Annual Report 2019

STENPROP

Welcome to the Annual Report 2019

Who we are

Stenprop is a UK REIT listed on the Specialist Fund Segment of the London Stock Exchange ('LSE') and the Johannesburg Stock Exchange ('JSE').

Our intention is to become a 100% focused UK multi-let industrial ('MLI') business.

Purpose:

To revolutionise the MLI sector.

Vision:

To be the leading UK MLI business.

Mission:

To deliver sustainable and growing income to our shareholders.

Our Values

- Customer focused
- Results oriented
- Innovative
- Decisive

Stenprop at a Glance

On track to becoming the leading UK multi-let industrial business

Portfolio Highlights
31 March 2019

MLI
£261.5m
42.7% of total portfolio

MLI estates
60
over 4 million sq ft

Portfolio value
£612.9m

Total debt
£271.0m

Average LTV
44.2%

Non-MLI
£351.4m
57.3% of total portfolio

Number of properties
83

Financial Highlights
31 March 2019

Diluted IFRS EPS
8.35p
↓ 39.88% since prior year

Full-year dividend per share
6.75p
↓ 15.6% since prior year

Diluted IFRS NAV per share
£1.36
0.0% change since prior year

Diluted adjusted EPRA EPS
8.84p
↓ 2.75% since prior year

Diluted EPRA NAV per share
£1.41
0.0% change since prior year

Share price
£1.12
at 31 May 2019

Dividend yield on share price
6.0%

Dividend yield on NAV
4.8%

Read more on **EPRA Key Performance Measures** on page 124

Contents

About this report

Stenprop Limited presents its annual report for the financial year ended 31 March 2019.

Stenprop's annual report 2019 consists of two parts:

- Annual report
- Annual financial statements

Read more online at **www.stenprop.com**

Stenprop at a Glance continued

Experienced management team

Diversified income

Strong sector fundamentals

Earnings growth potential

Utilising technology to drive efficiencies

Culture that promotes innovation and learning

Transformative business model

The multi-let industrial space

In early 2017 the Stenprop board of directors (the 'Board') took the strategic decision that the Company's investment objective to deliver sustainable growing dividends to shareholders would be best achieved by becoming a specialised UK MLI business. We have to date acquired £261.5 million of MLI assets (42.7% of the portfolio) and will continue to sell non-MLI assets over the next two years until the business is wholly MLI invested. At the same time we will be developing both our physical and digital platform to allow us to drive efficiencies across the business and enhance earnings through the sale of additional products and services. We believe we are well placed to become the leading UK MLI business.

Characteristics of MLI

MLI comprises multi-purpose, industrial space, with units typically of 500 to 10,000 square feet arranged in terraces and let to multiple tenants on a serviced estate. Units tend to be generic in nature, typically a large open space accessed through a roller shutter door and including around 10% office content, a small kitchen and toilet area. A typical estate will comprise 5 to 50 units and the majority have capital values ranging between £2 to 20 million. Most leases are three – five years in duration, and rents typically range between £3–8 per square foot depending upon unit size, quality and location.

Why MLI

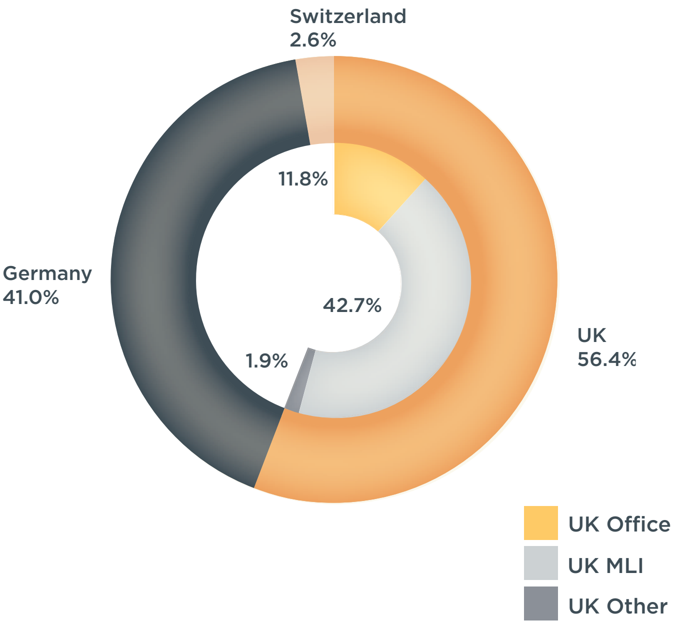
1. Offers a diversified multi-tenanted income from many different sectors/industries at attractive yields.
2. A typical tenant pays between 1-2% of its turnover in rent, making rent a very affordable part of its business.
3. A typical tenant usually has one place of business and paying rent is a priority to remaining in business.
4. Tenants choose their unit/location because they need to be in that location. The value is in the location rather than the lease.
5. MLI estates are generally located in and around densely populated towns and cities where their customers and staff are based.
6. Units are small and flexible, making them suitable for many different businesses.
7. MLI units are basic in design and do not suffer from design obsolescence. A new unit gives the same utility as an old one.
8. Tenants (being small owner-managed businesses) tend to engage directly with the landlord on a principal basis.
9. Supply of new MLI estates is restricted. If land is available it tends to go to residential first. It is also not economic to build at current rents and yields. We are generally able to buy ready built and let MLI estates at 50% of replacement costs.
10. The range of occupiers needing MLI space is expanding with the evolution of e-commerce and enhanced communications.
11. Opportunities to enhance income through efficiencies of scale, technology platform upgrades, innovative management techniques and the ability to offer a greater range of add-on services and products to the customer base.

Read more on **Multi-let Industrials** on pages 7.

What this means for shareholders

Stenprop is focused on delivering its shareholders a consistent and growing dividend. The evolving model and sector focus mean we are well placed to deliver on this.

Assets by country
based on property value
31 March 2019



31 March 2019

Total asset value: £612.9m

Annual gross rental income: £39.3m

WAULT: 5.0 years

Vacancy: 7.8%

Average LTV including unrestricted cash: 36.0%

Strategic Report

Our Portfolio

UK portfolio (56.4%)

MLI (42.7%)

Asset value
£261.5m

Gross lettable area
372,051 sq m
4,004,724 sq ft

Annual gross rental income
£18.2m

Non - MLI (13.7%)

Asset value
£83.9m

Gross lettable area
40,076 sq m
431,374 sq ft

Annual gross rental income
£6.8m

German portfolio (41.0%)

Asset value
£251.3m

Gross lettable area
91,719 sq m

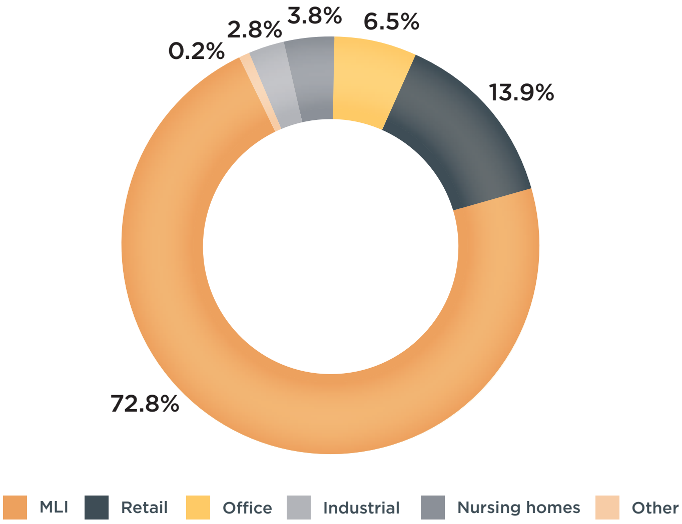
Annual gross rental income
£13.2m

Swiss portfolio (2.6%)

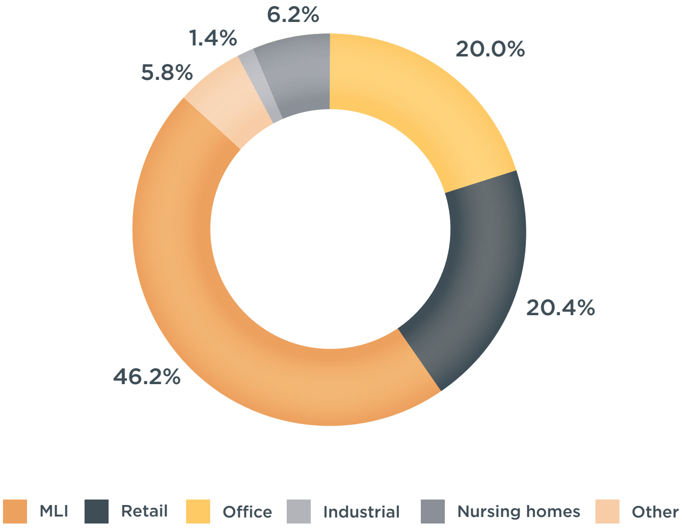
Asset value	Gross lettable area	Annual gross rental income
£16.2m	6,974 sq m	£1.2m

Our Portfolio continued

Portfolio by market sector
Lettable area



Portfolio by market sector
Annual gross rental income



Our MLI Portfolio 31 March 2019

1,072
Units

4,004,724
sq ft

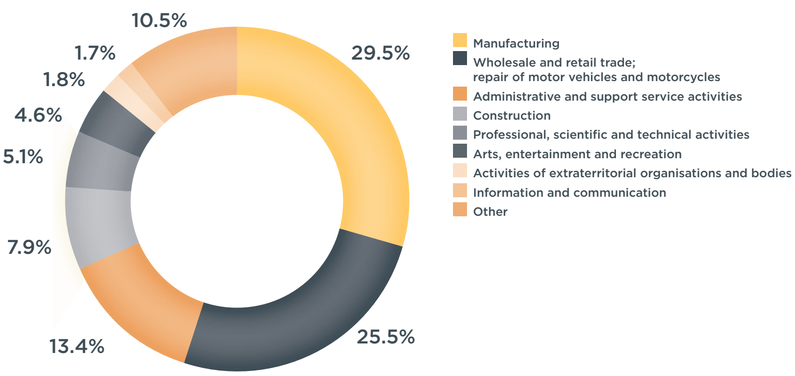
£18.2m
Annual gross rental income

£5.06
per sq ft average rent on let area

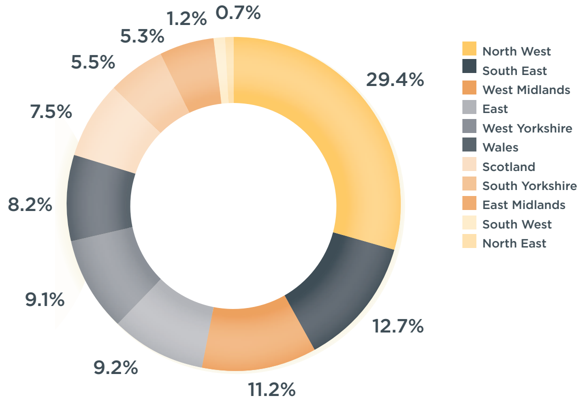
MLI Portfolio

We successfully grew our MLI portfolio during the course of the year through the acquisition of 30 MLI estates, adding 1.7 million sq ft. The MLI portfolio represented in excess of 40% of our overall portfolio as at 31 March 2019, exceeding our target of £250 million in MLI GAV by the year end. The 30 acquisitions comprised of eight individual estates and one portfolio and increased the diversity of income from our MLI assets in terms of geography and industry type. This growth has enabled us to start benefiting from economies of scale, driving efficiencies in the operation of the portfolio.

Tenant industry sector breakdown
31 March 2019



UK geographic sector breakdown
31 March 2019



Letting update

We continued to benefit from a favourable occupational market throughout the financial year, where the strength of demand and constrained supply resulted in rental growth across the portfolio. In the year ended 31 March 2019 we completed 126 new lettings and renewals which, on average, were 17% ahead of the previous passing rent. The new lettings or renewals were granted for an average term of 3.25 years.

£261.5m
Gross portfolio value

60
Assets

761
Tenants

42.7%
of total assets

Chief Executive's Report

"Building a focused scalable MLI platform business."

Paul Arenson
Chief Executive Officer

We are pleased with the progress that Stenprop has made in the past financial year. Our dividend is in line with guidance and covered by property-related earnings. All of our milestones have been met and we are well positioned to meet our target milestones for the financial year ending 31 March 2020. We ended the financial year with over 40% of our portfolio comprising UK multi-let industrial ('MLI') property, our leverage levels below 45% and our dividend fully covered by property-related earnings. We are listed on the LSE and have converted to UK REIT status. We have also largely exited all third-party investment management activity.

The milestones for the next 12 months are to decrease our leverage further to below 40% and to increase the UK MLI component of our portfolio to at least 60% of our total portfolio, with the intention of increasing this to 100% in the following two years.

We have designated this year as the "Year of the Platform", being the year in which we focus on building out a market-leading management platform for our UK MLI strategy.

Sales, purchase and debt strategy

During the year we sold 23 properties. The aggregate disposal valuation for these properties was £248.3 million. All properties were sold at or above their latest book value.

Our plan for the current financial year is to sell approximately £140 million of property, to redeploy the proceeds into buying approximately £100 million more of UK MLI and to reduce overall gearing to below 40%. This will take our overall portfolio to at least 60% UK MLI.

Performance of the UK MLI sector

The imbalance between supply and demand in the MLI sector continues to deliver inflation-beating rental growth. During the year we entered into 78 new leases. The average increase in rents on these was 13.4% compared with previous passing rent on this space. In addition, we extended or renewed 48 leases and the average increase in rents on these leases was 21.7% compared with previous passing rent. As most of our leases are renewed or re-let every three years, this performance indicates an underlying rental growth of approximately 4%–5% per annum.

We believe that this imbalance is likely to continue for the foreseeable future. On the supply side it is still not economically feasible to build new MLI units at the current prevailing rents and sale prices. We are still able to buy existing MLI estates at around 50% of estimated replacement cost. On the demand side we continue to see a wider range of tenants needing MLI space, enabled by e-commerce and communications technology.

We are confident that, in addition to the above fundamental growth, we can drive earnings growth through operating efficiencies on our platform. This will happen naturally as we scale the portfolio. It will also arise from technology efficiencies and management initiatives such as the roll-out of our three page 'smart lease'. These initiatives are designed to appeal to customer needs and to make it easier and cheaper to commit to leases, which helps to minimise void periods. We also plan to roll out additional products to our customers which will, in due course, enhance earnings.

We encourage investors to log on to our tenant facing website at www.industrials.co.uk to get a feel for the customer experience of renting space from Stenprop.

Shareholder register movement

When we listed on the LSE in June 2018 approximately 32.8% of our issued shares were held on the JSE, with the balance held on the LSE. In the subsequent nine months to 31 March 2019, sales on the JSE have resulted in holdings there falling to 18.8%, with most of these shares being acquired by UK-based investors who hold them on the LSE. We believe, based on anecdotal discussions with sellers, that the selling by overseas investors has been largely motivated by concerns around Brexit. Based on an attractive dividend yield of approximately 6% and the growth outlook for the UK MLI sector, we are confident that Stenprop has the potential to trade at a rating closer to net asset value ('NAV') and in line with LSE-listed peers in the industrial sector as the transition strategy to MLI advances.

A focused MLI business

Our decision to become a focused UK MLI business means that we need to be very disciplined in what we buy. In general, we only buy purpose-built MLI property situated in and around economically sustainable, densely populated towns and cities across the UK.

Our strategy is to hold these assets for the long term. As such, new opportunities need to also meet our five-year average earnings model criteria. At present we are still seeing good opportunities which fit our criteria and we are confident in achieving our purchase targets. Most of our purchases are at values equal to approximately 50% of estimated replacement cost.

The MLI market is currently very fragmented with no dominant holders. We believe that, with our long-term capital structure, focused approach and the emphasis we are placing on building a scalable efficient management platform, Stenprop can become the leading listed MLI business in the UK.

Investors in listed property shares are tending to favour companies that specialise in specific growth markets. The industrial sector in general is popular with investors, being seen to benefit from the e-commerce and communications technology revolution. Just as "big box" distribution units are in demand, smaller multi-let space is seeing an ever-widening array of potential tenants, enabled by technology and e-commerce. Traditional occupiers who tended to manufacture items or service equipment are increasingly having to compete for MLI space with new technology-enabled logistics businesses established to serve local markets.

Platform businesses are also becoming increasingly attractive to investors, as additional earnings can be achieved through operational application. This has been experienced in the student accommodation, self-storage, hotel and serviced office sectors, where management platforms have evolved and matured over the past 10 years, causing a rerating of those asset classes which were previously very difficult to access. We believe the MLI sector lends itself to this and Stenprop is uniquely placed to become a leader in building a platform business in this sector.

Brexit

The big background scenario for the UK economy is Brexit. We continue to warily watch how it is likely to unfold.

We are confident that our MLI customer base is relatively Brexit proof in that they are largely made up of local businesses across the country servicing their local communities. In general, they are not the big single let occupiers reliant on import or export customers and suppliers. However, Brexit could result in a contraction of the economy as a whole which would generally be negative for all businesses.

For now, we also have a good hedge on Brexit in that approximately 41% of our portfolio is still in Germany.

Directorate change

On 5 June 2019, Patsy Watson stepped down from her role as CFO to become a non-executive board member. James Beaumont, who has worked with Patsy at Stenprop for four years, has been appointed as interim CFO and will join the Board. We welcome James and wish him success in his new position.

We wish to thank Patsy for her outstanding commitment to the business. Patsy has been a crucial member of the team on the Stenprop journey and leaves at a time when Stenprop is well positioned for future success. We have worked together for 12 years and she has been an outstanding CFO. We are delighted that she will be remaining with Stenprop as a non-executive. There is no doubt that she will still have an enormous amount to contribute.

Conclusion

We have sufficient capital in the form of saleable non-MLI assets to acquire more than £200 million of additional MLI property. As such, we do not envisage needing to raise capital in the short to medium term. Once our transition is complete and we have built a scalable management platform, we are confident we will be able to raise new capital for further MLI acquisitions at an attractive cost-effective issue price relative to NAV.

Until then our focus will be on executing our business plan as outlined to investors. We have the team, capital and infrastructure to do so. We remain confident that we will be successful in this execution.

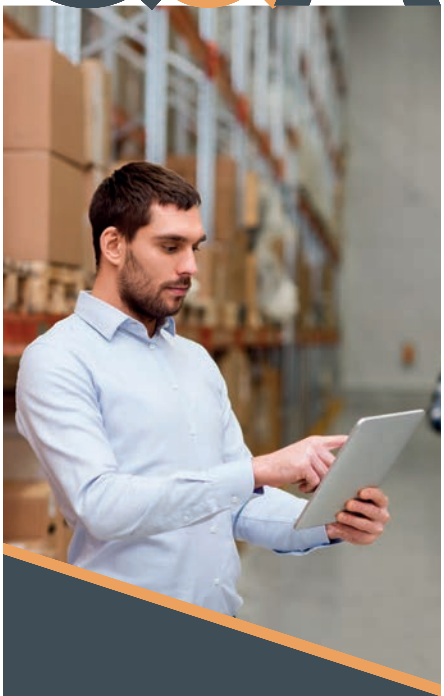
We take this opportunity to thank all of our stakeholders for supporting our vision and, in particular, to our Board and staff for their efforts in helping us to achieve it.

Paul Arenson
Chief Executive Officer

5 June 2019

View more online at
www.stenprop.com/news/stenprop-news/

Q&A



"We use technology extensively within our operating platform to improve efficiency, cut costs and enhance customer service"

Julian Carey
Executive Property Director

Is the plan to go to 100% MLI and by when?

Yes, the intention is very much to become a 100% MLI business. At present we are targeting to be 60-65% MLI by March 2020, with the remainder of the transition taking place over the following two years.

What is Stenprop going to sell next?

The order of our disposals is determined largely by the pace and volume of our MLI acquisitions. We are conscious of trying to minimise 'cash drag' by not selling too soon and sitting on cash. Our initial focus was to sell our holdings in Switzerland. Thereafter we have been prioritising the sale of our London offices as these have been at top end valuations and seemed the most susceptible to a no deal Brexit scenario. Having completed these sales our current focus is on our German assets, which have otherwise provided some short-term protection to a potential fall in sterling.

What is more challenging in the transition? Buying or selling?

