet been adopted by the EU):

- Annual improvements to IFRS 2012–2014 cycle
- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'
- IFRS 16 'Leases'

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

2. Administrative Expenses

a) The following fees have been paid to the Group's Auditor:

	2016 £000	2015 £000
Auditor's remuneration for audit services:		
Audit of parent Company	33	33
Audit related assurance services	16	16
Statutory audit of subsidiaries	38	37
Auditor's remuneration for non-audit services:		
Tax services	24	27
Other services supplied	9	7

The other services supplied related to a transaction which did not proceed.

b) Included in administrative expenses is directors' remuneration as disclosed in the Remuneration Report. The Company had one employee during the year (engaged on a contract which terminated after the year end).

Directors' emoluments are disclosed separately in the Remuneration Report.

c) Share Awards

The total expense recognised in the income statement for employee and former employee share-based payments was £0.066m.

d) Non-recurring items

IAS 1 (Revised) – 'Presentation of financial statements' requires material items of income and expenditure to be disclosed separately. The amounts are items which, in management's opinion, need to be disclosed by virtue of their size or incidence in order for the user to obtain a proper understanding of the financial information. These amounts are considered to be £nil (2015: £nil).

3. Net Financing Costs

	2016 £000	2015 £000
Interest receivable	25	18
Interest receivable excluding fair value movements	25	18
Fair value gains on derivative financial instruments (note 14)	2,294	1,728
Financing income	2,319	1,746
Bank loan interest	(1,924)	(3,937)
Amortisation of loan arrangement fees	(117)	(100)
Head rents treated as finance leases	(34)	(49)
Financing expenses excluding swap closing costs	(2,075)	(4,086)
Payments to close swaps	(1,758)	–
Financing expenses	(3,833)	(4,086)
Net financing costs	(1,514)	(2,340)

Notes to the Financial Statements continued

for the year ended 30 September 2016

4. Taxation

	2016 £000	2015 £000
Profit before tax	631	20
Corporation tax in the UK of 20% (2015: 20.5%)	126	4
Tax relief available from REIT status	(184)	(464)
Effects of:		
Revaluation deficit and other non-deductible items	497	445
Deferred tax asset/(liability) not recognised	(439)	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 2015) 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 2015. 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 2016 was £2.31m (2015: £2.35m).

5. Investment Properties

	Freehold Investment Properties £000	Leasehold Investment Properties £000	Total £000
At 30 September 2014	68,763	17,438	86,201
Additions	376	31	407
Disposals	(4,267)	(883)	(5,150)
Fair value adjustments	(819)	(819)	(1,638)
Movement on Investment properties held for sale	(428)	76	(352)
At 30 September 2015	63,625	15,843	79,468
Additions	188	22	210
Disposals	(4,538)	(580)	(5,118)
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**

The investment properties have all been revalued to their fair value at 30 September 2016.

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.

5. Investment Properties continued

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

	2016 £000	2015 £000
Portfolio valuation	75,308	81,196
Investment properties held for sale	(1,590)	(2,387)
Head leases treated as investment properties held under finance leases per IAS 17	567	659
Total per Balance Sheet	74,285	79,468

6. Trade and Other Receivables

	2016 £000	2015 £000
Trade receivables	1,086	746
Other receivables	255	171
Prepayments	753	1,111
	2,094	2,028

7. Cash

	2016 £000	2015 £000
Cash in the Statement of Cash Flows	11,000	12,740

Included in bank balances are amounts held pending the next interest payment due in October 2016. 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 £2.513m (2015: £1.289m) with accruals for interest due of £0.326m (2015: £0.633m).

8. Interest Bearing Loans and Borrowings

	2016 £000	2015 £000
Non-current liabilities		
Secured bank loans	49,821	54,987
Loan arrangement fees	(186)	(299)
	49,635	54,688
Current liabilities		
Current portion of secured bank loans	907	1,001

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.

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

For more information about the Group's exposure to interest rate risk, see note 18.

Notes to the Financial Statements continued

for the year ended 30 September 2016

9. Trade and Other Payables

	2016 £000	2015 £000
Trade payables	110	521
Other taxation and social security	180	225
Other payables	684	613
Accruals and deferred income	1,337	1,770
	2,311	3,129

Other payables include rent deposits held in respect of commercial tenants of £0.459m (2015: £0.430m).

10. 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 2014	4,727	(4,055)	672
Disposals	(80)	67	(13)
(Payments)/charge	(48)	48	–
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**

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.

11. Capital and Reserves

Share Capital

	2016 Ordinary 20p Shares		2015 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 the year end, 9,164,017 shares were held in treasury (2015: 9,164,017).

Employee Benefit Trust

The number of shares held by the trustee of the Company's Employee Benefit Trust ("EBT"), LSR Trustee Limited at the year end was 921,098 (2015: 1,096,545). During the year options over 305,447 shares (2015: Nil) vested to beneficiaries under the Local Shopping REIT Plc Employee & Former Employee Incentive Scheme 2015. Following the vesting of these awards, the EBT transferred 175,447 shares to beneficiaries.