Over the past year we have disposed of 23 assets for £248.3 million, all of which were at or above their most recent valuations. We remain confident in our ability to realise our non-MLI assets at or above valuations. Buying tends to be more challenging as we are very disciplined in what we buy and have less control over the timing of purchases that become available. We have strict acquisition criteria and buy only well located purpose built estates.

What are Stenprop's long-term plans with regards to leverage?

The current target is to reduce our leverage to no more than 40% by March 2020. Once we reach this milestone, we will reassess our target going forward and decide whether it is prudent to reduce it further.

How much does Stenprop plan to buy and sell in the next 12 months?

The intention is to acquire approximately £100 million of MLI and sell approximately £140 million of non-MLI assets over the year to March 2020. This will take us to more than 60% of our portfolio being comprised of MLI, with an overall loan-to-value ('LTV') of less than 40%.

Does Stenprop still see value in MLI? / Can Stenprop still buy at attractive prices?

Yes, we still believe strongly in the MLI sector in the UK. We see limited potential for further yield compression, but at current levels are still able to buy at yields which are accretive to earnings. Supply of MLI units is constrained and we continue to experience strong occupier demand which is resulting in reduced voids and meaningful rental growth across our portfolio. We see this as a key driver of performance going forward. On average we are still paying around 50% of replacement cost value for existing MLI estates which means there is no economic case to justify development of new supply at these levels. At the same time as supply is restricted, the structural increase in tenant demand continues driven by the rise of e-commerce and enhanced communication technologies.

How is technology impacting upon operations?

We use technology extensively within our operating platform to improve efficiency, cut costs and enhance customer service. For example, we are using a tool which digitises the leasing process. This technology has greatly enhanced communication between our internal and external teams, reducing delays, errors and confusion and resulting in a significant reduction in the time taken to go from agreeing terms to signing documents. We have also relaunched the industrials.co.uk website over the course of the last year which is now receiving more than 120,000 page views a year and generating a high number of prospective letting opportunities. The site is heavily targeted towards digital marketing channels, reaching new customers in ways superior to traditional property marketing campaigns. The combination of technology and our on the ground presence will be key to delivering class leading revenue growth over the next few years.

How good are the tenants at paying?

The relatively low level of irrecoverables that we are experiencing is symptomatic of our customer base – namely this is largely their sole place of business and hence if they don't pay their rent, they may lose their livelihood.

How do voids vary through the cycles? Has there been a noticeable Brexit effect?

According to research by Gerald Eve in 2018 the average void in the MLI sector has fallen from 14% to 6.7% over the last five years. We believe that for well managed portfolios it was previously typical to expect a range of 5-13% through a cycle, but this was prior to the structural shift in demand and supply which we have seen in this cycle. Previous cycles have experienced relatively balanced supply and demand and less rental growth, and so void rates tended to spike as the cycles turned. This time there is less new supply coming to the market and a structural shift in occupier demand, and so we expect volatility to be lower in future.

With regards to Brexit, we have not noticed a significant impact from the political fall out in Westminster. Demand is holding up well, voids are falling and rental growth is strong. The majority of our tenants are domestic businesses serving their local communities, and so the impact of Brexit is not perceived to be substantial.

Who are your tenants?

10 to 15 years ago the majority of tenants on MLI estates either made or serviced things. In more recent times, the type of business needing MLI space has expanded significantly as a result of internet and communications technology. In any of our MLI estates we will have businesses ranging from photography studios to food manufacturing, parcel delivery to car repairs and technical workshops to self-storage. The biggest component of our occupier base is now manufacturing (29.5%), with wholesale and retail traders (25.5%) and administrative and support service activities (13.4%) also comprising a significant portion. This expansion of the type of occupier has created a structural increase in tenant demand in the sector.

Since listing in London how has Stenprop been received by UK investors?

We have found UK investors very receptive to our strategy. As a result of this, and due to some of our traditional overseas investors' concerns surrounding Brexit, we have seen our South African shareholder base fall from approximately 33% when we listed to approximately 18% as at 31 March 2019. We envisage this trend continuing in the short to medium term, which should also result in our EEA shareholder base rising above the 25% requirement for a premium listing on the LSE.

How are the directors' interests aligned with investors?

The directors are incentivised by a combination of short and long term plans to align their interests with those of investors. The short-term plan focuses on the Company targets for the next 12 months, with 20% awarded for personal performance, while the long-term plan rewards delivery of the Company's longer-term goals and is 100% linked to Company performance. The directors of Stenprop are also the largest single block of shareholders on the register owning c. 7.5% of the issued share capital, which ensures that their interests and shareholder interests are fully aligned at all times.

Is the dividend fully covered and where will it go from here?

Yes, the dividend is fully covered by property-related earnings. Stenprop's strategy is to transition into a 100% MLI company as the directors believe this is the best way to deliver a sustainable and growing dividend to shareholders. We are already experiencing significant underlying income growth from the MLI portfolio, and as we complete the transition into a focused MLI business, we hope to reflect this in the dividend paid to investors.

Strategy

Our objective is to deliver sustainable and growing income to our shareholders.

In 2017 we identified UK multi-let industrial ('MLI') as a sector likely to deliver superior growth because of the strong underlying fundamentals, and took a strategic decision to become a specialised UK MLI business. The acquisition of the C2 Capital business in 2017 and a management platform operating under the brand industrials.co.uk was the first step towards achieving this goal. In the 18 months since, we have doubled the size of the MLI business and made significant progress in building a leading MLI operating platform. UK MLI assets currently comprise more than 40% of Stenprop's total portfolio of properties. To achieve our goal to become the leading UK multi-let industrial business we adopted a 4-Point Plan for the period from 2018 to 2020.

Strategic pillar	Description	Performance over the past year	Priorities for the coming year	Link to KPIs
Recycling of assets	• Acquire c. £220 million of MLI investments in the UK – 65%+ portfolio weighting • Planned disposal programme of £460 million of non-MLI, low yielding investments • NAV for NAV reinvestment into higher yielding, more sustainable growth assets • Intensive asset management on non-core assets to maximise value before sale	• Acquired £103.6 million of MLI • Sold £248.3 million of non-MLI, including the last two remaining central London properties • MLI increased from 20.1% to 42.7% of our portfolio	• Focus on flexible leasing • Increase serviced MLI offering and product line-up • Employ technology to drive efficiencies and grow revenue per sq ft • Build regional platform	A B D
Deleverage	• Reduce current gearing from 50% to 40% by end 2020 • Target gearing of 30–40% thereafter • Utilise short-term bridge facility from Investec to facilitate the acquisitions/disposals process and minimise cash drag	• Gearing reduced to 44.2% as at 31 March 2019 (2018: 49.2%)	• Use sales proceeds to reduce debt • Target leverage of 40% LTV or less • Renew revolving credit facility	A E
REIT conversion and London listing	• Convert to a REIT and list on LSE by June 2018 • Cease Bermuda listing • Position the Company for longer term IFA/wealth management investors • Significantly increase liquidity and attract more EEA shareholders	• Converted to REIT status on 1 May 2018 • Listed on LSE on 15 June 2018 • Shares held on LSE increased from 67.2% to 81.2% over the period since listing	• Continue to increase liquidity and attract more EEA shareholders	
Multi-let industrial platform	• Development of 'serviced industrial' model • New asset management platform driven by cutting-edge technology • Development of flexible lease pricing model • Focus on driving rents and improving occupancy	• Launched SmartLease across all assets • Completed over 100 lettings on VTS[1] digital leasing platform • MLI gross annualised rents of £18.2 million, up 175% on FY18 • Reduction in vacancy over the year from 8.5% to 6.1%. (excluding Coningsby Park)	• Sell £150 million of non-MLI assets • Buy £100 million of MLI • MLI to comprise 60–65% of assets	A D

[1] VTS – See page 27.

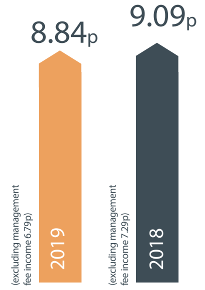
Key Performance Indicators

Stenprop monitors its performance in achieving its strategic goals as laid out in the strategy section. These are detailed below and include financial and non-financial indicators.

A Diluted adjusted EPRA Earnings per share (pence)

Definition – Calculated in accordance with European Public Real Estate Association ('EPRA') guidelines, diluted adjusted EPRA earnings per share measures the level of underlying operating earnings which support dividend payments. It excludes components not relevant to core earnings performance of the portfolio such as fair value property adjustments and gains/losses on disposals. (See note 14 to the financial statements)

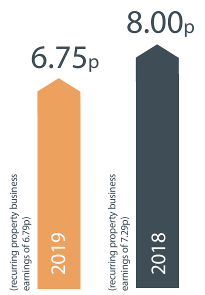
Progress – Diluted adjusted EPRA earnings per share declined in line with expectations primarily due to the decision to reduce leverage which damages earnings. Stenprop has stated its intention over the next few years to sell all, or substantially all, of its non-MLI assets, to build a focused UK MLI business. The impact of this strategy on its earnings in the transition period depends on a number of factors, including the timing and terms of commercial transactions and the implementation of its deleveraging strategy.



B Distribution per share (pence)

Definition – Distribution per share is the total distribution per share that Stenprop makes to shareholders in respect of the financial year. Distributions are paid twice yearly.

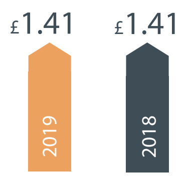
Progress – The full year dividend is fully covered by recurring property-related earnings. As a result of its strategic repositioning, and as previously reported, Stenprop took the decision to only pay out distributions from property-related earnings and to retain earnings from management income. This approach aligned the distribution policy with the more predictable contractual income streams derived from its properties. Management fee income will decline to insignificant levels in future periods.



C Diluted EPRA NAV per share

Definition – EPRA NAV per share includes properties and other investment interests at fair value and excludes items not expected to be realised in a long-term investment property business model (most notably derivative financial instruments and deferred tax). (See note 15 to the financial statements)

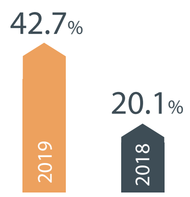
Progress – Stenprop's diluted EPRA NAV per share has remained steady at £1.41 as at 31 March 2019 (2018: £1.41).



D MLI Portfolio %

Definition – The percentage of Stenprop's total property portfolio reported in sterling as represented by MLI properties.

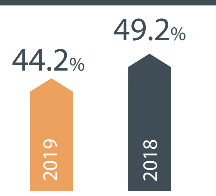
Progress – Stenprop is delivering on its strategy to build its MLI business and has made excellent progress through the acquisition of 30 MLI estates during the year ending 31 March 2019. At year end, the MLI portfolio was valued at £261.5 million.



E Group Loan-to-value (LTV) %

Definition – The LTV ratio is the total Group borrowings as a percentage of the total property portfolio value.

Progress – Stenprop achieved its targeted LTV ratio of no more than 45% as at 31 March 2019. It intends to reduce the ratio to 40% by 31 March 2020.



Business Model

Our Values

Stenprop has identified a core set of values, as shown below, which support its vision and decision-making processes.

Customer focused

Results oriented

Innovative

Decisive

Portfolio management

Our business is supported throughout by strong portfolio management. With an experienced team, a strict governance approach, focus on sustainable investment, a clear debt management programme and an active approach to using technology to enhance and streamline the process, Stenprop is able to focus on revolutionising the MLI sector to become the leading UK MLI business.

INPUTS

Financial capital

Ability of the Company to fund its activities at an optimal cost and invest appropriately

Intellectual capital

The Company's ethos and strategy combined with the experience of the decision makers is critical to its ability to enhance value and grow the business

Manufactured capital

Capital expenditure invested in our assets to generate cash flow from property and rental income which will result in capital appreciation

Social and relationship capital

To behave as an exemplary corporate citizen and maintain relationships with stakeholders through careful assessment of our economic, social and environmental impact

Human capital

The combined experience, knowledge and skill of our employees and partners to deliver a sustained track record and commitment to our strategy

Natural capital

Ensuring that we use both renewable and non-renewable environmental resources responsibly

OUR BUSINESS

Acquire through careful asset selection

- Modern purpose-built MLI assets
- Well located within or close to dense urban conurbations
- Asset-specific business plan to grow rents over time

Reinvest

Sell

- Recycle non-MLI assets in line with strategy
- Retain our MLI properties for the long term

Deleverage

- Reduce gearing in line with strategic goal

OUTPUT

VALUE GENERATED

industrials

F

Flexi-lease Model

A

Active Asset Management

S

Serviced Industrial

T

Technology

Sustainable and growing income for Stenprop

Significant diversification by tenant, geography and scale

Creation of long-term customers through strong service provision and brand loyalty

Enhanced income through implementation of flexi-lease product

Utilising technology to drive cost efficiencies across the portfolio

Generation of additional revenue streams through the delivery of services beyond the sale of space

Financial capital

Permanent capital and scale enable us to build a management platform for long-term sustainable earnings growth, rather than being focused on short-term goals and IRR-driven targets

Intellectual capital

In Stenprop's view the industrials.co.uk website provides a powerful and recognisable brand to tenants and investors alike. Potential to leverage the brand to grow the portfolio's reach and market penetration in future

Manufactured capital

Identify and invest in sectors and assets that have positive growth fundamentals and, where there is an opportunity, to add value and grow earnings through active asset management

Social and relationship capital

Understanding the needs and concerns of our key stakeholders ensures that we can examine our approach to better support these groups

Human capital

We have a very experienced, diverse and talented team from a range of disciplines. We are focused on building the team to maximise performance and investment

Natural capital

By investing in our buildings we can ensure that the environmental impact of our facilities is minimised

Stakeholder Engagement

Working in partnership with our stakeholders

At Stenprop we have more than 1,800 shareholders, hundreds of tenants, a team of colleagues and numerous business partners, service providers and lenders with whom we have common interests or share risks and benefits. We are also a key part of each of the communities in which our properties are located.

These are our key stakeholders, and our ability to engage with each of them is fundamental to the successful implementation of our strategy. Partnerships have always been a key part of our business ethos, and we pride ourselves on our ability to form and keep strong relationships built on our core values of transparency, trust and integrity.

Stakeholder	How we engage	Value generated
Shareholders	• The annual general meeting • Annual report and half year results • Investor meetings & presentations • Stenprop website • Regular news and topical blogs	• Consistent dividend • Delivering on our KPIs • Clearly defined and understood model and business proposition
Business partners	• Weekly/monthly/quarterly meetings • On-site meetings • Using technology platforms • Performance reporting	• Enables clear direction and goal setting • Defined action plan linked to tangible tasks identified in the field • Leveraging technology to innovate standard communication lines • Measuring success against past objectives and future goal setting
Customers	• Customer surveys • On-site meetings via our Customer Engagement Manager • Branded marketing collateral • Social media	• Obtaining feedback to help improve service level offered to customers • Dedicated resource to engage with customers to understand how our space works for them in line with their aspirations and business needs • Enhanced brand awareness through branded collateral - welcome packs, leasing guides and blog posts • Enables mass marketing and communication as well as promoting our customer services and offers
Employees	• Stenprop seeks to create an inclusive result driven culture which encourages learning • Team working, trust and respect are key principals that are promoted in the work place • A modern, flexible working environment that promotes creative thinking • Promote employee well-being through flexible workspace and working practices	• Innovation to ensure we are at the forefront of an evolving market place • A strong culture to ensure our employees are engaged and passionate about their work • Attract best-in-class people • Nimble business capable of reacting to the fast-changing market environment through decisive thinking and adoption of new technologies
Lenders	• Maintain regular dialogue with all incumbent lenders • Clear, transparent reporting on a regular basis • Ensure strong network of contacts maintained with relevant banks and lenders across the market place • Awareness of the changing lending landscape and of new and alternative products that are relevant to our evolving business	• Maintain a competitive cost of capital • Manage risk across our lending book through transparency and communication • Ability to evolve our lending model to deliver a stable and robust capital structure

Creating a customer-focused brand

Industrials.co.uk

We have relaunched the Industrials.co.uk website to comprise a content-rich customer-facing online destination. The new website includes live unit availability and asset information, incorporating drone videos and an interactive unit search function that features more engaging content such as floor plans and 360-degree imagery. Our availability list feeds directly to third party property portals such as Rightmove to enable greater marketing coverage, leading to the generation of more organic leads and enquiries. Our site also includes innovative customer content such as helpful blogs covering key topics and customer FAQ section.

Our dedicated call centre and 0800 number

We have launched our own 0800 number which appears on all marketing content and on all estate boards. This provides one number for all enquiries such as account queries, property management matters or new leasing enquiries to reduce confusion of who to contact. Our 0800 number regularly exceeds 80 leasing enquires a week.

Social media

We have enhanced our exposure across multiple social media platforms to include Facebook, Twitter and LinkedIn. This enables us to engage with customers, share important updates and offer promotions as well as promoting our customers' businesses or engaging with our third-party providers.

Marketing materials

We have expanded our range of both hard and soft copy marketing collateral which we provide to prospective, new and existing customers. These include:

- Leasing guides
- Customer welcome packs
- Promotional offers such as our Customer Referral Scheme

Customer Engagement Manager

We have implemented our first Customer Engagement Manager to cover our assets in the North-West. The Customer Engagement Manager will act as the key interface between Industrials and our customer base and is focused on building and maintaining strong relationships with our existing customers by offering a high level of service and a dedicated point of contact for enquiries of all types. In addition to working with existing customers, the role will help facilitate the expansion and promotion of the business by tending to new letting enquiries, viewings and rent proposals to implement new lease contracts. We plan to roll this out to all of our estates by hiring additional managers in other regions.

Property Report
United Kingdom

"On 21 December 2018 we completed the acquisition of 22 industrial estates from Hansteen Holdings for £67.9 million."

Julian Carey
Executive Property Director

Market environment
Brexit-related uncertainty continued throughout 2018 and into 2019. Notwithstanding this, the gross domestic product in the UK grew 1.4% in 2018 in line with forecasts, albeit representing a fall from 1.7% in 2017. The trend is anticipated to continue, with a Bank of England growth forecast of 1.2% in 2019. This forecast is anticipated to shift throughout the year, as Mark Carney noted 'The fog of Brexit is causing short-term volatility in the economic data . . .'

Despite a rise in base rates to 0.75%, rates remain at historically low levels. Any future rate rises are expected to be gradual and to a limited extent only.

Following political events in May 2019, Sterling weakened significantly against other currencies. This political uncertainty is likely to prevent any rallies in Sterling capped for the immediate future. However, prior to recent events, Sterling had stabilised somewhat since the dramatic fall in June 2016 associated with the Brexit vote, which has resulted in a boost to activity in the manufacturing sector, which is relevant in the MLI space. Inflation remained at 1.9% in March 2019, which is below the Bank of England's 2% target, and significantly below the 3%+ rate seen in 2017. This decrease in inflation and a growth in wages led to real earnings growth climbing 1.6% in the three months to February 2019, the highest level since mid-2016. Unemployment continues to fall to levels not seen since 1975 at 3.9% and a record high of people in work of 32.7 million.

Total returns by sector
The UK commercial property market performance has slowed compared to the year ended March 2018, with total returns for all property falling from 12.5% to 5%. This has primarily been driven by poor performance in the retail sector, with returns falling from 8% into negative territory. Industrial remains the best performing sector providing total returns of 15%, driven by continued investor appetite and strong rental growth. The gap between individual sector performance has widened, with strong industrial performance being countenanced by deteriorating retail performance leading to a further raft of tenant insolvencies and downward pressure on retail rents.

The industrial sector has been a beneficiary of the flight from retail, both from an occupational perspective and from additional capital targeting the sector. On the occupational side, demand remains strong as new occupiers continue to flood into the market, driven by the growth in e-commerce and the need to service a growing UK population. The supply dynamic also remains favourable, especially within smaller unit sizes where a scarcity of land, high build costs and an inability to secure pre-lets (and hence cheap funding) continue to mean there is very little speculative development. The scarcity of supply is further impacted as older stock continues to be targeted for redevelopment into residential use, with CBRE going so far as to estimate that there is diminishing supply in the sector. Until there is significant rental growth and reallocation of land across the country, this is likely to continue.

Industrial investment volumes remained strong at £8.3 billion in 2018, which, while representing a fall from 2017, was still 53% above the ten-year average, according to Knight Frank. Portfolio transactions played a key part in this, with 39 transactions completing in 2018 accounting for 31% of investment transactions by value. This has fallen off in Q1 2019, with LSH reporting 'At £1.4 billion, industrial volume was 40% below Q4 2018's record total but only 18% below trend.'