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.

11. Capital and Reserves continued

Calculation of Net Asset Value Per Share (NAV)

	2016 £000	2015 £000
Net assets	**35,549**	34,852

	2016 Number 000s	2015 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	**43p**	42p

12. Dividends

No dividends were paid during the current and previous year.

13. 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

	2016 £000	2015 £000
Profit for the year	**631**	20
Profit on continuing operations for the year	**631**	20

Weighted Average Number of Ordinary Shares

	2016 Number	2015 Number
Issued Ordinary Shares at 1 October	**91,670**	91,670
Treasury shares	**(9,164)**	(9,164)
Weighted average number of Ordinary Shares at 30 September	**82,506**	82,506

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 2016

14. 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:

At 30 September 2015 these derivative financial instruments did not qualify as effective swaps for hedge accounting under the criteria set out in IAS 39. They were fully paid down during the year to 30 September 2016.

	Fair Value 2014 £000	Movements in Income Statement £000	Fair Value 2015 £000	Movements in Income Statement £000	**Fair Value 2016 £000**
Non-current liabilities	(1,634)	1,634	–		**–**
Current liabilities	(2,388)	94	(2,294)	2,294	**–**
Fair value	(4,022)	1,728	(2,294)	2,294	**–**

A summary of the swaps and their maturity dates are as follows:

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

The swaps were fully paid down during the current year.

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 15.

15. 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 the executive team 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.

15. Financial Instruments and Risk Management continued

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 uses financial instruments to fix the floating rates of interest in accordance with its policy.

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.

	At 30 September 2016			At 30 September 2015		
	Interest bearing loans £000	Notional value of swaps £000	Loans not protected by swaps £000	Interest bearing loans £000	Notional value of swaps £000	Loans not protected by swaps £000
Variable rate loan	50,728		50,728	55,988	53,178	2,810
	50,728	–	50,728	55,988	53,178	2,810

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%. It has been possible to consider the impact of a 1% change in rates on the fair value of derivatives as the contracted rates are greater than 1%. 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. Changes in the fair value of derivative financial instruments have been estimated by discounting future cash flows at appropriate market rates prevailing at each year end.

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.

	2016				2015			
	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	(398)	228	(398)	228	169	13	169	13
					Increase by 1%	Decrease to 1%	Increase by 1%	Decrease to 1%
Impact on fair value of derivatives in £000s	–	–	–	–	627	363	627	363

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. The Group has over 1,000 tenants in over 300 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.

Notes to the Financial Statements continued

for the year ended 30 September 2016

15. Financial Instruments and Risk Management continued

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 2016

	At Fair Value £000	Available For Sale £000	At Amortised Cost £000	Total Carrying Amount £000	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

30 September 2015

	At Fair Value £000	Available For Sale £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Cash and cash equivalents	–	12,740	–	12,740	12,740
Trade receivables	–	–	746	746	746
Other receivables	–	–	171	171	171
	–	12,740	917	13,657	13,657

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

The ageing of trade receivables is as follows:

	2016			2015		
	Total £000	Impairment £000	After Impairment £000	Total £000	Impairment £000	After Impairment £000
Not yet due	236		236	175	–	175
Past due by one to 30 days	375		375	327	(3)	324
Past due by 30–60 days	235		235	87	(6)	81
Past due by 60–90 days	38		38	27	(12)	15
Past due by 90 days	654	(452)	202	430	(279)	151
	1,538	(452)	1,086	1,046	(300)	746
Impairment as percentage of total debt		29.39%			28.68%	

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:

	2016 £000	2015 £000
Balance at beginning of year	300	189
Impairment loss recognised	270	134
Trade receivables written off	(118)	(23)
Balance at end of year	452	300

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

15. Financial Instruments and Risk Management continued

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 2016

	At Fair Value £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Interest bearing loans and liabilities	–	50,542	50,542	50,542
Finance lease liabilities	–	567	567	567
Derivative financial instruments	–	–	–	–
Trade payables	–	110	110	110
Other payables	–	180	180	180
Accruals	–	684	684	684
	–	52,083	52,083	52,083

30 September 2015

	At Fair Value £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Interest bearing loans and liabilities	–	55,689	55,689	55,689
Finance lease liabilities	–	659	659	659
Derivative financial instruments	2,294	–	2,294	2,294
Trade payables	–	521	521	521
Other payables	–	540	540	540
Accruals	–	918	918	918
	2,294	58,327	60,621	60,621

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

Notes to the Financial Statements continued

for the year ended 30 September 2016

15. Financial Instruments and Risk Management continued

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

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
Derivative financial instruments	–	–						
Trade payables	110	110	110					
Other payables	180	180	180					
Accruals	684	684	684					
	52,083	57,966	3,142	50,784	34	34	34	3,938

As set out in note 8, 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		

30 September 2015

	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	55,689	59,444	2,429	2,542	54,473	–	–	–
Finance lease liabilities	659	4,727	48	48	48	48	48	4,487
Derivative financial instruments	2,294	2,718	2,718	–	–	–	–	–
Trade payables	521	521	521	–	–	–	–	–
Other payables	540	540	540	–	–	–	–	–
Accruals	918	918	918	–	–	–	–	–
	60,621	68,868	7,174	2,590	54,521	48	48	4,487

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.