Non-MLI portfolio
Disposals
In June 2018, Stenprop completed the disposal of its 50% joint venture interest in 25 Argyll Street in the West End of London, by a share sale. The sale valued the property at the 31 March 2018 valuation of £83.4 million and generated net proceeds of £22.8 million. Stenprop's disposal of its interest in Argyll Street reduced debt by £18.7 million.

In March 2019 Stenprop sold the last of its central London office buildings, Euston House, by way of a sale of all of the shares of a special purchase vehicle that valued the property at £95 million, reflecting a £14.5 million premium to its book value of £80.5 million. This transaction released cash proceeds of approximately £66.0 million after transaction costs, rental top-ups and the repayment of external debt. The disposal marks a significant turning point in Stenprop's transition into UK multi-let industrial, and completed the sales plan of central London offices which commenced in late 2017.

Remaining non-MLI assets
The remainder of the non-MLI assets held in the UK will be sold over the coming years to facilitate further investment into MLI. Non-MLI assets comprise 24.3% of our UK portfolio by value and 13.7% of our total portfolio by value. They are made up of the following:

- £57.8m – an office block in Guernsey (Trafalgar Court) let to Northern Trust for ten years
- £13.3m – four single-let industrial units
- £8.4m – a high tech industrial building in Reading
- £4.4m – three retail assets

We are actively reviewing the income expiry profile and asset management opportunities to maximise asset value in line with our disposal pipeline.

MLI portfolio

Acquisitions

Since April 2018 Stenprop has concluded the acquisition of eight separate estates for £35.65 million along with a portfolio of a further 22 estates for £67.9 million. These acquisitions equated to 1.69 million sq ft of MLI space occupied by 329 tenants paying a passing rent at acquisition of £7.44 million per annum, equating to an average rent of £4.40 per sq ft per annum. The acquisition price reflected a capital value per sq ft of £61, reflecting an approximate discount of 50% to estimated replacement cost.

The individual estates were purchased from a range of vendors, including UK institutions, property companies and high net worth individuals. They represent a diverse geographical spread: being located in Shrewsbury, Leeds, Newport, Southampton, Preston, Aberdeen, Bridgwater and Stourbridge. The estates offer a strong tenant mix with excellent rental growth and asset management opportunities and fit well with our investment strategy of purchasing modern, purpose-built MLI. On 21 December 2018 we completed the acquisition of 22 industrial estates from Hansteen Holdings for £67.9 million. The portfolio met with our investment criteria of small units (averaging 3,500 sq ft), which appeal to a wide range of different businesses and are suitable for an array of uses. The average rent of £4.35 per sq ft reflects a significant discount of more than £1 per sq ft to our current portfolio average, demonstrating good potential for rental growth, while the acquisition price, which reflects a capital value of £59 per sq ft, is around 50% of the replacement cost of the buildings.

Stenprop currently has a further three estates under offer. These are geographically diverse and have an aggregate price of £11.3 million.

Asset management

Key like-for-like statistics – 1 April 2018 – 31 March 2019:

Income profile

Current passing rent has increased by 4.8% between 1 April 2018 and 31 March 2019.

Void

Voids reduced from 8.4% to 6.2%.

Letting summary

126 transactions over the period:

- 78 new lettings (£1.2 million per annum of rent) at an average premium to March 2018 ERV of 12.6%.
- 48 lease renewals/re-gears (£1.0 million per annum of rent) at an average premium to March 2018 ERV of 9%.

On average, the above lettings have been 17% ahead of the previous passing rent for each unit. New lettings have been 13.4% ahead of the previous passing rent for each unit and lease renewals/re-gears have been 21.7% ahead of previous passing rent on average.

The average letting is in excess of 3.3 years contractual term certain, with an average rent-free period granted of 1.6 months. The average lease renewal/re-gear is in excess of 3.1 years contractual term certain, with an average rent-free period granted of 0.7 months.

As at 31 March 2019 there were 71 units under offer to let (£1.53 million per annum of rent) at an average rent of £5.48 per sq ft.

Investment pipeline

In the year to March 2019 we reviewed in excess of £2.6 billion of potential MLI acquisitions. Stenprop has appraised these with reference to our strict investment criteria outlined below:

- purpose-built industrial accommodation;
- multi-tenanted income profile;
- located within or in close proximity to areas of high population;
- locations with strong infrastructure;
- areas of strong economic activity; and
- acquisition cost below replacement cost.

2018 was dominated by portfolio transactions with an excess of £500 million of MLI portfolios trading. There have been fewer portfolios coming to market in 2019, but a steady pipeline of individual opportunities remains and there appear to be fewer buyers in the market for larger transactions of £10 million. We are currently reviewing 16 assets with a value in excess of £125 million and believe even with a reduction in overall transaction volumes we are well placed to achieve our £100 million per annum acquisition target.

The pipeline is driven by an excellent network of agents/brokers located both in London and regional centres. This provides us with the market coverage required to ensure we are aware of all potential opportunities. With our focused investment strategy, strong balance sheet and proven track record of performance and execution, we receive a substantial number of ‘off-market’ and opportunistic approaches. Our ability to analyse and conclude transactions efficiently and effectively is an important attribute and allows Stenprop to achieve value in a competitive market.

Property Report continued
Germany

Market environment
The German economy delivered another year of growth in 2018, increasing by 1.5%. This level of growth was a slowdown on the 2.2% rise achieved in 2017. There are signs that this rate is set to slow further in 2019 as a result of the growing pressures on the global economy and trade wars. The export orientated economy is likely to be particularly vulnerable to this downturn given its exposure to the automotive industry which experienced lower order intake in the second half of the year.

Private consumption remains an important driver for the economy. The labour market remains robust with unemployment dropping to its lowest level of 4.8%. The strength of the labour market is driving wage growth and consumer spending, which has been helped by historically low interest rates. The European Central Bank (ended their extensive programme of purchasing bonds at the end of 2018, and it seems unlikely that interest rates will rise quickly, given the economic backdrop. Ten-year German government bonds are currently offering negative yields.

The real estate market continues to perform well and attract both international and domestic capital. Investors are attracted by the consistent performance of the economy and low interest rate environment. CBRE cite that the strongest investment activity continues to be focused in the major cities, particularly Frankfurt, Berlin, Hamburg and Munich. In 2018, CBRE estimated that transaction volumes hit €77.4 billion, setting a new record, driven by the office sector. Occupation markets remain strong, particularly in the office sector, with sustained demand driving rental growth in many locations.

Alternative investment products such as care homes and healthcare properties also saw strong investor interest alongside the industrial sector, which resulted in falling yields. At this late stage in the cycle, we think significant further yield compression is unlikely but there are also no near terms signs that prices will fall materially, barring an external shock to the market.

Performance
The German portfolio, including joint ventures, was independently valued at €292 million. This represents a like-for-like increase of 0.4% on the 31 March 2018 valuations of €291 million.

Investment and asset management
The German portfolio performed well over the course of the year as we completed business plans and maintained, and in some cases grew, occupancy across our portfolio. We made good progress with our repositioning of Bleichenhof in terms of both the construction and letting of the ground floor food court concept. Over the course of the year we pre-let 82% of the 2,600 m² of space currently under refurbishment and due to open later in 2019. In addition, we signed a total of seven lease contracts on the upper floor offices totalling 3,000 m², producing an annual rental income of €688,000. With currently 1,200 m² of vacant space (7.0% vacancy rate for the full building, 750 m² excluding the vacancy of the development), the building will be almost fully let once the development on the ground floor is completed.

Our Berlin shopping centres continued to perform well, with all three centres virtually fully let. We completed the internal refurbishment and modernisation of the Victoria Centre and are in the process of leasing the final vacant unit at this centre.

In December 2018, we completed the sale of the Aldi portfolio to Aldi themselves at a sale price of €35.8 million, being a 9.0% increase on the 31 March 2018 valuation of €32.8 million.

In line with our business plan we will continue to drive the value of our assets ahead of potential sales over the following years as we look to transition to a focused UK MLI portfolio.

Switzerland

Market environment

Switzerland's economy has been stable for some time with average GDP growth over the last decade of approximately 1.6%. In April 2019 the International Monetary Fund reported that it expected growth to slow down to 1.1% in 2019 with only moderate growth in 2020. This view is shared by the State Secretariat for Economic Affairs.

An important part of the overall environment is the ongoing phase of low interest rates with the general consensus being that any substantial change in the near future is unlikely. Equally, inflation is forecasted to remain just below 1% in 2019.

Performance

Stenprop's remaining property at Lugano was valued at CHF 21.0 million in March 2019 compared to CHF 22.3 million in September 2018. The reduction of CHF 1.3 million (5.8%) was primarily as a result of a weakening of market rents over the period.

Investment and asset management

Further to our decision to exit the Swiss market, all the assets in the Swiss portfolio, except for the property at Lugano, were disposed of on 19 July 2018. The properties at Altendorf, Arlesheim, Chiasso, Baar, Vevey, Montreux and Sissach were sold for a gross purchase consideration of CHF 103.65 million, which represents a gain of CHF 0.42 million compared to the CHF 103.23 million valuation at 31 March 2018.

The repositioning of the Lugano property from a retail centre to a gym and wellness centre was completed with the opening of the facility taking place in March 2019. In line with our stated strategy, we are actively seeking to dispose of this property and will do so at an opportune time as soon as practicable.

View more online at www.stenprop.com/news/stenprop-news/

Creating Value Within Our Portfolio

The year ended 31 March 2019 was another transformational period for the Company on its journey towards creating the leading MLI business in the UK. Over the course of the year we successfully sold £248.3 million of assets and purchased £103.6 million of MLI assets. Achieving our ambitions requires clear planning, careful management and strong execution. We also spent a significant amount of time enhancing our operating brand Industrials (industrials.co.uk) together with our customer-focused model, whilst raising our profile across the market place to ensure that we take advantage of all opportunities that could benefit the business. The combination of these activities continues to drive value for our shareholders.

Sale of Euston House – maximising value through a well-structured marketing campaign

The significant upfront planning and a rigorous process allowed us to successfully sell Euston House at a £14.5 million (18%) premium to its independent valuation against a backdrop of continuing political uncertainty. Following a detailed selection process, we appointed Gerald Eve to assist us with the marketing of the asset, in part due to the strength of their planning expertise which was crucial in the presentation of Euston House to the market, as a result of its location in the heart of the HS2 and Crossrail 2 development area. The marketing strategy combined traditional marketing materials alongside digital content to clearly illustrate the unique opportunities the asset provided. The targeted marketing approach generated substantial investor engagement with over 100 viewings. The upfront preparation, which included a comprehensive data room, enabled us to identify a party whom we were confident could deliver on the sale which was crucial to the wider Stenprop strategy. The disposal of this asset was a major step in the process to transitioning to a 100% MLI-focused business, and represented our final asset in central London.

Disciplined investing and efficient recycling of capital

Our £67 million portfolio acquisition of 22 industrial estates in December 2018 demonstrated our patient approach to investing in a heavily competitive market place, where finding value in 2018 had become increasingly challenging. This disciplined investment approach saw us review and bid on a number of estates throughout the year but our ability to act decisively and acquire on tight timelines led to the successful acquisition of this portfolio. The portfolio was acquired in four weeks, utilising a mix of cash and our revolving credit facility ('RCF'). This gave us time to put senior debt in place post acquisition and to sell Euston House, the proceeds of which would partially fund this acquisition.

The RCF provided by Investec continues to play an important role in allowing us to minimise cash drag during this transitional phase of the business, whilst also providing an ability to acquire portfolios quickly. The RCF drawn at acquisition was efficiently repaid through refinancing the portfolio with a 40% LTV, five-year senior debt facility provided by Lloyds Bank, with the balance repaid from the proceeds from the sale of Euston House. This ability to recycle cash quickly and effectively enables us to maintain an attractive dividend yield for our investors and minimise any cash drag on sale proceeds.

Another strong year of lettings across the MLI portfolio

Over the course of the year ended 31 March 2019, we spent considerable time enhancing our Industrials brand. In particular, this included enhancements to the Industrials.co.uk website as one of our front line marketing tools, alongside employing Realla and Rightmove for advertising our space. This, together with the redesign of our marketing materials, enabled us to significantly increase the awareness and appeal of our space and thus start to reduce potential void periods.

During the year we completed 126 leasing transactions, a combination of new lettings and renewals. These transactions were completed 17% ahead of the previous passing rent, reflecting the strength of the market and our comprehensive marketing strategy. The new lettings generated an additional £1.2 million per annum of contractual rent at an average rent of £6.61 per sq ft.

The Bleichenhof – Central Hamburg Maximising value from our largest remaining asset prior to sale

The Bleichenhof is a core city centre building in Hamburg comprising public parking (37%), offices (40%) and retail. The retail is made up of 12% restaurants and leisure and 8% other retail. The building has been valued at £126.9 million. There has been a significant regeneration development that has taken place adjacent to the Bleichenhof and which has been designed to link into the rear of the Bleichenhof. We have made good progress with our repositioning of Bleichenhof in terms of both the construction and letting of the ground floor food court concept. As a result, we have been able to convert rear secondary space on the ground floor to provide a food courtyard concept. This repositioning has progressed well throughout the year. We successfully identified and signed ten leases, representing 82% of the 2,600 m^2 of space currently under refurbishment. Identified tenants included 'L'Osteria', a high-end German/Italian restaurant with over 100 restaurants in Germany; 'Peter Pane', a fast growing chic burger chain with 27 restaurants in northern Germany; 'Dean & David', a health food franchise and seven other complementary concepts. With only one more shop unit to let, the project is targeted for completion in autumn this year. The newly created concept will generate an additional €830,000 of rental revenue per annum once fully let and create a new food court destination in central Hamburg. The food court will enhance footfall in and around the building and will increase the overall image of the building.

Creating value within our portfolio

Active asset management

- Following a customer insolvency, we recovered possession of Unit 2 East at Speke, Liverpool, which was left in poor decorative state.
- We immediately marketed the space and engaged with SIXT Rent a Car, an international car hire company with a very strong covenant.
- Terms were agreed with SIXT subject to us undertaking a refurbishment.
- We agreed a £0.50 sq ft rental premium (above the ERV). Over five years, this contributes £31,500 towards the £52,990 cost of the refurbishment.
- An Agreement for Lease was signed in December 2018 and works commenced the following week.
- Over the refurbishment period we worked closely with the customer to meet their timing expectations as the branch was due to open in May. To help ease the pressure of their deadline, we allowed the customer to begin their branch fit out three weeks prior to lease commencement, with their contractors working alongside ours.
- The refurbishment works were delivered on time, allowing the lease to commence on 31 March 2019.
- This transaction has helped raise the profile of the estate and, given the nature of the business, has increased footfall on site.

Post lease commencement

- Due to our continued strong relationship with the customer, we have since completed an installation of solar panels to their roof and have agreed a profitable re-sale rate on electricity generated and reduced carbon emissions from the site.
- Moreover, we regularly engage with the customer to understand how the branch is performing and have arranged a meeting with their in-house property team to discuss potential expansion across our portfolio.

Deal statistics

- Rent: £69,064pa (£5.50 per sq ft)
- Incentive: 3 months at lease start
- Term: 15-year lease
- Break option: 5 years
- Rent Review: Upward only in years 5 and 10
- Uplift against ERV: 10%
- Guaranteed income: £328,078 over 5 years
- Reduction of estate void: 3.4%
- Refurbishment cost: £53,990
- Unit size: 12,557 sq ft

£328,078
Guaranteed income over 5 years

15 year
lease terms

10%
Uplift against ERV

Industrials Operating Platform Update

Strategy

The core focus for the development of our industrials operating platform in 2019/2020 is the following two key elements:

1 Efficiency

The goal is to build an efficient MLI operating platform in the UK market. In order to do this, we are reducing complexity across our business, and increasing the speed at which we make decisions and implement processes. Some examples of the initiatives we are implementing include:

- **Leasing** – reducing the number of variables in our leases dramatically simplifies the leasing and documentation processes. For example, by replacing market rent reviews with fixed uplifts we secured guaranteed growth in the portfolio whilst also giving our customers greater clarity and certainty over their future payments.
- **Turnaround** – through our partnership with Realla and the deep integration with our industrials.co.uk website we can produce comprehensive leasing particulars and publish them across multiple online and offline channels within 48-72 hours of a property becoming vacant, regardless of location in the UK. This reduces downtime between a unit being returned to us and remarketed, and ultimately leads to shorter void periods.
- **Costs** – we have negotiated highly competitive fixed rates with our partners on new lettings and renewals. This has cut the legal cost of each leasing transaction, whilst also cutting out the time required to negotiate every instruction.

2 Revenue

Our goal is to make the industrials.co.uk platform the highest revenue-generating MLI platform in the UK. The key to this is using the data generated across our portfolio to identify and offer additional products as part of the service to our customers. In order to execute on this part of our strategy we need to establish relationships with product partners, build a platform from which we can sell the additional products and then market them to our customer base. We are making progress on all fronts with regards to this strategy and hope to report further over the course of the financial year as this element of our strategy gathers momentum.

Systems

Class-leading systems are key to the development of an efficient and profitable operating platform. Over the past year we have made significant progress implementing a series of system enhancements, such as:

Integrating and Updating systems

We have been focusing on both updating our existing infrastructure and building integrations between respective systems to reduce manual workflow. An example of this is the integration between our property management data and external applications such as VTS[1] and Coyote[2].

[1] VTS - see page 27 for an explanation on what this programme does.

[2] Coyote records, catalogues and helps manage investment acquisitions. It is also a portfolio management tool which assembles data from our property management systems and produces dashboards which help deliver insight on what's happening.

Data focus

Data sits at the core of every decision that we make as an organisation. In order to implement this, we ran a series of workshops and groups internally on the importance of data and have recruited a Tech Platform Manager with strong real estate data experience. The quality of a business's data infrastructure is fundamental to its ability to extract value from third party applications and hence is key to our long-term goals of partnering with leading PropTech businesses.

Dynamics CRM

We have selected and implemented Dynamics CRM for Industrials. A class-leading CRM system such as Dynamics 365 Customer Engagement enables us to ensure we are accurately tracking leads and sales, leveraging that data across our platform and delivering insight on trends and opportunities. It also enables us to run our digital marketing campaigns and amalgamate data from a series of external sales sources, such as Rightmove – a leading online real estate portal and property website. Over the course of the next 12 months we intend to further enhance its capabilities to improve efficiency in our sales and marketing functions.

PropTech Partnership

Part of our strategy is to team up with leading PropTech businesses. To date we have partnerships with firms such as VTS, Realla, HappyCo and Coyote, and we constantly monitor the market for further opportunities to cooperate with leading businesses in this space. Working with these firms has not only solved issues and enhanced workflow in their respective areas of expertise but has also provided insight into how to build and operate a modern and scalable tech platform.

Operations

We have implemented a number of changes to our physical operations function over the past 12 months with a view to increasing efficiency and growing revenue as follows:

- **Local Customer Engagement Managers (CEM)** – we have recruited our first CEM in the North West, where we have the largest concentration of assets. The purpose of the role is to engage more closely with our customer base with a view to better understanding their needs and improving customer satisfaction. Retaining existing customers is far preferable to finding new ones, and so the CEMs will help us identify opportunities to work with existing customers more quickly than through traditional methods. They also provide significant 'on the ground' resources, helping reduce costs on asset turnaround, leasing and ad hoc issues.
- **Smart Lease** – we have rolled out our new three-page Smart Lease. This is designed to simplify the leasing process and make the process clearer and easier for our customers. It has been accredited by the Plain English Campaign and we are focusing its use at present on our smaller leases where profit margins are tightest.

- **Online leasing platform** – we intend to formally launch our online leasing platform during the summer of 2019. Initially this will be focused on our Smart Lease for our smaller units, but the platform has been built in a scalable and flexible manner and will ultimately be able to accommodate all lease types. The platform can take a prospective customer from enquiry through to occupation, including payments and regulatory checks, so has the potential to significantly reduce transaction times and cost whilst also increasing transparency.
- **Industrials.co.uk website** – we successfully relaunched the industrials.co.uk website and brand in summer 2018. Industrials.co.uk traffic increased 825% between August 2018 and March 2019, with extensive leads from the site, social media and web portals. Search engine visibility increased 74% and the website ranks on page 1 in Google for 45% of our target keywords. Overall traffic from Google is up 292%.
- **Lead generation** – in addition to relaunching industrials.co.uk, we also launched several new marketing channels over the year to March 2019. Our new 0800 number is now generating c. 1,500 leasing leads a year, whilst we are also marketing direct to customer via Rightmove, Realla, Facebook and Instagram. A key to this has been a significant increase in online and offline content which has enabled us to target our customer base of small business owners.

VTS Showcase

VTS is an online and app-based digital leasing product aimed at global real estate owners. They have over 700 landlords, 37,000 users and c. 10 billion sq ft of space on their platform, and it is estimated that using VTS cuts the time taken to complete a letting, on average, by 40%. The Industrials platform has been using VTS for over 12 months now, and during 2018 completed over 100 lettings using the VTS tool. In May 2019 Stenprop won the VTS Innovation Award which recognises forward-thinking customers who challenge the status quo, and are using VTS in new, innovative and groundbreaking ways to improve portfolio outcomes and drive advancements in their companies. Our use of the platform to connect letting agents, managing agents, asset managers and lawyers was part of our recognition for this prestigious award, and we hope to conclude close to 200 transactions on the platform in 2019.

Picture above from left to right: Tim Harvey (Executive Chairman, VTS), Simon Ross (Head of Asset Management, Stenprop), Jimmy King (Senior Director, VTS), Charlie Wade (UK Managing Director, VTS) and Ryan Masiello (Founder & Chief Strategy Officer, VTS).

Financial Review

"Our net rental income from continuing operations increased by 3.18% over the prior year and we maintained our diluted EPRA NAV per share of £1.41"

Patsy Watson
Chief Financial Officer

Stenprop's board of directors has declared a dividend of 3.375 pence per share for the six months ended 31 March 2019, bringing the full year distribution to 6.75 pence per share (2018: 8.00 pence), in line with market guidance. Diluted IFRS earnings per share ('EPS') was 8.35 pence (2018: 13.89 pence), while the diluted adjusted European Public Real Estate Association ('EPRA') EPS amounted to 8.84 pence, compared with prior year of 9.09 pence (-2.75%). The property income component included in the latter figure amounted to 6.79 pence (2018: 7.29 pence), a decline of 6.86%. The full year distribution of 6.75 pence per share is therefore fully covered by property-related earnings. The decline in earnings and dividend is primarily the result of Stenprop's previously announced strategic repositioning to become a fully-focused UK MLI REIT, cease its legacy third party management activity and reduce its borrowings.

At 31 March 2019 Stenprop had reduced its total borrowings to 44.2% of gross assets (its 'LTV' ratio), from 49.2% one year earlier, and 55% at 30 September 2017. Stenprop intends to reduce its LTV ratio to below 40% by 31 March 2020.

The diluted IFRS net asset value('NAV') per share remained constant at £1.36 compared with the prior year, while the diluted EPRA NAV per share was also flat at £1.41. On a like-for-like basis, the valuation of the portfolio increased 0.8% over the prior year.

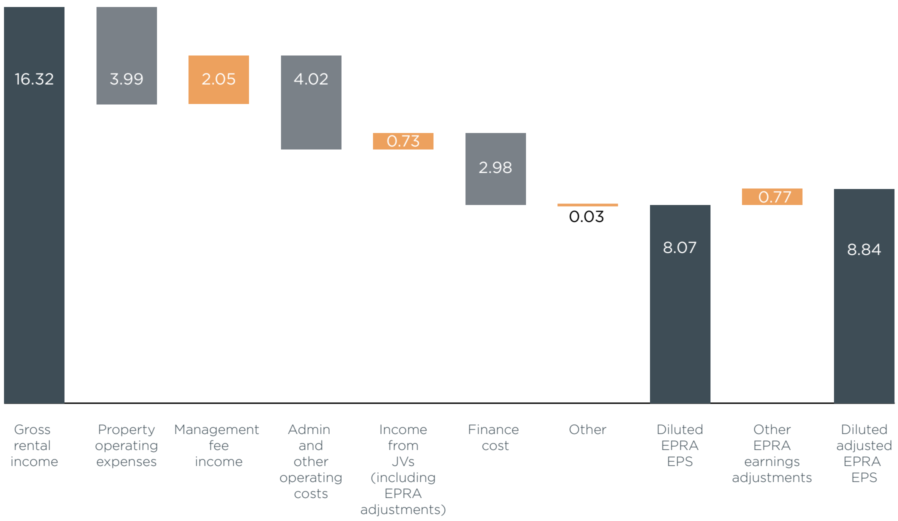
Earnings

Basic earnings attributable to ordinary shareholders for the year ended 31 March 2019 dropped 39.46% to £23.8 million (2018: £39.4 million), equating to a diluted IFRS EPS of 8.35 pence (2018: 13.89 pence). This was driven mainly by a smaller increase in the fair value of investment properties compared with the prior year, and to a lesser extent by the effects of deleveraging.

Net rental income from continuing operations (excluding Switzerland) increased by 3.18% over the prior year to £33.9 million. The UK MLI component of net rents contributed £12.1 million to the total at year end, an 82.13% increase over the amount of £6.64 million contributed by this segment in the prior year. At the same time, the non-MLI contribution has decreased by £4.59 million as a result of sales of non-MLI property pursuant to Stenprop's transition into the MLI sector.

Net management fee income totalled £5.85 million for the period (2018: £5.09 million). These fees relate to management and administration services provided by Stenprop to certain managed property syndicates and funds which had historically been managed by the Group as an ancillary part of its legacy business. Included in the total was a net performance fee of £3.7 million and management fees of £0.3 million which relate to a managed property in Frankfurt that was sold in August 2018. As previously announced, Stenprop has withdrawn from its historic funds management activities, and its future management fee income will be insignificant.

EPRA earnings per share (pence) Year to 31 March 2019



FX rates in period

Average foreign exchange rates in the year: £1.00:€1.1338; £1.00:CHF1.3002 (2018: £1.00:€1.134; £1.00:CHF1.287) Year-end foreign exchange rates: £1.00:€1.1617; £1.00:CHF1.2970 (2018: £1.00:€1.1370; £1.00:CHF1.3370)

Operating expenses of £11.26 million (2018: 8.29 million) included approximately £0.9 million of one-off costs associated with the REIT conversion and listing on the LSE, as well as costs of £1.2 million associated with the aborted acquisition of a material MLI portfolio. The latter acquisition was aborted at a late stage as a result of due diligence findings, which did not support the price demanded by the seller. Staff costs have increased by approximately £0.45 million year on year, reflecting a full year of increased staff levels following the acquisition of the C2 management platform in June 2017, whilst employee share-based payments rose £0.45 million to £0.74 million. The latter is mainly because the three-year LTIP has now run for two years and hence the current year charge reflects an additional year of provision for the LTIP compared with the prior year.

In accordance with reporting standards widely adopted across the real estate industry in Europe, the board of directors feels it is appropriate and useful, in addition to providing the IFRS disclosed earnings, to disclose EPRA earnings as well. Adjusted EPRA earnings attributable to shareholders were £25.24 million (2018: £25.76 million), equating to a diluted adjusted EPRA EPS of 8.84 pence (2018: 9.09 pence), a 2.75% decrease.

The diluted adjusted EPRA EPS attributable to the property rental business amounts to 6.79 pence per share (2018: 7.29 pence), with the remaining amount of 2.05 pence being attributable to the net management fee income.

Stenprop has considered the adoption of further EPRA metrics and in line with best practice believes it useful to disclose the EPRA cost ratio (including direct vacancy costs). The EPRA cost ratio includes all administrative and operating expenses in the IFRS statements (including share of joint ventures). The EPRA cost ratio (including direct vacancy costs) for the year ended 31 March 2019 was 31.8% (2018: 28%).

Dividends

On 5 June 2019, the board of directors ('the Board') declared a final dividend of 3.375 pence per share (2018: 4.00 pence) which, together with the interim dividend of 3.375 pence per share (2018: 4.00 pence per share) declared on 21 November 2018, results in a total dividend for the year ended 31 March 2019 of 6.75 pence per share (2018: 8.00 pence per share). The total dividend for the year is fully covered by property-related earnings of 6.79 pence per share. Part of the distribution will be a Property Income Distribution (known as a PID) which, subject to certain exemptions, will attract UK withholding tax.

The dividend of 6.75 pence per share represents a dividend yield of 6.03% on the share price at 31 May 2019 of £1.12, and a yield of 4.79% on the diluted EPRA NAV per share at 31 March 2019 of £1.41.

Subject to the receipt of regulatory approvals, the directors intend to offer shareholders the option to receive all or part of their dividend entitlement by way of a scrip issue of new Stenprop ordinary shares, or in cash. An announcement containing details of the dividend, the timetable and the scrip dividend terms will be made on 9 July 2019. It is expected that the Company's shares will commence trading ex-dividend on 24 July 2019 on the JSE and on 25 July 2019 on the LSE. The record date for the dividend is expected to be 26 July 2019 and the dividend payment date is expected to be 16 August 2019.

In respect of this dividend, given the Company's share price, which is at a discount relative to NAV, the directors intend to match any scrip scheme take-up through share repurchases to mitigate the dilutive effect that would otherwise occur from the issuance of new ordinary shares.

As one of the conditions of being a UK REIT, Stenprop must distribute 90% of its aggregate UK property rental business profits, as calculated for tax purposes and arising in the accounting year, by way of a dividend within 12 months of the accounting year end. There is no requirement to distribute non-UK property rental business profits, profits from third party management fees or capital gains. Notwithstanding this, Stenprop intends to distribute at least 90% of its UK and non-UK property-related EPRA earnings. Distributions of other non-property-related earnings will be evaluated from time to time by the Board. In considering the payment of this dividend, the Board has chosen to retain the earnings associated with the non-recurring management fees earned in the period, which equated to 2.05 pence per share. Distribution of non-property-related earnings will continue to be evaluated by the Board from time to time.

8.35p
Diluted IFRS earnings per share
↓ 39.88% since prior year

8.84p
Diluted adjusted EPRA earnings per share
↓ 2.75% since prior year

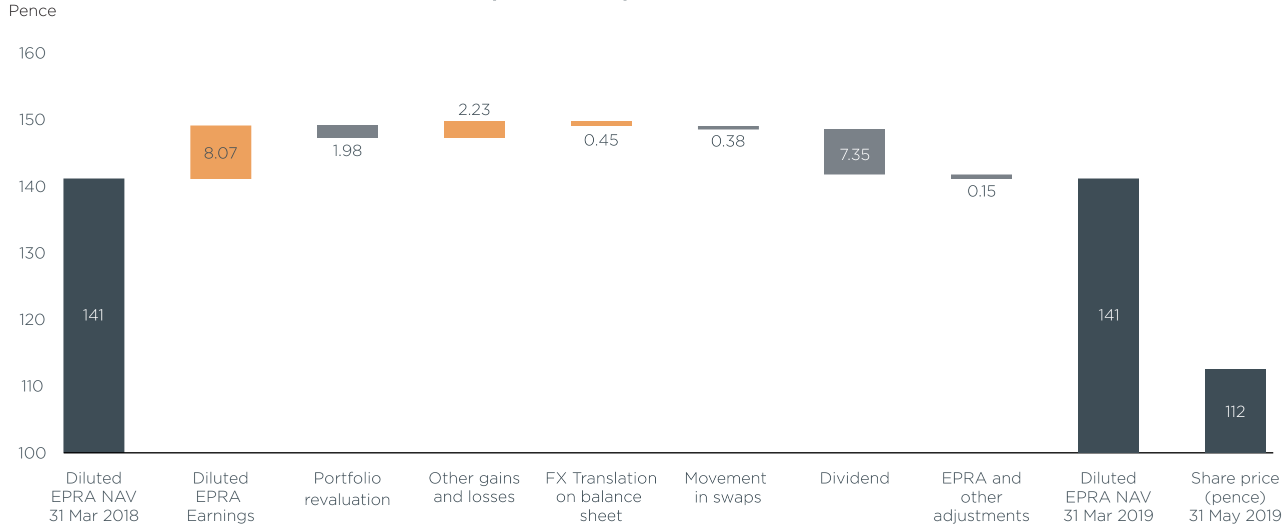
6.79p
Property income per share
↓ 6.86% since prior year

2.05p
Management income per share
↑ 13.89% since prior year

The European Public Real Estate Association ("EPRA") issued Best Practices Policy Recommendations in November 2016, which provide guidelines for performance measures relevant to real estate companies. Their recommended reporting standards are widely applied across this market, aiming to bring consistency and transparency to the sector. The EPRA earnings measure is intended to show the level of recurring earnings from core operational activities with the purpose of highlighting the Group's underlying operating results from its property rental business and an indication of the extent to which current dividend payments are supported by earnings. The measure excludes unrealised changes in the value of investment properties, gains or losses on the disposal of properties and other items that do not provide an accurate picture of the Group's underlying operational performance. The measure is considered to accurately capture the long-term strategy of the Group, and is an indication of the sustainability of dividend payments.

Financial Review continued

Diluted EPRA NAV per share (pence) movement since 31 March 2018



Net asset value

The IFRS basic and diluted net asset value per share at 31 March 2019 was £1.38 and £1.36 respectively (2018: basic £1.37; diluted £1.36) (see note 15).

As is the case regarding the disclosure of EPRA earnings, the directors feel that it is appropriate and useful, in addition to IFRS NAV, to disclose EPRA NAV. The diluted EPRA NAV per share at 31 March 2019 was £1.41 (2018: £1.41).

Including the Company's share of joint ventures, its investment properties were valued at £612.9 million (31 March 2018: £733.6 million), of which £16.2 million were classified as assets held for sale at 31 March 2019 (31 March 2018: £121.8 million). Assets held for sale consist of the sole remaining asset in the Swiss portfolio. On a like-for-like basis, excluding the impact of additions and disposals in the period, the valuation of the portfolio since 31 March 2018, before currency movements, increased by 1.8% but after taking into account the decline in the euro against sterling at year end, the increase was 0.8%.

United Kingdom

The UK portfolio was independently valued at £345.4 million. On a like-for-like basis, after excluding the sale of the London offices, being Argyll Street and Euston House, and the MLI acquisitions during the year, the valuation of the UK portfolio increased by £7.87 million, or 3.35%, on the valuation at 31 March 2018.

Key movements include an increase in the value of Coningsby Park of £3.45 million as a result of the refurbishment of the property, and further valuation increases on the remaining MLI portfolio amounting to £10.87 million. These were partially offset by a downward valuation of £2.05 million (3.43%) of the Trafalgar Court property in Guernsey, driven by a softening of yields on the island. A reduction of £2.25 million in the value of certain regional retail assets was largely offset by an increase in the valuation of the regional portfolio of single let warehouses of £1.31 million.

During the year, eight MLI estates were acquired as single asset purchases at a total purchase price of £35.7 million excluding acquisition costs, and these estates were valued by third party valuers JLL at £36.4 million at year end, an increase of 1.9%. A further 22 estates were acquired as a portfolio in December 2018 at a purchase price of £67.9 million. Acquisition costs associated with the acquisitions made during the year amounted to £6.6 million, which are effectively written off during the valuation process. In line with accounting standards and the RICS red book valuation guide, the assets are required to be valued on an individual basis in the financial statements. This valuation was undertaken by JLL and amounted to £66.5 million at 31 March 2019.

Germany

The German portfolio (excluding joint ventures) was independently valued at €252.6 million. On a like-for-like basis, excluding the sale of the Aldi portfolio of properties, the valuation of the German portfolio increased by €0.9 million, up 0.4% on the prior year end valuation. The third party valuation of the Bleichenhof property in the centre of Hamburg reflected a €5.6 million (3.76%) uplift, primarily due to increased lettings and progress of development works. However, based on a very recent report received from engineering consultants, the directors have decided to reduce the valuation to take account of €7 million of anticipated costs associated with major works to the car park. This results in the €5.6 million uplift becoming a €1.4 million reduction in value compared to the prior year.

Elsewhere, the three central Berlin retail centres experienced a combined uplift of €3.5 million and are now valued at €78.7 million, an increase of 4.7% on the prior year. This was partially offset by a decline in the value of the five Bikemax properties, which experienced a €1.22 million reduction in value, or 4.4%, reflecting the diminishing lease term.

The objective of the EPRA NAV measure is to highlight the fair value of net assets on an ongoing, long-term basis. EPRA NAV is used as a reporting measure to better reflect underlying net asset value attributable to shareholders. Assets and liabilit ies that are not expected to crystallise in normal circumstances such as the fair value of financial derivatives and deferred taxes on property valuation surpluses are therefore excluded. The EPRA measure thus takes into account the fair value of assets and liabilities as at the balance sheet date, other than fair value adjustments to financial instruments, deferred tax and goodwill. As the Group has adopted fair value accounting for investment property per IAS40, adjustments to reflect the EPRA NAV include only those relating to the revaluation of financial instruments and deferred tax.

Switzerland

The remaining Swiss property situated in Lugano was valued at CHF21.0 million compared with the prior year end valuation of CHF20.93 million. As previously reported, following a decision to sell the Swiss portfolio, this asset was classified as held for sale in the financial statements.

Joint ventures

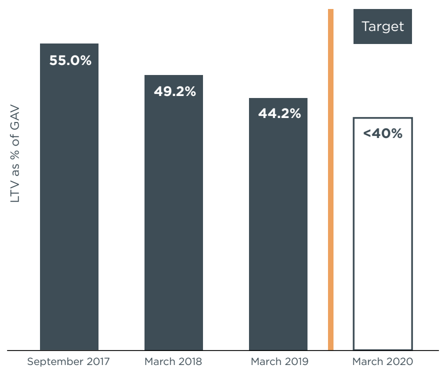
The Care Homes portfolio in Germany was independently valued at €39.40 million, effectively flat compared with the 31 March 2018 valuation of €39.34 million.

Debt

In accordance with its strategy to deleverage its portfolio, Stenprop reduced its group LTV from 55% at 30 September 2017 and 49.2% at 31 March 2018 to 44.2% at 31 March 2019. This was achieved by applying part of the proceeds from the sale of non-MLI assets during the year towards the reduction of debt, with the remaining part being utilised for the acquisition of MLI assets.

Stenprop intends to further reduce its borrowings to below 40% LTV by 31 March 2020 by utilising part of the proceeds from further sales of its non-MLI assets. Thereafter, the directors will employ a level of borrowings that they consider to be prudent for the asset class, taking into account prevailing market conditions.

During the transition phase, and depending on the timing of disposals and acquisitions, new acquisitions may be funded by drawing down on a £50 million revolving credit facility ('RCF') from Investec Bank plc. It is intended that drawdowns under the Investec RCF will be short term and will be replaced as soon as possible from a combination of disposal proceeds and five-year debt finance at an average of 40% of the purchase price. The RCF matures in October 2019 and new terms are currently being negotiated.



The value of the property portfolio at year end, including the Group's share of joint venture properties and assets held for sale, was £612.9 million, whilst senior bank debt at the same date was £271.0 million, resulting in the reduced LTV of 44.2%. Cash reserves at year end totalled £59.2 million, including £8.7 million of restricted cash. When unrestricted cash is added to this measure our overall LTV was 36.0%. Free cash available for MLI property acquisitions in the year ended 31 March 2010 amounted to approximately £35 million.

The weighted average debt maturity stood at 3.0 years at 31 March 2019 compared with 2.9 years at 31 March 2018. The only asset held for sale, being the remaining Swiss property situated in Lugano, is funded on a three-month basis which rolls at the end of each such three-month term. The Bleichenhof property situated in Hamburg, being the largest single asset in the Stenprop portfolio, has debt of €84.9 million, giving an LTV of 57.60%, and a 2.9 year term to maturity. It is intended to market this asset for sale during the financial year ended 31 March 2020.

Excluding assets held for sale, annual amortisation payments are £0.44 million (31 March 2018: £3.30 million). The decrease since the prior year relates primarily to the Trafalgar Court loan facility, where amortisation payments ceased following the reduction in the loan from £34.71 million at the prior year end to £30 million at 31 March 2019.

The all-in contracted weighted average cost of debt was 2.46% at year end, slightly up from 2.44% at 31 March 2018.

The Group mitigates interest rate risk through the use of derivative instruments such as interest rate swaps or interest rate caps in respect of at least 75% of its interest rate exposure. The Group utilises derivative instruments solely for the purposes of efficient portfolio management.