16. 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:

	2016 £000	2015 £000
Less than one year	1,976	1,907
Between one and five years	2,371	2,519
More than five years	2,709	3,126
	7,056	7,552

17. Capital Commitments

At 30 September 2016 the Group had contracted capital expenditure for which no provision has been made in these financial statements of £52,000 (2015: £24,000).

18. 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 20: Significant Contracts.

19. Group Entities

All the below companies are incorporated in the United Kingdom and 100% owned at 30 September 2015 and 2016

NOS 4 Limited
NOS 5 Limited
NOS 6 Limited
NOS 7 Limited (formerly Palladium Investments Limited)
Gilfin Property Holdings Limited

20. 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 operating 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 £0.963m (2015: £1.016m) during the year.

Company Balance Sheet

as at 30 September 2016

	Note	2016 £000	2016 £000	2015 £000	2015 £000
Fixed assets					
Investments	C5		**27,268**		29,754
			27,268		29,754
Current assets					
Debtors	C6	**1,234**		149	
Cash		**8,094**		7,475	
		9,328		7,624	
Creditors: Amounts falling due within one year	C7	**(2,508)**		(582)	
Net current assets			**6,820**		7,042
Total assets less current liabilities			**34,088**		36,796
Creditors: Amounts falling due after one year			**–**		–
Net assets			**34,088**		36,796
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		**10,248**		12,956
Shareholders' funds			**34,088**		36,796

These financial statements were approved by the Board of directors on 9 December 2016 and were signed on its behalf by:

Stephen East
Chairman

The registered number of the Company is 05304743.

The accompanying notes form an integral part of these financial statements.

Notes to the Company Financial Statements

C1. Accounting Policies

The Local Shopping REIT Plc (the "Company") is a company incorporated and domiciled in the UK.

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 2015 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.

In the transition to FRS 102 from old UK GAAP, the Company has made no measurement and recognition adjustments.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. None of these exemptions have been utilised in the preparation of these financial statements.

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.

— Employee benefits

— Own shares held by Employee Benefit Trust

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, neither estimates 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.

Notes to the Company Financial Statements continued

C1. Accounting Policies continued

Basic financial instruments

Trade and other debtors/creditors

Trade and other debtors/creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at historic 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.

Tangible fixed assets

Following the termination of the Company's office lease in 2013, all tangible assets were written off in that year.

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.

1.19 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.

C1. Accounting Policies continued

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 £2.774m (2015: profit £0.071m)

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 Auditor

The detailed information concerning Auditor's remuneration is shown in note 2 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 2 to the Group financial statements.

Notes to the Company Financial Statements continued

C5. Fixed Asset Investments

	Shares in Group Undertakings £000	Total £000
Cost		
At 30 September 2015	108,605	108,605
Disposals	–	–
At 30 September 2016	**108,605**	**108,605**
Provisions		
At 30 September 2015	78,851	78,851
Impairment charge for year	2,486	2,486
Disposals	–	–
At 30 September 2016	**81,337**	**81,337**
Net book value		
At 30 September 2016	**27,268**	**27,268**
At 30 September 2015	29,754	29,754

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 (formerly Palladium Investments Limited)	Dormant	100%
Gilfin Property Holdings Limited	Property investment	100%

* All interests are in Ordinary Shares.

All of the above companies are incorporated in Great Britain.

C6. Debtors

	2016 £000	2015 £000
Amounts owed by Group undertakings	1,163	–
Other debtors	36	105
Other taxation and social security	–	2
Prepayments	35	42
	1,234	149

C7. Creditors

	2016 £000	2015 £000
Trade creditors	**6**	305
Amounts owed to Group undertakings	**2,275**	–
Other taxation and social security	**9**	3
Other creditors	**4**	4
Accruals	**214**	270
	2,508	582

C8. Reconciliation of Shareholders' Funds

Share Capital

	2016 Ordinary 20p Shares		2015 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

Reserves

	Reserves £000	Capital Redemption Reserve £000	Profit and Loss Account £000	Total £000
At 1 October 2014	3,742	1,764	12,885	18,391
Share-based payments	–	–	–	–
Profit for the financial year	–	–	71	71
At 30 September 2015	3,742	1,764	12,956	18,462
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**

Investment in Own Shares

At 30 September 2016, 9,164,017 shares were held in treasury (2015: 9,164,017).

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.

Dividends

No dividends were paid during the current and previous year.

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.

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.

Group Loan-to-value ("Group LTV")
Group Loan-to-value is the ratio of the aggregate notional principal of debt held by the Group net of cash reserves, to the total property valuation.

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.

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 the notional principal of debt to the valuation of properties subject to that debt.

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.

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.

Recurring operating profit
Recurring 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.

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.

Shareholder Information

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