Annual portfolio valuation Movement at 31 March 2019

In functional currencies

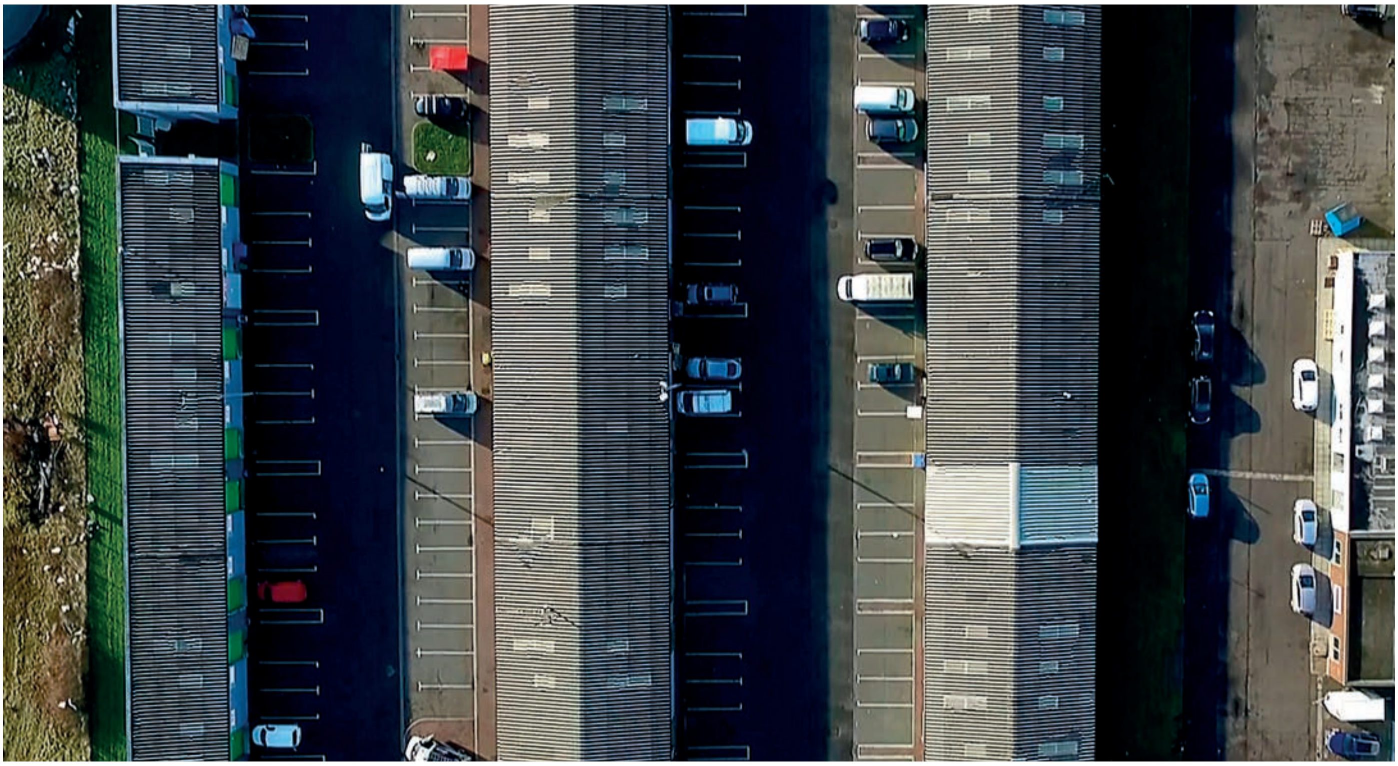
Total
0.8% ↑
1.0% currency ↓
1.8% values ↑

United Kingdom
3.4% ↑

Germany
0.4% ↑

Switzerland
0.1% ↑

Financial Review continued



Foreign exchange

At 31 March 2019, approximately 35.5% of Stenprop's net asset value and 32.6% of its net rents are denominated in euros. Consequently, the GBP:EUR exchange rate has a material impact on reported GBP earnings and net asset values. At the start of April 2018, the GBP:EUR rate was £1.00:€1.1370 and the euro weakened over the year by 2.18% to £1.00:€1.1617 as at 31 March 2019.

Stenprop matches the currency of borrowings to the underlying asset. Where the timing and amount of a liability has been determined, and where it will be met from the proceeds of a sale which is also known in terms of timing and amount, the currency risk is managed through hedging instruments.

Stenprop's diversification across the UK, Germany and, to a lesser extent, Switzerland (until the remaining Swiss asset is sold) continues to provide a natural spread of currencies and it remains our policy not to hedge this natural spread, thereby maintaining a multi-currency exposure.

Conclusion

In the year under review, Stenprop has delivered on its goals to convert to a UK REIT, to list on the LSE, to reduce gearing to below 45% and to pay a total dividend in relation to the year ended 31 March 2019 of 6.75 pence per share.

As set out elsewhere in this report, it remains on track to meet its two-year goal to have its portfolio comprise at least 60% MLI by 31 March 2020, and to reduce its leverage to below 40% by that date.

The Company's objective is to deliver sustainable and growing income to its shareholders. The impact on earnings and distributions during this period of transition will depend on several factors, including the timing and commercial terms of acquisitions and disposals, and the implementation of the deleveraging policy. A key challenge is the minimisation of cash surpluses to mitigate earnings dilution (so-called 'cash drag').

Ideally, acquisitions should take place in advance of disposals and be funded in the short-term using the Investec RCF. Whilst this always remains the goal, market conditions are not always conducive to achieving this.

Given the nature of its business, Stenprop has adopted distribution per share as its key performance measure, as this is considered more relevant than earnings or headline earnings per share.

Patsy Watson
Chief Financial Officer

5 June 2019

View more online at
www.stenprop.com/news/stenprop-news/

“Stenprop remains on track to meet its two-year goal to have its portfolio comprise at least 60% MLI by 31 March 2020, and to reduce its leverage to below 40%.”

Patsy Watson
Chief Financial Officer

Risk Management

Stenprop's five-step risk management plan

1 Identify

Risk identification is supervised by the executive directors and senior managers but involves every individual staff member in the Group.

2 Assess

All risks identified are assessed on a continuous basis. They are awarded an inherent risk rating which may lead to the implementation of controls/ actions to mitigate them. Risks are then assessed and awarded a residual risk rating after considering the adequacy and effectiveness of such controls, the financial and non-financial impact, as well as the probability of occurrence of a risk.

3 Manage

Identified risks can be avoided, transferred, accepted or mitigated. The executive team will assess risks against potential benefits when considering how to manage risks. Decisions and actions are recorded and identified, weaknesses are highlighted and rectified with the aim of bringing the risk back within an acceptable limit.

4 Monitor

Risks and the effectiveness of the corresponding actions to manage these risks are monitored on an ongoing basis by management and reviewed on a quarterly basis by the Audit and Risk Committee.

5 Report

Significant risks, key controls, details of risk management decisions and all relevant management actions implemented as part of the risk assessment process are reported to the Audit and Risk Committee on a quarterly basis. Key risks which may have a material impact on the ability of the Company to achieve its strategic objectives are routinely reviewed and considered by the Board.

Managing our risks

The Board has ultimate responsibility for maintaining sound risk management and internal control systems. It also reviews and determines the Group's risk appetite, bearing in mind the opportunities that often accompany risks and can drive performance. This is the foundation of the Stenprop five-step risk management plan.

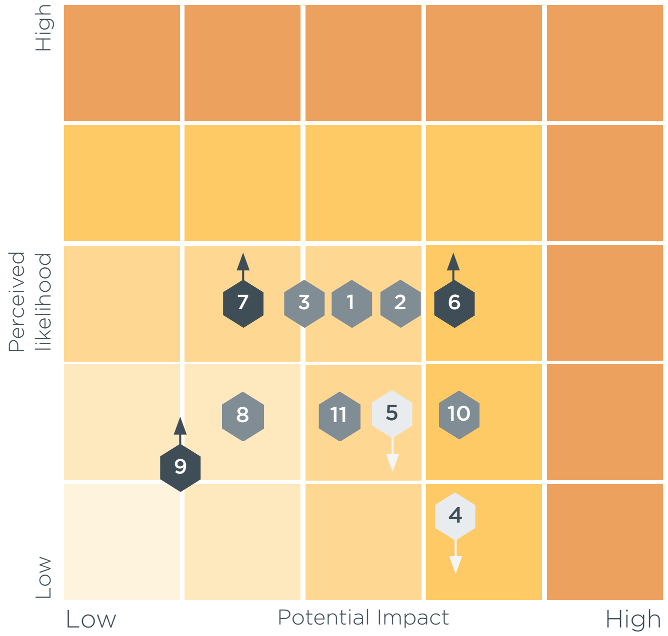
The Audit and Risk Committee is responsible for providing oversight and advice to the Board in relation to current and potential future risk exposures of the Group. It routinely considers risk at each quarterly meeting, reviews the risk profile of the Group and the significant risks identified alongside mitigating factors and action plans.

In addition, the executive directors promote a risk awareness culture in which all employees at all levels of the organisation are encouraged to participate in the risk identification process. The small size of the team allows the executive directors to remain in close contact with all aspects of the business and ensure that the early identification of risks and the management of those risks is at the centre of all decisions with the aim of achieving an appropriate balance between the potential adverse impact of risks on the business and the pursuit of business opportunities that have the potential to create value.

At the Board meeting held in June 2019, the Board completed its annual assessment of risks. This followed the Audit and Risk Committee's formal assessment of risks and its review of the effectiveness of internal controls. The Board also reviewed the Group's risk appetite, taking into account the expectations of the Group's various stakeholders. It established that the Group was willing to accept a moderate level of risk in order to deliver financial returns and achieve its strategic objectives and considers that the effect of these risks can be mitigated through management actions. It concluded that the current risk profile was within the Group's tolerance range.

The Board continues to monitor the Brexit negotiations. The uncertain outcome of these negotiations makes it difficult to assess their potential impact on the Group. The Board considers that the key risks set out on pages 36 to 39 include the potential consequences of the UK leaving the EU without having reached satisfactory terms governing the conditions of its departure, such as a challenging economic climate, the inability to grow industrials.co.uk, risks related to indebtedness or reduced tenant demand. The Group conducted a tenants' survey across the MLI portfolio during the reporting period which showed that Brexit was not a major area of concern for most of its tenants, as they focus mainly on serving their local community. As a result, the Board considers that day-to-day business operations are not sensitive to a hard Brexit and decided to consider and manage exposures to other potential effects of a hard Brexit (such as currency and interest movements) in the normal course of the business and on an ongoing basis, rather than via a specific contingency plan.

The key risks affecting the Group were identified and are presented on page 36 to 39.



Risk increasing | Risk stable | Risk decreasing

1. Macroeconomic and political uncertainty
2. Growing the Industrials.co.uk portfolio
3. MLI platform
4. Indebtedness
5. Debt funding
6. Cash flow management
7. Costs of development of the MLI platform
8. Asset management
9. IT systems
10. Reliance on service providers
11. People

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code and King IV Report, the directors have assessed the prospects of the Group for a period of five years to 31 March 2024. The Board considers this period to be appropriate as the Group's financial review and business plan forecasts cover a five-year forward-looking period.

The Group's five-year plan is supported by a detailed financial model which considers the effects of the investment strategy of the Group on earnings and dividends and which is based on prudent assumptions regarding, among other things, disposals and acquisitions, transaction costs, gearing levels, lease periods, vacancies and renewals. It includes budgeted profits and cash flows and also considers capital commitments, dividend cover, loan to value, financial covenants and REIT compliance metrics. The model reflects the board's confidence that the Group will be able to refinance or replace debt facilities that mature within the period ahead of their maturity and on terms similar to those of current facilities. The model is kept under regular review by management and the Board and is updated at least on a quarterly basis against actual performance.

The major risks and uncertainties identified as relevant to the model and viability assessment over the five-year period related to the timing and quantum of disposals and acquisitions, rental growth rates, exchange rates, interest rates and void periods and levels, taking into account the potential impact of a disorderly Brexit outcome on these factors. The model was subjected to sensitivity analysis to consider the impact of downside assumptions around these factors, taking into account the likely effectiveness of mitigating actions that the Group would have at its disposal. The model also assessed the impact of downside movements in assumptions on cash resources and financial covenants, particularly again in the context of the current Brexit negotiations.

Based on that analysis, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.

Risk Management continued

	Principal risk	Potential impact	Controls and mitigating factors	Commentary	Trend
Strategy					
1	**Macroeconomic conditions and political uncertainty, impact on the economy and the property markets in general**	Macroeconomic conditions and future political events could impact the economy as a whole and the businesses of our tenants, which may lead to lower rents and higher vacancy rates, especially across the UK MLI portfolio of the Group. It may also lead to a decrease in property values, put pressure on cash flows and lead to potential difficulties in meeting bank covenants.	The Board considers economic conditions and political uncertainty when setting strategy. The executive team is highly experienced and has a strong track record of understanding the property market. It ensures effective forecasting and scenario planning as well as the maintenance of appropriate liquidity levels.	The Board believes that the German property market remains strong and UK assets of the Group sold during the financial year were all sold above valuations. In addition, the Board believes that the UK MLI market has the characteristics required to remain robust and lead to medium/long-term rental growth even in a challenging economic climate. Demand is holding up well, voids are falling and rental growth is strong even in the context of Brexit. The majority of Stenprop's tenants are domestic businesses serving their local communities, and the impact of Brexit is not perceived to be substantial.	↔
2	**Inability to identify and acquire suitable properties to grow the MLI portfolio**	The inability to identify and acquire suitable properties which deliver returns sufficient to meet the Group's investment return criteria would impact on the Group's ability to become the leading UK MLI business. This may also negatively affect the Company's ability to deliver sustainable and growing dividends.	The Company benefits from an experienced asset management team that continuously monitors and researches the multi-let industrial space to identify acquisition opportunities.	See the MLI portfolio section on page 19 of the Property Report United Kingdom.	↔
3	**Inability to develop and maintain the MLI platform**	Failure to achieve its vision of becoming the leading UK MLI business leading to poorer than expected performance and earnings.	Developing the physical and digital asset management platforms with a focus on efficiency is a key target for Stenprop for FY 2020. Stenprop has invested in a team of experienced and dedicated asset managers with deep expertise in managing MLI properties and is expanding its regional coverage through the hire of regional managers. It has also partnered with some of the leading PropTech businesses in the UK and has recently hired a tech platform manager who is dedicated to the development of the digital platform throughout all areas of the business.	See the Strategy report on page 12 and the Industrials Operating Platform Update section on pages 26 and 27.	↔

Trend Key:

Increase ↑ Decrease ↓ No change ↔

	Principal risk	Potential impact	Controls and mitigating factors	Commentary	Trend
Financial risks					
4	**Difficulties in meeting bank covenants and inability to refinance when facilities expire**	This may result in the acceleration of the Group's obligations to repay borrowings and the disposal of assets at discounted values.	Loan facilities incorporate covenant headroom and cure provisions. Management closely monitors compliance with bank covenants and continuously assesses the likelihood of future breaches based on valuation and rental income.	See the Debt section of the Financial Review report on page 31.	↓
5	**Inability to raise adequate debt funding**	The inability to raise adequate funding would impact the ability of the Group to transition into a fully focused UK MLI business and would increase the costs of borrowing.	The Group maintains strong relationships with top-rated financial institutions through a solid track record at achieving strategy. It operates a conservative gearing policy with gearing reduced to 44.2% as at 31 March 2019 and plans on further reducing its gearing levels to 40% by 31 March 2020, in accordance with its investment strategy.	See the Debt section of the Financial Review report on page 31.	↓
6	**Sub-optimal timing of sales and acquisitions and poor cash flow management**	The inability to re-invest in a timely manner the proceeds of disposals into UK MLI assets would cause cash drags and would impact earnings.	The management team actively and continuously monitors the cash flow position of the Group and constant communication is maintained between the transaction team, the financial planning and analysis team and the finance team to plan the timings of acquisitions and disposals and minimise cash drag. In addition, a £50 million revolving credit facility is available to the Group, which allows quick and easy drawdowns when necessary to finance acquisitions on a short-term basis.	This risk is significantly higher for the Group during the current transition to a focused UK MLI business. Whilst it cannot be entirely eliminated, the Board is confident that adequate systems and processes are in place to mitigate it. See pages 18 and 19 of the Property Report United Kingdom.	↑

Trend Key:

Increase ↑ Decrease ↓ No change ↔

Risk Management continued

	Principal risk	Potential impact	Controls and mitigating factors	Commentary	Trend
Operational risks					
7	**Costs of development of the MLI Platform**	Inadequate planning, technical issues and inadequate budgeting would result in increased costs and delays and may impact rental growth and earnings.	Adequate planning and budgeting are key to managing this risk effectively. In addition, Stenprop recently hired a tech platform manager, who, under the supervision of the executive team and with the active support and involvement of all areas of the business, leads the planning, development and implementation of all tech solutions that form the digital asset management platform with an emphasis on increasing efficiencies and reducing costs across the business. The executive team keeps its development plans under constant review to identify early potential issues, suitable alternatives and solutions and review its budget expectations to the extent required.	This risk is increasing due to the focus of the business on developing a platform that will increase tenant retention and satisfaction, reduce voids and ultimately reduce costs. A key challenge lies in the constantly evolving nature of tech solutions. However, the executive team is confident that it hosts the skills to control costs whilst not compromising on the need to innovate and become the leader in the industry. See the Industrials Operating Platform Update on pages 26 and 27.	↑
8	**Poor asset management leading to long void periods, low retention rates, reduced tenant demand, as well as breach of tenancy terms by tenants**	This may result in the inability to meet rental growth targets and negatively impact earnings.	The Group relies on an experienced team of asset managers who actively engage with tenants and monitor payments. All prospective tenants go through a robust credit check and deposits are usually required. In addition, the MLI platform focuses on a high quality customer service culture. With the development of the digital platform and the increased use of technology, the interaction with the tenants is increased, potential difficulties spotted early, solutions discussed and remedial actions taken early, reducing arrears and irrecoverable expenditure.	See page 19 of the MLI Portfolio section of the Property Report United Kingdom.	↔

Trend Key:

Increase ↑ Decrease ↓ No change ↔

	Principal risk	Potential impact	Controls and mitigating factors	Commentary	Trend
9	**Disruptions to or breakdown of IT systems, including those specific to the MLI platform and security breach**	This could lead to disruptions in effective asset management, impeded access to systems for tenants and business partners, loss of business data and reputational damage.	The Group engages external information technology experts to ensure that systems operate effectively and that the Company responds adequately to the evolving IT security environment. IT systems are audited and tested periodically and a comprehensive business continuity and disaster recovery plan is in place. All staff receive regular training.	With the expected increased reliance of the Group on technology to drive efficiencies throughout its operations, this risk is expected to increase. The Company will continue to keep its systems and controls in this area under review.	Increase
10	**Reliance on key service providers**	The Group relies on key service providers and is dependent on the performance of external property managers for successful and effective operations and financial reporting.	The Group has established and maintains a comprehensive system of procedures and controls. The Company's asset managers as well as a team of qualified in-house finance managers work in close collaboration with property managers and accountants to ensure an appropriate level of oversight.		No change

People

	Principal risk	Potential impact	Controls and mitigating factors	Commentary	Trend
11	**Inability to recruit and retain key personnel**	The departure of key individuals and the inability to recruit suitable replacements, could negatively impact the ability of the Group to source adequate UK MLI acquisitions, develop its MLI platform and realise its vision of becoming the leading UK MLI asset. It could impact performance and earnings.	The Company maintains a wide number of policies and procedures to support and develop all employees. During the reporting period it implemented a number of initiatives designed to increase the well-being of its employees, collaboration and trust, such as the redesign of its office space. Executive directors and senior managers are eligible to receive awards of options under the Company's deferred share bonus plan and long-term incentive plan. Succession planning is in place for the executives.	The Company is proud of its caring working culture which focuses on teamwork and trust as well as accountability and delivery. It believes that it is key to recruiting and retaining highly motivated and engaged individuals. See the Remuneration Committee Report on pages 54 to 61.	No change

Trend Key:

Increase Decrease No change

Responsible Business

Responsible business

We value our people, the communities and the environments in which we operate.

Stenprop is committed to implementing its strategy in a responsible and ethical manner that creates value not just for the business, but also for its stakeholders and society. It is actively engaging with staff, business partners and tenants in order to achieve this.

The three main areas which the Company focuses on are:

- Minimising the impact of the business on the environment
- Supporting our workforce
- Supporting society and the communities in which we operate

The environment

Stenprop is focused on reducing the environmental impact of its business and assets. We believe that it is an important driver to becoming the leading UK multi-let industrial business and that we can use our expertise in asset management to help our tenants reduce their energy consumption and costs and offer environmentally friendly solutions and services.

To achieve these goals, Stenprop established a sustainability road map and set out certain targets for FY 2020, including:

- Pursue a strategy of rolling out solar panels across the MLI portfolio where economically viable to do so
- Explore the feasibility of upgrading estates with LED lighting
- Establish a strategy and framework to capture and monitor electrical data from our MLI estates
- Formulate a strategy and targets for implementing a data management and reporting system for electrical usage across the MLI portfolio

We have undertaken a review of our portfolio and identified those assets which do not meet the new Energy Performance Certificate requirements, i.e. a minimum of an E rating or higher, for vacant units from 1 April 2018 and implemented measures to achieve this on all applicable vacant units – including replacing conventional light bulbs with LED bulbs.

People

We value the contribution made by all our employees to the business and we recognise that their well-being is critical to our success. We wish to support them and seek to operate in a manner that ensures a deep commitment and engagement from all. Developing and promoting our workforce is at the heart of the Company's activities.

Stenprop has a wide number of policies and procedures in place to support, develop and protect its employees. They include family friendly policies, expectations around standards of performance and behaviour at work and Stenprop's equal opportunities policy which demonstrates the Company's commitment to valuing diversity and dignity at work. In May 2018, all employees received 'Respect at Work' training to raise awareness of unconscious bias and how to address them to ensure that no employee or potential employee receive less favourable treatment because of gender, race, marital status, age, disability, sexuality, religion or belief or any other factor irrelevant to an employee's position within the Group.

Training and support

Stenprop supports employees through professional qualifications and other training to improve performance and engagement.

The Group subscribes to an employee assistance programme so employees can seek free confidential advice at times when they may require additional support. Stenprop also invests in private medical insurance for all employees. We have a flexible approach to the working space and provide 'standing desks' to all staff. In addition, employees are encouraged to use their lunch break to participate in various sports such as football and running.

Strategic sessions and updates

Building on last year's success, we continued to hold strategic sessions with the goal of setting, clearly articulating and ensuring buy-in from all our people to our vision, goal and values as a business. These sessions were held at Board level, as well as senior management level filtering down to all levels of the business. We continue to hold regular business updates where we communicate and assess our progress as a business and hold ourselves accountable to the strategic and operational commitments made as a business.

KPIs, reviews and remuneration

Remuneration is more fully dealt with in the remuneration report in the Corporate Governance section of this report. The setting of KPIs, periodic employee reviews and remuneration are all important elements of our engagement with our people. KPIs are designed to reflect and reinforce both the Company's goals and particular employees' role in achieving those goals. Performance reviews are intended to provide employees with constructive and honest feedback and remuneration policies are intended to recognise and reward both individual efforts and corporate success.

Community

Stenprop operates a charitable initiatives policy which include, the following three initiatives.

Matched Giving

Every member of staff is entitled to claim up to £1,000 in each financial year through the Matched Giving Scheme. Every pound raised by any employee for any registered charities of their choice is matched by the Company.

Volunteering

Stenprop offers the opportunity for all staff to take paid time off to volunteer their time and knowledge for a charitable initiative. Certain employees are already actively participating in mentoring programmes for young people interested in a career in their respective field of expertise. This includes volunteering time with the Reading Real Estate Foundation at the University of Reading.

Charity of the Year

Each year Stenprop elects a Stenprop Charity of the Year. In January 2018, all employees were given the opportunity to nominate a charity to become the 2019 Stenprop Charity of the Year. After reviewing all nominations, Stenprop elected to support the Bokamoso Education Trust, which provides access to world-class education and a mentorship programme to disadvantaged children in South Africa.

We are proud to report that the total donations made by Stenprop to the Trust during the year ended 31 March 2019 amounted to £12,200. In addition, certain Stenprop employees participated in the Ride London 100 miles Cycling event, raising an additional £1,210 for the Trust. The monies contributed by Stenprop supported a number of children, including school and boarding fees for a whole year for Mandy Khumalo, a young girl who lost her mum three years ago. We are actively following Mandy's progress and are proud of her achievements.

"I wrote this letter just to say, I am so thankful to everyone and everything you have done for me. You mean a lot to me, if there was something I can do to show my appreciation of you I would.

Thank you for finalising everything for me for the whole year. I really appreciate it so much and I will work hard to show my appreciation and gratitude."

Thank you so much
Kind regards
Mandy Khumalo

For the financial year ending 31 March 2020, we welcome our new and exciting charity partner, Demelza Hospice Care for Children.

Demelza provides care and support to children with terminal and serious illnesses, and their families, adding life and happy memories to the days they have left together. Sometimes this may be only a matter of days, sometimes weeks or years as a condition progresses.

Demelza is there for children and their mums, dads, brothers, sisters and grandparents, completely free of charge, 24/7, supporting them across Kent, South East London and East Sussex.

Demelza families are going through unimaginable situations caring for their very sick children.

Some children have cancer, some might have epilepsy, cystic fibrosis or Duchenne Muscular Dystrophy. Others might have neurological problems or complex genetic conditions, some of which are so rare, they have no name. Whatever we can do to support these children and their families, through our fundraising, efforts and support this year, we will be making a huge impact on helping to improve their lives.

Seven members of the Stenprop team have already raised money for Demelza by running a non-stop 350km relay, which started on 14 June 2019, from the Source of the River Thames to the sea.

Throughout FY2020 we are targeting raising a minimum of £10,000, which would support an incredible 900 hours of care by a Demelza Care Assistant, when these children need it, whether that is in one of the hospices or at home.

Governance

Chairman's Statement

"I believe that we have made excellent progress in implementing our new strategy and we are building the foundations which will enable us to see through our strategic vision to completion"

Richard Grant
Independent Non-executive Chairman

I am pleased to present the Stenprop 2019 annual report; the second annual report under my chairmanship, and to report a successful year for the Group which has seen the achievement of all the key objectives which we set ourselves this time last year.

Since joining the Board of Stenprop in May last year, I have been acutely conscious of the extent of the business transition required to deliver the vision of becoming the leading listed MLI business in the UK. This requires a wholesale change in both the geography and the sectors in which we are invested, moving from a largely conventional commercial property investment business with assets in a number of key Western European markets to a focused and specialist operator of UK multi-let industrial estates. At the same time, this strategy envisages a reduction in balance sheet gearing and maintenance of a fully covered dividend. All this whilst also converting to UK REIT status, listing the shares on the Specialist Funds Segment of the London Stock Exchange (the 'LSE') and significant changes to the board of directors.

It is now nearly two years since the management team embarked on this journey, and, as you will see from the report and accounts, I am delighted to be able to say that we are on target with our achievement of the milestones which we have set ourselves to date. We also believe that we are in a good position to achieve the further milestones which will mark the completion of this transition over the next two/three years.

The key achievements of 2018/19 have been:

- conversion to UK REIT status.
- listing on the Specialist Funds Segment of the LSE.
- sale of 23 non-MLI properties at an aggregate value of nearly £250 million and in excess of book value.
- investment of £103.6 million over nine transactions to acquire 30 multi-let industrial estates across the UK.
- reduction in balance sheet gearing to less than 45%.
- significant growth in our UK shareholder base.

The Group's overall financial results are obviously affected by the process of transition and the significant changes to the portfolio which are in progress in order to deliver the current strategy. Both IFRS and EPRA earnings per share figures showed a reduction from the previous year, whilst the net asset value per share on both an IFRS and EPRA basis were maintained. However, the total dividend for the financial year, including the proposed final dividend of 3.375 pence per share, is fully covered by ongoing property income and in line with previous forecasts.

It is pleasing to see that our growing investment in MLI assets is delivering the financial and operating returns which we hoped for when we set out on this strategy. The imbalance between supply and demand in the MLI sector shows no sign of ending and it continues to support consistent rental growth. During the financial year, our MLI portfolio has delivered an overall average increase in rents as compared with previous passing rents of 17% on lease renewals and new lettings.

I referred in my Chairman's Statement last year to the reshaping of the Board which was required to reflect the Group's new strategy and the listing of the shares on the London Stock Exchange. I am pleased to report that the new Board is working well, and we will be looking to further enhance the strength and balance of the board over the coming year. In the following pages we detail the Board's responsibilities, and those of its committees, in delivering robust corporate governance practices.

It is also worth noting that our achievements over the last year have been made against the background of protracted Brexit negotiations and the resultant political and economic headwinds. It is obviously impossible to ascertain the overall impact of these difficulties on our business, but there seems little doubt that businesses in general are taking longer to make investment decisions. At present it is difficult to be optimistic that these uncertainties will clear quickly, but I remain confident that, with our clear strategic vision and highly effective operational capabilities, we will be able to make further good progress to achieve the milestones we have set ourselves over the next couple of years.

I believe that we have made excellent progress in implementing our new strategy and we are building the foundations which will enable us to see through our strategic vision to completion. For these achievements and for all their hard work and commitment, I am most grateful to my fellow directors and particularly to Paul Arenson, Julian Carey, Patsy Watson and all the management team at Stenprop. It has been my pleasure to work with them.

Richard Grant
Independent Non-Executive Chairman

5 June 2019

Our Board of Directors

Executive

Paul Arenson

Chief Executive Officer

Paul founded Stenham Property Limited, a property fund management business, for the Stenham Group in 1995. As managing director he was responsible for driving the development of the business and, by the time that the Stenham Group was sold to Peregrine Holdings Limited (a financial services business listed on the JSE) in 2007, Stenham Property Limited had in excess of £2 billion of assets under management. In 2014 Paul, together with CFO Patsy Watson, orchestrated the sale of Stenham Property and a substantial part of the assets under management, by way of a share deal to a JSE and Bermuda stock exchange listed entity, now known as Stenprop. Paul was appointed as the CEO of Stenprop and continues in that position. Paul qualified as a lawyer at Edward Nathan & Friedland Inc. In 1990 he moved from South Africa to London where he joined Titmuss Sainer Dechert (now called Dechert) in their corporate department. He subsequently became a partner at the London office of Sonnenberg Hoffman & Galombik in 1994, prior to joining the Stenham Group in 1995.

James Beaumont

Interim Chief Financial Officer

James was appointed Interim Chief Financial Officer on 5 June 2019. He joined Stenprop in June 2015 as Head of Finance with responsibility for all aspects of finance, financial control, tax, accounting and reporting for Group companies and funds managed by Stenprop.

James previously spent five years as finance director of alternative asset funds at Shore Capital Group Limited where his focus was on German real estate and alternative investment funds. Prior to that, he had eight years of experience in European real estate and financial services through senior finance roles at Cambridge Place Investment Management and Genworth Plc, a Fortune 500 company.

James qualified as a Chartered Accountant in 2002, after serving articles with UHY Hacker Young, a firm based in the City of London. He holds a Bsc(Hons) degree from the University of Leeds.

Julian Carey

Executive Property Director

Julian joined Stenprop in July 2017 following Stenprop's acquisition of C2 Capital Limited ("C2 Capital"), a private real estate fund management business. Julian established C2 Capital in 2009 in a joint venture with the Ellis Campbell Group, a UK Family Office. He subsequently acquired the Ellis Campbell stake in the business in 2015 at the same time as C2 Capital launched Industrials.co.uk, a joint venture with Morgan Stanley Real Estate Investment. Between 2015 and 2017 the Industrials.co.uk portfolio grew to comprise 25 multi-let industrial estates and was sold to Stenprop in June 2017 along with C2 Capital. Julian previously worked in the leveraged opportunity funds team at LaSalle Investment Management from 2007 to 2009, prior to which he worked at Jones Lang LaSalle in the auction and private investment team. He has extensive experience in asset management, fund structuring, third party finance and investment. Julian is a qualified chartered surveyor.

Non-executive

Richard Grant

Independent Non-executive Chairman

R AR SE N

Richard was the chief financial officer of Cadogan Group Limited from 1994 until his retirement in 2017. Cadogan is a property investment business operating in Chelsea and Knightsbridge in West London with a holding extending to 93 acres, built on the foundations of a traditional landed estate which has been in the ownership of the Cadogan family since 1753. Richard is currently the non-executive deputy chairman of Helical plc, a UK property investment and development company listed on the London Stock Exchange. He has been a director of Helical since July 2012 and is also currently the chairman of Helical's audit committee.

Warren Lawlor

Non-executive Director

R

Warren is a co-founder of Ferryman Capital Partners, an investment company established in 2017. He graduated from the University of Witwatersrand in 1998 with bachelor degrees in Arts and Law and is an admitted attorney and CFA charter holder. In 2000 he joined the newly started corporate finance division of Corpcapital Limited and participated in the 2003 buy-out of the business to form Java Capital, where he was an executive director until his departure at the end of 2016. During his 17 years of corporate finance experience he advised a number of listed and unlisted property companies.

Paul Miller

Independent Non-executive Director

R AR N

Paul is a qualified solicitor in England and Wales with over 26 years' international experience, with particular expertise in cross-border mergers and acquisitions, joint ventures, international offerings, listed and unlisted funds and related governance and securities laws issues. A large part of his practice has always been focused on the real estate sector. Paul graduated from the University of Cape Town with bachelor degrees in Commerce and Law. He went on to build his legal career at Berwin Leighton Paisner LLP, where he became a senior partner and led the capital markets team for a number of years. Paul is the Chief Executive Officer of Everglen Capital Proprietary Limited and a non-executive director of Transaction Capital Limited, a company listed on the Johannesburg Stock Exchange. He is also a consultant to Bryan Cave Leighton Paisner LLP. Paul was appointed to the Board as a non-executive director in 2016.

Philip Holland

Independent Non-executive Director

R AR SE N

Philip is a qualified chartered accountant with more than 21 years' experience in the property sector. Having qualified in professional practice, he moved to specialise in property investment and development in 1996, and since 1998 has worked at board level within listed and private real estate companies and funds across Europe, leading the sourcing and investment of over £1 billion of equity. Philip is currently the Chief Investment Officer at Prime plc, the UK's leading healthcare real estate company, having joined the group in April 2017. For the six years prior to joining Prime plc, Philip was Finance Director and Deputy Managing Director of Primary Health Properties plc, a Real Estate Investment Trust listed on the Main Market of the LSE. Philip's previous senior roles were as CFO of Natixis Capital Partners Limited, a private equity real estate fund manager, CFO of Atlas Estates Limited, leading their listing on AIM and capital raising in 2007, and as Finance Director of Estates & General plc, a Main Market LSE listed real estate group that Philip helped to sell and de-list in 2004. Philip is currently a non-executive director and chairman of the audit committee of TP Group plc, an AIM listed specialist services and advanced engineering company that operates in the defence, industrial and government sectors.

Patsy Watson

Non-executive Director

N

Patsy was previously Chief Financial Officer of Stenprop, having joined Stenham Property Limited in May 2007 as Finance Director. Alongside Paul, she has played a pivotal role in developing and implementing the strategy which has transformed the business from a multi-sector fund management business into a listed UK REIT focused on becoming the leading MLI specialist in the UK. Patsy graduated from the University of Witwatersrand in South Africa with bachelor degrees in Commerce and Accountancy, where she also completed a two-year postgraduate course in taxation. She qualified as a Chartered Accountant in Johannesburg, after serving articles with PricewaterhouseCoopers. Patsy joined the project finance division of a South African merchant bank for three years, prior to becoming a founding partner in Neil Thomas & Associates, a boutique firm of corporate finance specialists in Johannesburg. There she had thirteen years of experience in corporate finance and project structuring. Following a move to the UK in 1999 and some time off to raise her children, Patsy spent three years as Finance Director of a division of Regus before leaving to join Stenham Property Limited. Patsy retired as chief financial officer on 5 June 2019 and took up a position as non-executive director from that date.

Key

- R Remuneration Committee
- AR Audit and Risk Committee
- SE Social and Ethics Committee
- N Nomination Committee

Corporate Governance Overview

Governance framework

Whilst it is not required to do so, the Board decided that the Company would comply with the UK Corporate Governance Code published by the Financial Reporting Council as it relates to smaller companies (companies which are outside the FTSE350 throughout the year immediately prior to the reporting year) (the **Code**). The Board has also considered the changes introduced by the July 2018 update of the Code and, where possible, has sought to comply with these in advance of their formal application to the Company.

The Company also adheres to the governance outcomes contained in the King IV Report on Corporate Governance for South Africa (the **King IV Report**) of ethical culture, good performance, effective control and legitimacy in South Africa. The Board confirms that, at the date of this annual report, the Company has applied the recommendations of King IV in all material respects. A report setting out how the King IV principles and recommended practices were applied during the year ended 31 March 2019 is available on the Company's website.

The Board and its committees

The Board

The chairman of the Board has no executive responsibilities but leads the Board and is responsible for the governance of the Board. He facilitates constructive relations between the executive and the non-executive directors. There is a clear division between the role of the chairman and the CEO, who is fully responsible and accountable for the operations of the Company.

The lead independent director acts as a sounding board for the chairman and as an intermediary between the chairman and the other directors if necessary. He is also available to deal with shareholders' concerns which cannot be resolved via the normal channels of the Chairman and/or CEO or where such channels are not appropriate.

Where appropriate, the non-executive directors constructively challenge the executives and ensure that the obligations towards the Company's shareholders are met. They actively help develop the strategy of the Company. The directors hold a diverse range of skills and a wealth of business experience in property, including the MLI sector, finance and governance.

The Board has adopted a charter that sets out the practices and processes it follows to discharge its responsibilities. The Board charter also clearly sets out the matters reserved for decision-making by the directors which cannot be delegated to management. These matters include the determination and review of the Group's strategy, including its investment strategy, any changes to the Group's capital or corporate structure, the review and monitoring of internal controls and risk management processes, the consideration and approval of significant acquisitions and disposals, the approval of budgets and the regular review of the financial position of the Group.

The directors believe that there is a clear balance of power and authority at board level, such that no one individual or block of individuals can dominate the Board's processes and decisions.

All directors may take independent professional advice at the Company's expense in the furtherance of their duties in accordance with a procedure adopted by the Board. In addition, all directors have full access to the Company Secretary and the Company maintains Directors' and Officers' liability insurance cover.

Board committees

As at the date of this report, the Board has established the following committees (as envisaged by the Code, the JSE Listings Requirements and/or King IV):

- Audit and Risk Committee;
- Remuneration Committee;
- Nomination Committee; and
- Social and Ethics Committee.

Full transparency and disclosure of committee deliberations is encouraged and the minutes of all committee meetings are available to all directors. The terms of reference of all the committees are available on request from the Company Secretary and are published on the Governance section of the Company's website.

The Board considers that a separate disclosure committee is not required and will not be constituted. Despite not having a disclosure committee, the Board will ensure that the Company complies with the legal and regulatory obligations and requirements to which the Company is subject in accordance with the inside information disclosure policy adopted by the Company.

Audit and Risk Committee

On 1 May 2018, following a review of its composition and processes, the Board decided to combine the previously existing Audit Committee and Risk Committee into one Audit and Risk Committee.

In accordance with the requirements of the Code and King IV, the Audit and Risk Committee consists as at the date of this report of Philip Holland (the chairperson), Richard Grant and Paul Miller, all of whom are independent non-executive directors, and includes at least one member with recent and relevant financial experience. Appointments to the Committee are for a period of up to three years, which may be extended by no more than two additional periods of up to three years, provided that the members continue to remain independent.

The Committee has responsibility for, amongst other things, monitoring the financial integrity of the financial statements of the Company and its accounting policies and practices. It ensures that an effective system of internal financial control and reporting, procedures for the identification, assessment and reporting of risks and the safeguarding of assets are maintained.

Remuneration Committee

Following the changes introduced by King IV, Warren Lawlor was appointed to the Remuneration Committee on 13 September 2017, bringing the total number of members of the Committee to three in full compliance with the requirements of King IV and the JSE Listings Requirements. The other members of the Committee at the start of the financial year were Stephen Ball and Paul Miller, both independent non-executive directors. Following the resignation of Stephen Ball from the Board on 1 May 2018, Richard Grant and Philip Holland, both independent non-executive directors, joined the Committee which continues to be chaired by Paul Miller.

Appointments to the Remuneration Committee are for a period of up to three years, which may be extended for no more than two additional three-year periods. The Committee, which meets at least twice a year, has responsibility for the determination of specific remuneration packages for each of the executive directors and certain senior executives of the Group, including pension rights and any compensation payments. It is also responsible for the alignment of management and key staff remuneration and incentives with the Company's strategy to enhance and protect shareholder value, and determining and monitoring the criteria necessary to measure the performance of executive directors in discharging their functions and responsibilities.

Nomination Committee

The Nomination Committee was constituted on 1 May 2018 and consists of Richard Grant, Paul Miller and Philip Holland, all of whom are independent non-executive directors, as well as Warren Lawlor, non-executive director. The Committee is chaired by Richard Grant, the chairman of the Company. The committee meets at least twice a year at appropriate times in the reporting cycle.

The Nomination Committee is responsible for considering and making recommendations to the Board in respect of appointments to the Board, the Board committees and the chairmanship of the Board committees. It is also responsible for keeping the structure, size and composition of the Board under regular review, and for making recommendations to the Board with regard to any changes necessary. The nomination committee also considers succession planning, taking into account the skills and expertise that will be needed on the Board in the future.

Social and Ethics Committee

The Social and Ethics Committee is chaired by Philip Holland and also consists of Richard Grant and Sarah Bellilchi.

The Social and Ethics Committee is responsible for matters relating to social and economic development, responsible corporate citizenship, sustainable development, consumer relationships and labour and employment relationships. It meets at least once a year.

Appointments to the Board

On 5 June 2019, Patsy Watson stood down from her position as Chief Financial Officer and was appointed by the Board to the position of non-executive director. On the same date, the Board appointed James Beaumont as Interim Chief Financial Officer. More information on these appointments and the composition of the Board is set out in the Nomination Committee report on pages 52 and 54 of this report. The Board may appoint directors, but all such appointments are confirmed by the shareholders at the annual general meeting ('AGM') following their appointment, in accordance with the Articles. The 2018 update to the Code requires every director to seek election or re-election, as appropriate, at each year's AGM regardless of the size of the Company. Accordingly, at the 2019 AGM, every director, irrespective of the date of his or her appointment and length of his or her service on the Board, will be submitted for election or re-election as appropriate. The terms and conditions of appointment of all non-executive directors are available for inspection upon request.

Board performance and evaluation

The Board's effectiveness is assessed through an annual assessment process of its own performance, that of its committees and of individual directors. The evaluation of the Board for the reporting period was led by Richard Grant, as chairman of the Board, with Paul Miller, as lead independent director, leading the performance evaluation of the chairman. It took the form of performance evaluation questionnaires and discussions. The overall outcome of this evaluation was that the Board considers that it continues to function effectively and in line with good corporate governance principles, and is providing effective leadership to the Group.

Conflicts of interest

Each of the executive directors has agreed that he or she will not directly or indirectly enter into, or be concerned or interested in, any trade, business or occupation other than the business of the Group except with the prior consent of the chairman. Each of the executive directors is required to avoid situations and not accept gifts in the form of benefits or otherwise from third parties that could give rise to a conflict of interest with the Company.

The non-executive directors may be involved in other financial, investment or other professional activities which may cause conflicts of interest with the Company. However, they are required to disclose any potential conflicts to the chairman (or, in the case of the chairman, to the senior independent director) and to the Company Secretary as soon as they become apparent. The Company maintains a register of directors' conflicts of interest. The directors do not vote on matters on which they have a conflict of interest.

Internal controls and financial reporting

The directors acknowledge that they are responsible for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. The directors promote a strong control environment. Ensuring adequate and effective control procedures is a key deliverable and this is instilled into staff at all levels of the business. This approach flows through to external service providers who are monitored and reviewed with regard to the accuracy of their output at least quarterly.

The key procedures established to provide internal control and to support the directors' review of the financial position and prospects of the Group are set out below.

- The Stenprop finance team is managed by a Head of Finance who, with the CFO, assumes overall responsibility for the accuracy of financial reporting.
- The Group has established a systematic review process of all financial reporting. Even though property accounting as well as the consolidation of the Group's financial information are outsourced, the Group employs a team of qualified finance managers who work in close collaboration with property managers and accountants to ensure the appropriate level of oversight and analysis is provided to the financial reporting process.
- Financial reporting standards are considered for all transactions and, where necessary, the Group's auditor is consulted. Memos are produced for the benefit of the Audit and Risk Committee and the Board for material transactions and accounting policy decisions.
- Management accounts are produced quarterly and reviewed by the Head of Finance and the CFO. They are presented to the Board on a quarterly basis. The accounts include variances to prior periods, budget and narrative thereon.

The Board has reviewed the need for an internal audit function and remains of the view that it is not suitable for the Group considering its size and structure. The Board has made use of its independent external auditor to perform audit assurance work, after satisfying itself that the independence of the external auditor would not be compromised. The Board will continue to review periodically whether an internal audit function is desirable.

It should be noted that internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting. They can only provide reasonable but not absolute assurance against the risk of material misstatement or loss.

Principal risks

The Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. For additional information regarding the five-step risk management process followed by the Company, the principal risks facing the Group and how they are being managed and mitigated, see the Risk Management section on pages 34 to 39 of this report.

Corporate Governance Overview continued

Board meetings and attendance

The Board met nine times during the financial year. The meetings follow a formal agenda with time allocated to discuss any special business. Supporting documents and background information are circulated to all the directors in advance of the meetings to allow sufficient time for the directors to familiarise themselves with the businesses to be considered and all key issues.

Dates of the appointment and resignation for those directors who served during the year are set out in the table below, together with their individual attendance at Board meetings whilst in office.

Directors	Appointed	Change in appointment	Meetings attended during the relevant director's tenure
Non-executive			
Stephen Ball (Chairman)	2/10/2014	Resigned 1/5/2018	1/2
Paul Miller	14/9/2016		8/9
Warren Lawlor	5/4/2017		7/9
Richard Grant (Chairman)	1/5/2018		7/7
Philip Holland	1/5/2018		7/7
Executive			
Paul Arenson	2/10/2014		9/9
Patsy Watson	2/10/2014		9/9
Neil Marais	2/10/2014	Resigned 1/5/2018	1/2
Julian Carey	1/5/2018		6/7

Company Secretary

Apex Corporate Services Limited resigned from its position as Company Secretary with effect from 30 April 2018 and was replaced by Sarah Bellilchi, appointed with effect from 1 May 2018. The Company Secretary provides guidance to the Board and to individual directors on corporate governance matters and is responsible for ensuring that Board procedures are complied with. The Board confirms that it has considered and satisfied itself on the competence, qualifications and experience of Sarah Bellilchi.

Engagement with shareholders

The Board is committed to providing key updates to shareholders on the implementation of its investment strategy and objectives. All significant events and transactions as well as the Group's financial performance are timely announced.

The CEO, CFO and Executive Property Director are responsible for the Company's interaction with existing shareholders, potential new investors and analysts and regularly meet with them. Regular tours of the Company's portfolio are organised for analysts and shareholders. In addition, the chairman and senior independent non-executive director are available to shareholders to discuss governance, strategy or any concern that they may have. Any queries can be directed via the Company Secretary.

Shareholders are encouraged to attend the Company's Annual general meeting which all the directors normally attend and which provides an opportunity for shareholders to ask questions and discuss matters with the Board and the executive team.

Governance of information technology

The Board believes that good information technology governance is core to achieving the strategic objectives of the Group. A new third-party IT service provider was appointed to support all the IT needs of the business and drive efficiencies. The transition was completed in September 2018 as expected.

Whilst the Board is ultimately responsible for the governance of information technology, it is management's responsibility to ensure that appropriate processes exist for timely, complete, accurate and appropriate IT reporting.

Audit and Risk Committee Report

"The Committee has overseen the convergence of UK and South African practices as the Company seeks to achieve the highest standards of governance"

Philip Holland
Chairman of the Audit and Risk Committee

Dear Shareholder

I am pleased to present my report as Chairman of the Audit and Risk Committee for the year in which the Committee was established in its current form. As previously reported, the Company chose to merge its then separate Audit and Risk Committees when the Company converted to a UK REIT on 1 May 2018. The Company subsequently listed on the London Stock Exchange ('LSE') on 15 June 2018 and the Committee has overseen the convergence of UK and South African practices as the Company seeks to achieve the highest standards of governance.

Membership, relevant skills and experience

For the first month of the financial year, the Audit and Risk Committees did not comply with JSE Listings Requirements to have a minimum of three members. In anticipation of the forthcoming London listing, the Company actively sought suitable candidates that would meet LSE and JSE requirements, with these appointments made on 1 May 2018.

The Committee comprises of three members, all of whom are independent non-executive directors. As chairman, I review annually the composition of the Committee in conjunction with the Nominations Committee to ensure that Committee members are suitably qualified and have the necessary financial literacy, skills and experience to execute their duties effectively. Richard Grant and I both meet the requirement of having appropriate recent and relevant financial experience and join Paul Miller who has been a valued member of the separate committees since 14 September 2016. Member biographies are set out on pages 44 to 45.

Member	Changes in appointment	Meetings attended
P Holland	Appointed 1 May 2018	4/4
R Grant	Appointed 1 May 2018	4/4
P Miller*		4/4
S Ball	Resigned 1 May 2018	–

* Paul Miller was appointed as interim chairman of the Committee on 7 March 2018 and stood down from that role on 1 May 2018.

All meetings are attended by invitation by the CFO, various members of senior management and non-executive board members and representatives from the external auditor. These attendees do not attend as members and as such have no voting rights. Minutes are circulated to the Board after every meeting.

The Committee meets privately with the external auditor, Deloitte LLP, to discuss any matters that they may wish to raise. I also meet separately with the audit partner and executive directors through the year to understand key issues and ensure the business of the Committee is organised appropriately.

Key responsibilities

- Review the work of the external auditor and valuer and any significant financial judgements made by management;
- Consider the appointment of the external auditor, making recommendations to the Board on their appointment or dismissal and approving their terms of engagement and remuneration;
- Monitor the external auditor's independence and objectivity and review their performance and effectiveness and report to the Committee;
- Review statements made in the Group's annual and interim reports, including those on going concern and risk and controls, and advise, the Board of its opinion whether, when read as a whole, such reports are fair, balanced and understandable and provide the information necessary for shareholders to assess performance, business model and strategy;
- Review the full and half year financial statements, including consideration of material estimates and areas of judgement exercised in their preparation;
- Review the risk management framework and ensure that risks are carefully identified and assessed, and that systems of risk management and internal control are in place and effective;
- Consider the need for an internal audit function; and
- Review the whistleblowing arrangements.

Key focus areas for the year under review ending 31 March 2019:

- Reviewed and reported to the Board on the Financial Position and Prospects Procedures report and financial and risk content and disclosures included in the Company's prospectus to list on the LSE;
- Reviewed and recommended for approval the interim and annual financial statements and 2018 Annual Report having regard to all factors and risks that may impact on the integrity of the report;

Audit and Risk Committee Report continued

- Considered and agreed the scope and fees for the external audit process;
- Considered the specific requirements of external auditor accreditation in connection with the Company's listing on the JSE and recommended to the Board that Deloitte South Africa be appointed to fulfil the Company's audit and reporting requirements for the JSE;
- Reviewed the effectiveness, performance and fees of the external auditor and external valuers;
- Reviewed and considered compliance with regulatory and listing obligations;
- Considered and recommended the going-concern assumption adopted by the Board;
- Kept under review the adequacy and effectiveness of the Company's financial reporting and internal control policies and procedures for the identification, assessment and reporting of risks, fraud risk as it relates to financial reporting, IT risk as it relates to financial reporting, as well as the Company's process of risk management;
- Considered and confirmed that it was satisfied as to the expertise and experience of the Chief Financial Officer;
- Considered the risks associated with hardware and IT security, including cyber security, as well as the Business Continuity Plan and Disaster Recovery Plan for the London office;
- Assessed on an ongoing basis the risk matrix and its approach to considering the levels of risk tolerance, monitoring and mitigation; and
- Monitored on an ongoing basis the Risk Management Plan and the communication of issues to the Board.

Independence and annual assessment of external auditor

Deloitte LLP was appointed to the audit on 3 December 2012 and has expressed its willingness to continue in office. A resolution to reappoint them as auditor of the Group will be proposed at the forthcoming Annual general meeting.

To assess the effectiveness of the auditor and the audit process, the Committee reviews the auditor's fulfilment of the agreed audit plan and variations from it; discussions or reports highlighting issues, if any, that arose during the course of the audit; arrangements for ensuring independence and objectivity; and robustness of the auditor in handling key accounting and audit judgements.

The Committee was satisfied with the audit process and Deloitte LLP's effectiveness and independence as an auditor having considered the degree of diligence and professional scepticism demonstrated by them.

The Committee is responsible for monitoring the level of non-audit services provided by Deloitte and asks the auditor to confirm their continued independence. Deloitte has confirmed to the directors that it remains independent and has maintained the necessary internal safeguards to ensure the objectivity of the audit partner and staff.

During the year under review, Deloitte continued to provide certain non-recurring work relating to Stenprop's conversion to UK REIT status and listing on the LSE. The following fees were recognised by the Group for the year:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Audit fees	**244**	226
Non-audit fees		
Interim review fees	**30**	30
Tax compliance and advisory services	**357**	405
Total	**631**	661

A new lead audit partner is appointed every five years and the Committee confirms that it has assessed the suitability for appointment of John Clacy to act as auditor for the current year ended 31 March 2019.

The JSE Listings Requirements require the auditor firm of a company listed on that exchange to be accredited by the JSE as suitable for appointment as auditors of listed entities. Deloitte LLP, the Company's incumbent statutory auditor and JSE accredited auditor, elected during the year not to renew their JSE auditor accreditation. Accordingly, the Committee discussed the JSE accreditation of the UK, Channel Island and South African firms within the Deloitte network and recommended to the Board Deloitte South Africa as the preferred JSE accredited audit firm to be engaged by the Company. The Committee further assessed the suitability for appointment of Deloitte South Africa and Leon Taljaard, the South African audit partner, to act as auditor of the Company for the year ending 31 March 2019 and has requested from Deloitte South Africa, and reviewed, the information detailed in paragraph 22.15(h) of the JSE Listings Requirements.

Risk management policy

The Committee is aware of the UK Corporate Governance Code's requirements in relation to risk and the monitoring of internal control systems. The Board considers effective risk management to be at the centre of delivering the Group's strategy and integral to its success. Our risk management process is detailed on pages 34 to 39 of this Annual Report and forms an integral part of the Group's approach to best practice corporate governance.

The risk management process serves to identify, assess and respond to the principal risks facing our business by ensuring that:

- appropriate risk management recommendations are made for board approval;
- adequate progress is made against the risk management plan;
- key risks are being identified, analysed and assessed;
- management's risk responses are appropriate and adequate;
- the risk management process is effective and continuously developed; and
- appropriate combined assurance is provided.

The Committee considers disclosure regarding risk management and ensures that it is both comprehensive and relevant. The approach is such that risk is not likely to be eliminated in its entirety; however, it is intended to ensure that risk exposures across the business are effectively managed and reduced to acceptable levels.

Internal controls

In its role in reviewing the effectiveness of the Company's internal control systems the Board has approved a risk matrix designed to identify and manage the principal risks to which the Company is exposed and internal controls in place to manage these risks.

The Company does not have a formal internal audit function but does periodically make use of an external service provider to perform extended assurance work. This has, in the past, sometimes been undertaken by the Group's external auditor. The independence of the external auditor in light of any extended assurance work performed, as well as the need for the appointment of an internal auditor, is reviewed by the Committee and the Board at least once a year.

During the financial year, extended work was undertaken to reflect the role of Stenprop Limited post-conversion to a UK REIT on 1 May 2018 and to adopt the best practice of other REITs with respect to the allocation of management costs. This included both transfer pricing considerations as well as direct and indirect UK tax implications. Deloitte worked alongside management and an appropriate memorandum detailing the management services restructuring was agreed.

As part of the LSE listing process, the directors were required to confirm that procedures exist which provide a reasonable basis for them to make proper judgements on an ongoing basis as to the financial position and prospects of the Company and the Group. The listing also required the working capital projections of the Group to be prepared and reviewed. The Committee reviewed the procedures and projections and made recommendations to the board regarding their approval. BDO LLP were engaged by the Company to report on these matters and did so positively and Stenprop subsequently listed on the Specialist Fund Segment of the LSE on 15 June 2018.

Financial reporting

The Committee examines, reviews and monitors the integrity of the Company's results or other financial information to be made public, prior to submission and approval by the Board. The Committee ensures that the Company has established appropriate financial reporting procedures and that these procedures are operating effectively.

Significant areas of judgement and estimates

In assessing the integrity of the financial statements, the Committee has reviewed the appropriateness of accounting policies, estimates and areas of judgement. The following key areas have been identified and were disclosed accordingly in notes 2 and 4 to the annual financial statements:

- Adoption of the going concern basis of preparing the financial statements – the Committee has considered the financing requirements of the Group and the committed facilities available to it. It appraises management's assessment of going concern, any assumptions made and the report of the external auditor in recommending that adoption of the going concern basis is valid.
- Investment property – the Group's investment properties are valued based on external independent appraisals. Valuations and yields are discussed with management and the Committee.
- Assets held for sale – a number of non-MLI assets have been classified as Held for Sale and the value thereof estimated at fair value, determined by the directors, based on an independent external appraisal.

In addition to the judgement areas noted above, the Committee also reviewed the prospectus, working capital statements and other statements and approvals required by the listing process and recommended their approval by the Board.

The Committee was satisfied that the processes and pertinent assumptions used in areas of judgement were reasonable and applied appropriately. The Committee was further satisfied that areas of judgement had been reviewed and discussed with the external auditor who agreed with the accounting treatment adopted.

Effectiveness of the Committee

The chairman of the Company oversees a review of the effectiveness of the Board which includes a review of the performance of the Committee. The review concluded that the Committee continues to operate effectively.

Engagement with shareholders

As chairman of the Audit and Risk Committee, I welcome questions from shareholders on the work undertaken by the Committee. I will be present at the Company's 2019 AGM or can be contacted through the Company Secretary.

Philip Holland
Chairman, Audit and Risk Committee

5 June 2019

Nomination Committee Report

"The Nomination Committee was established on 1 May 2018 following Stenprop's conversion to a UK REIT."

Richard Grant
Chair of the Nomination Committee

Dear Shareholder

I am pleased to present the Nomination Committee report for the year ended 31 March 2019.

Membership and meetings

As previously reported, the Nomination Committee was established on 1 May 2018 following the conversion to a UK REIT and in anticipation of the London listing that took place on 15 June 2018. On the same date, the Board appointed Philip Holland and myself to the Board and to various committees of the Board, including the Nomination Committee. Paul Miller and Warren Lawlor were also appointed as members of the Committee.

The Committee is composed of a majority of independent non-executive directors as required by the Code and King IV.

The Committee met twice during the year. Details of attendance at Committee meetings held during the reporting period are set out below:

Committee member	Meetings attended
Richard Grant (Chair)	2/2
Philip Holland	2/2
Paul Miller	2/2
Warren Lawlor	2/2

Key responsibilities

Following the publication of the 2018 UK Corporate Governance Code, the Committee has taken the opportunity to conduct a thorough review of its terms of reference which have been updated. The updated terms of reference can be found on the Company's website at www.stenprop.com/our-business/governance

Key areas of responsibilities for the Committee include:

- considering and making recommendations to the Board in respect of appointments to the Board, the Board committees and the chairmanship of the Board committees;
- keeping the structure, size and composition of the Board under regular review and making recommendations with regards to any changes necessary; and
- succession planning for the Board and the senior management team.

Succession planning

In preparation for Patsy Watson's expected retirement, succession planning for the role of Chief Financial Officer was a key area of focus for the Committee during the reporting period, as well as succession planning for the senior management team.

An external search consultant with no connection to the Group was engaged by the Company and a number of potential external candidates for the role of Chief Financial Officer were identified and interviewed. These included James Beaumont, previously Head of Finance reporting to Patsy Watson and a member of the senior management team.

Following a detailed assessment of all candidates, the Nomination Committee decided to recommend the appointment of James Beaumont as Patsy's successor. This appointment was confirmed by the Board on 5 June 2019 and evidences the work that the Company has done in recent years on succession planning which included identifying employees with leadership potential and supporting their training and development. The Committee believes that James has demonstrated that he has the required skills to lead the finance function of the Group and we are delighted to welcome him to the Board as Interim Chief Financial Officer. In line with the Group's internal processes, a detailed review of James' performance will be conducted by the Committee within six months of his appointment, following which his appointment as Chief Financial Officer may be confirmed.

The Company also undertook a detailed review of the resources available to the internal finance function. Bearing in mind James' promotion and the overall strategic goal of the Group to develop an efficient asset management platform, it was decided to hire a Head of Financial Operations as a new member of the senior management team.

James, as well as Paul Arenson and Julian Carey, will also be supported in their role by a highly qualified and dedicated senior management team. Succession planning at senior management level will remain an area of focus for the Committee. At the moment, we believe that the Company has the requisite balance of skills to ensure its long-term success.

Composition of the Board

The Committee considered Patsy's valued contribution to the Company over the past 12 years and the combination of her skills, experience and knowledge. We believe that the Group would immensely benefit from her continued involvement at Board level, especially overseeing the development of the Platform during the transition period. Following the Committee's recommendation, she will remain on the Board as a non-executive director from 5 June 2019.

In accordance with the guidelines set out in the Code and in King IV, the Committee determined that Patsy Watson is not an independent director due to her prior employment with the Group. Consequently, following her appointment and the appointment of James Beaumont, the Board is composed of myself as independent non-executive chairman, three executive directors and four non-executive directors which only two are independent non-executive directors.

Whilst the composition of the Board as set out above satisfies the requirements of King IV, we acknowledge that the balance of independent and non-independent directors does not comply with the requirements of the Code. However, the Committee and the Board considers that the three independent non-executive directors (including myself) currently serving on the Board have the requisite skills and experience to ensure that the Board continues to operate effectively and ethically, and that no individual or group of individuals can dominate the Board's decision-making process. In addition, we consider that the skills and experience of both Patsy Watson and Warren Lawlor, who are both non-independent, are crucial to the success of the Company in implementing its strategy of becoming the leading MLI business in the UK. Consequently, we consider that non-compliance with the Code is justified in the circumstances. The Committee will keep this matter under continuous review and is committed to work towards a better balance of independent and non-independent directors over time, in line with the provisions of the Code.

We confirm that the Company was compliant with the provisions of the Code as they relate to smaller companies as well as with the provisions of King IV in respect of the composition of the Board from 1 May 2018 to the end of the reporting period.

Diversity

It is core to the Company's success that the best qualified people for any job should be employed and that the working environment be free from discrimination, harassment, intimidation or coercion based on race, religion, gender, age, nationality or disability. The Board also recognises that it should be comprised of individuals with diverse backgrounds (including age, core expertise, gender and social diversity) who have a high degree of competency, integrity, skill, capacity, experience and commitment to discharge their duties and responsibilities.

At present, there is one female director on the Board, the aim being to have females constituting at least 20% of the total number of directors by 31 March 2020. The Committee and the Board will continue to evaluate all nominations and appointments with the aim of improving gender diversity at Board level taking into account the above-mentioned criteria of competency, integrity, skill, capacity and experience. The Committee is also mindful of the Group's diversity policy when considering succession planning below Board level.

Board evaluation

The Board, led by myself as the chairman and assisted by Paul Miller as lead independent director, undertook an internally facilitated performance evaluation in the last quarter of the reporting period. It took the form of detailed performance evaluation questionnaires and discussions.

It was noted that the concerns raised by the directors the previous year relating to the size of the Board, deemed too small, were addressed with my appointment as well as the appointment of Philip Holland and Julian Carey. The overall outcome of the 2019 evaluation was positive, although a number of recommendations were made, and actions taken, as follows:

- The Nomination Committee agreed to work towards a better board balance in line with latest corporate governance guidelines, although it is acknowledged that this would be done over a period of two to three years.
- The form and content of board papers were reviewed and improved to ensure additional focus on the MLI business.
- The agenda for the meetings of the Audit and Risk Committee was reviewed and amended to ensure focus of the members of the Committee on key matters within the scope of their role whilst operational matters are being discussed at meetings of the full Board.
- Non-executive directors are receiving additional guidance on training and development opportunities.

The Board considers that it continues to function effectively and in line with good corporate governance principles and is providing effective leadership to the Group. Its key strengths were again identified as a high degree of ethics and integrity, robust debates and rigorous decision-making.

Annual general meeting

The Board noted the requirements of the Code that all directors should be subject to annual re-election by shareholders, regardless of the size of the Company. The Company supports the right of shareholders to vote on the election or re-election of directors to the Board on an annual basis and has chosen to comply with this requirement.

Accordingly, the following resolutions are being proposed at the Annual general meeting to be held on 11 September 2019:

- Confirmation of the appointment of James Beaumont as executive director of the Company.
- Re-election of Patsy Watson as non-executive director of the Company
- The re-election of Richard Grant as independent non-executive Chairman of the Company.
- The re-election of Paul Arenson and Julian Carey as executive directors
- The re-election of Philip Holland, Paul Miller as independent non-executive directors and Warren Lawlor as non-executive director.

We confirm to shareholders that, following the annual performance evaluation and taking into account their qualifications and experience, these directors continue to be effective and demonstrate commitment to their roles. Biographical details of the directors are given on pages 44 and 45.

I trust that shareholders will support the Committee and vote in favour of the resolutions.

Richard Grant
Chairman of the Nomination Committee

5 June 2019

Remuneration Committee Report

"The Committee is focused on securing an alignment between the interests of executive directors, employees and shareholders and ensuring that the remuneration policies and practices drive and reward appropriate behaviour."

Paul Miller
Chair of the Remuneration Committee

Dear Shareholder

On behalf of the Board, and as Chairman of the Remuneration Committee, I am pleased to present our Remuneration Committee Report for the year ended 31 March 2019.

The Remuneration Committee remains mindful of evolving best practice with respect to executive remuneration. It considers remuneration in the context of the overall strategy of the business in order to promote the Company's strategic objectives, values and its long-term sustainable success. The Committee is focused on securing an alignment between the interests of executive directors, employees and shareholders and ensuring that the remuneration policies and practices drive and reward appropriate behaviour.

The Remuneration Committee supports the changes introduced by the 2018 UK Corporate Governance Code (the 2018 Code). The changes include the setting of remuneration for senior management by the Committee itself in cooperation with the executive directors, rather than recommending and monitoring the implementation of the policy. They also include the Committee taking responsibility for the review of all staff remuneration and related policies and for the alignment of incentives and rewards with culture. The Committee was already involved in many of these processes and we are committed to continuing to review our policies and processes during the course of FY2020. We have already reviewed the Committee's terms of reference to ensure that they include all matters required to be included by the 2018 Code.

The remuneration policy of the Company was reviewed following the strategic repositioning of Stenprop to become the leading MLI business in the UK and significant changes were made to the incentive schemes offered to executive directors and members of senior management. Such changes were approved at a meeting of the Company held on 24 January 2018. Shareholders subsequently approved the remuneration policy by an advisory vote at the 2018 annual general meeting of the Company. The Committee is of the view that the policy remains appropriate and should continue to operate as it is, subject to the minor change outlined below. We will continue to review it regularly to ensure that it remains effective, relevant and aligned with the Company's objectives.

This report has been divided into the following three sections:

- this letter, setting out some background to our policies and the work of the Committee during the reporting period;
- Stenprop's remuneration policy; and
- the remuneration implementation report, which includes how the remuneration policy was implemented in the year ended 31 March 2019 and how it will operate in the year ending 31 March 2020.

Board changes

The Committee considered the remuneration arrangements in relation to the changes to the composition of the Board announced on 5 June 2019. These included the leaving arrangements for Patsy Watson and her transition to a non-executive role and the appointment of James Beaumont as interim Chief Financial Officer. Details of the leaving arrangements for Patsy Watson can be found on page 60 of this Report.

Noting that the interim Chief Financial Officer was an internal appointment, the Committee determined that, whilst James' salary had been increased to take account of his new responsibilities, a staged approach should be taken with regard to his incentive package progression. Accordingly, James currently retains his existing incentive package with a review due to take place once he is confirmed in the role, expected to be within six months of his appointment.

Changes to Stenprop's remuneration policy

The Board is pleased with the performance of the senior management team at Stenprop and considers their overall contribution to the Company over the past 12 months, individually and as a team, to have been key to the Company achieving its targets for the year. The Board believes that they will continue to be significant contributors to the successful implementation of the Company's strategy and the shaping of the Company's future strategy.

As a result, the Board is of the view that the variable element of their remuneration package should be further aligned to corporate KPIs. A weighting of two-thirds will now be attributed to corporate goals and one-third only to personal goals when determining their annual bonus entitlement. This is a change from the 50/50 weighting between corporate and personal goals applied last year. In addition, the Committee will review each individual's role, responsibility and performance and may alter the terms of their participation in the annual bonus scheme and/or long-term incentive scheme on an individual basis, in each case within the scope of the relevant scheme.

Feedback

In terms of King IV and the JSE Listings Requirements, the remuneration policy and the remuneration implementation report must be tabled for separate non-binding advisory votes at the annual general meeting of the shareholders. These non-binding votes allow shareholders to express their views on the remuneration structures adopted by the Company. In the event that 25% or more of the votes are cast against either or both the remuneration policy or the remuneration implementation report, the Board is obliged to engage with dissenting shareholders and to address all reasonable concerns or objections.

On behalf of the Committee, I thank you for your continued support. We appreciate and consider very seriously all shareholder feedback received in relation to remuneration. We are always looking to improve our policies and practices and would welcome any comments you may have on the Report, or any concerns you may have about our remuneration policy or the way we have implemented it.

Paul Miller
Chairman of the Remuneration Committee

5 June 2019

Stenprop's remuneration policy

Stenprop's remuneration policy was subject to a non-binding advisory vote at the 2018 Annual general meeting and was approved by 98.53% of shareholders who voted.

The key elements of the remuneration policy remain unchanged. However, we have included additional details and information in this Report to increase transparency. Please see the table on pages 56 and 57 of this Report.

We believe that fair, appropriate and market-related remuneration is key to finding, retaining and motivating high calibre executives. The Company's executives are, in turn, key to achieving Stenprop's objective of delivering sustainable growing income to shareholders.

Stenprop's remuneration policy is aligned with this principle and seeks to ensure that the remuneration of executive directors and other key executives:

- is aligned to the Company's long-term strategic goals;
- encourages executive behaviour that improves Company performance, limits loss and promotes an ethical culture and responsible corporate citizenship; and
- fairly and responsibly rewards executives for their individual contributions.

The Committee considers pay and employment conditions across the Group and applies the same approach to remuneration for executive directors as that used for all employees of the Company.

Stenprop's remuneration policy provides that a significant proportion of the remuneration of executives should be structured so as to link rewards to corporate and individual performance and be designed to promote the long-term success of the Company. This is achieved by dividing executive and employee remuneration into two elements, a fixed element, made up of a market-related salary with reasonable benefits, and a variable element.

The variable element, which is in turn broken up into short-term and long-term incentives, is the element of executive remuneration that is linked to corporate and individual performance – through KPIs (for the annual bonus scheme) and vesting conditions (for the long-term incentive plan) that are determined by the Committee and approved by the Board.

Remuneration Report continued

Salary	**Purpose and link to strategy** • To attract and retain high calibre executives, members of the senior management team and other individuals. • To provide an appropriate level of basic fixed income, avoiding excessive risk arising from over reliance on variable income. **Operation** Salaries are normally reviewed annually to ensure that they remain competitive and market related. The Committee is required to obtain reliable, up-to-date information about remuneration in other comparable companies to confirm this is the case. There is no automatic entitlement to an increase each year. **Maximum** • Salary increases will typically be inflation or market-linked increases; • Above inflation or market increases will typically only be considered where the base salary is below market or where the scope, role and/or responsibility of the individual have increased in a way that justifies such an increase. **Performance targets** Individual performance is a factor when considering and reviewing salaries.
Pension	**Purpose and link to strategy** To provide competitive retirement benefits for its employees. **Operation** Pension benefits are provided via the Stenprop pension scheme although employees are entitled to receive a contribution towards their personal pension plan instead. **Maximum** For executive directors: up to 10% of base salary. For all other staff: up to 7% of base salary. **Performance targets** N/A
Annual bonus	**Purpose and link to strategy** • To encourage executive behaviour that improves Company performance, limits loss and promotes an ethical culture and responsible corporate citizenship. • To fairly and responsibly reward individuals for their individual contributions. • Compulsory deferral in shares for executive directors and members of senior management to further align their interests with shareholders. **Operation** Payable in cash (up to 60% of base salary) for each of Paul Arenson and Julian Carey with the balance (if any) to be satisfied by the award of nil-cost options under the terms of the Stenprop Deferred Share Bonus Plan (the Stenprop DSBP). The Stenprop DSBP operates as follows: • Vesting: 1/3 on the grant date; 1/3 on first anniversary of year end; 1/3 on second anniversary of year end, subject to participant still being employed. • Standard good/bad leaver provisions (note that the Board has absolute discretion to determine that a participant is a good leaver (causing all unvested options to vest in full) except in case of gross misconduct. • Reduction for malus provisions. • Dividend equivalent payments in shares may be payable. **Maximum** • For each of Paul Arenson and Julian Carey, up to 150% of base salary. • For all other executives and members of senior management, to be determined by the Remuneration Committee up to a maximum of 150% of base salary, taking into account the role, responsibilities and performance of the relevant individual. **Performance targets** To be determined each year by the Board following the Committee's recommendation. They will typically consist of a mixture of corporate performance targets and individual performance, although the corporate performance targets will have a higher weighting. Metrics and weightings may vary from year to year according to strategy and the market. See details on page 59 for the KPIs agreed by the Board for FY2020 and their weighting.

<table>
<tr><td>Long-term incentive plan</td><td>
Purpose and link to strategy
Aligned to the Company's long-term strategic goals.
To align executive directors' and senior managements' interests with those of shareholders.
Operation
Executive directors and senior management are eligible to receive annual awards under the terms of Stenprop's Long Term Incentive Plan (Stenprop LTIP) comprising nil-cost options (typically for executive directors) or market value options with an exercise price equal to the weighted average share price for the ten-day period prior to grant (typically for senior management).
Nil-cost options:
Vest on third anniversary of grant date or as otherwise decided by the Committee and the Board (to allow sufficient time after the end of the financial year to determine whether the vesting conditions have been met). The number of nil-cost options vesting will depend on the predetermined vesting conditions being met. All options not vesting on the vesting date will automatically lapse. Vesting is subject to participant still being in employment or office but subject to Board discretion for good leavers.
Two-year lock-in period following vesting.
Clawback provisions before vesting and during the lock-in period.
Dividend equivalent payments in shares may be payable.
Market value options:
1/3 vest on the first anniversary of year end; 1/3 vest on the second anniversary of year end; and 1/3 vest on the third anniversary of year end. No vesting conditions other than participant still being employed. Standard good/bad leaver provisions (subject to Board's discretion to determine that a participant is a good leaver (causing all unvested options to vest in full) except in case of gross misconduct – as per existing share bonus plan).
Reduction for malus provisions.
Dividend-equivalent payments in shares may be payable.
Maximum
Nil-cost options: options with a value equivalent of up to 200% of base salary (at the time of the grant, i.e. taking into account any salary increase decided in June of the same year) to be granted automatically (but vesting subject to vesting conditions (performance targets)).
Market value options: options with a value equivalent of to up to 100% of base salary (as at the end of the financial year to which the KPIs relate, i.e. without taking into account salary increase for the new financial year), based on KPIs similar to the KPIs set for the annual bonus.
Performance targets
Vesting conditions for nil-cost options: to be determined each year by the Board following the Committee's recommendation. The Committee and the Board will retain discretion to adjust or set different performance measures or targets where appropriate (e.g. to reflect a change in strategy or market conditions and/or to remain fair and consistent). See details on page 58 for the vesting conditions agreed by the Board for the period to 31 March 2022.
KPIs for market value options: to be determined each year by the Board. They will typically be identical to the performance targets agreed with respect to the annual bonus.
</td></tr>
<tr><td>Other benefits</td><td>
Purpose and link to strategy
Provides a competitive package of benefits to assist with recruitment and retention of staff.
Operation
Benefits include private medical cover, life assurance and permanent health insurance.
Other benefits such as a car allowance may be provided where appropriate.
Maximum
N/A
Performance targets
N/A
</td></tr>
<tr><td>Non-executive director fees</td><td>
Purpose and link to strategy
Non-executive directors' fees should reflect their time commitment and the responsibilities of each role, at a level commensurate with fees prevailing amongst similar sized companies.
Operation
The remuneration of the non-executive directors is determined by the Board and no director is involved in deciding their own remuneration outcome. Fees are paid quarterly in cash and are reviewed regularly. Non-executive directors do not participate in any incentive, share schemes, benefits in kind or pension arrangement.
Maximum
No maximum or minimum fee increase is operated although any increases will be guided by the average increase awarded to executive directors and other employees and/or general movements in the market.
Performance targets
N/A
</td></tr>
</table>

Remuneration Report continued

Policy for determining of KPIs and vesting conditions:

In setting KPIs and vesting conditions for the year ending 31 March 2020 for the annual bonus element of the remuneration package of executive directors and members of senior management and for the Stenprop LTIP respectively, the Committee applied the following principles:

- all KPIs and vesting conditions should be aligned with Stenprop's objectives and strategies;
- in setting financial and/or total return goals or targets, preference should be given to measuring financial performance and returns relative to an appropriate peer group, except where this is considered inappropriate for any reason;
- in setting KPIs and vesting conditions, achieving the top end of the performance range for any given KPI and condition should typically require outperformance against the Company's budgets and business plan. Performance in line with budget and business plan should typically result in a 50% weighting;
- recognising the need to drive and reward individual performance, KPIs for the annual bonus element should comprise a combination of corporate and personal goals, in the following proportions:
  - for Paul Arenson and Julian Carey – a weighting of 80% for corporate goals and 20% for personal goals
  - for other key executives – a weighting of two-third for corporate goals and one-third personal goals

The relatively higher weighting of corporate goals for Paul and Julian recognises that they have more control over, and are more directly responsible for, the achievement or non-achievement of the corporate goals.

- Vesting conditions for nil-cost options under Stenprop LTIP:
  - should comprise corporate goals only; and
  - must be objective, so that they do not require subjective determination by the Remuneration Committee or the Board as to if, and the extent to which, any of the conditions have been met.

Remuneration implementation report

The Remuneration Committee

The Remuneration Committee recommends to the Board a strategy and framework for remuneration of the executive directors and senior management team in order to attract and retain the right individual and promote the long-term success of the Company.

The updated terms of reference of the Committee are available on the Company's website. The Committee's other main responsibilities include:

- reviewing the ongoing appropriateness and relevance of the remuneration policy and,
- together with the Board, ensuring that the implementation and execution of the remuneration policy achieves its objectives, including by determining each year:
  - the remuneration packages for the executive directors and other senior executives; and
  - what awards should be made under the bonus scheme and the long-term incentive plan, as well as the relevant KPIs and vesting conditions to be used in determining or calculating those awards.

The Committee is also required to review, at least on an annual basis, the terms and conditions of executive directors' service agreements, taking into account information from comparable companies where relevant.

During the reporting period, the Committee comprised three independent non-executive directors, including the chairman of the Board, and one non-independent non-executive director. Paul Miller chairs the Committee and the other members are Philip Holland, Richard Grant and Warren Lawlor.

Details of attendance at Committee meetings held during the reporting period are set out below:

Committee member	Meetings attended
Paul Miller	3/3
Philip Holland	3/3
Richard Grant	3/3
Warren Lawlor	3/3

Application of the remuneration policy for the year ended 31 March 2019

Directors' remuneration

Table of directors' remuneration for year ended 31 March 2019.

	Base salary £'000	Pension £'000	Other benefits^ £'000	Cash bonus £'000	Vested share options £'000	Total remuneration 31 March 2019 £'000
Executive directors						
P Arenson	268	27	2	156	83	536
N Marais[1]	11	1	–	3	6	21
P Watson	258	26	–	150	80	514
J Carey[2]	236	24	1	103	55	419
	773	78	3	412	224	1,490

^ Other benefits relates to the provision of private medical insurance.

[1] Resigned 1 May 2018

[2] Appointed 1 May 2018

Salary increases

For the year ended 31 March 2019, the Board approved on 6 June 2018 increases of 3% to the base salary of executive directors, in line with inflation. The sole exception to this was the remuneration of the Chief Financial Officer, Patsy Watson, which was considered out of step not just with the market but also when compared to the remuneration of other members of the executive. As a result, Patsy's basic salary for the financial year ended 31 March 2019 was increased by 23.7% compared to the prior year.

Annual bonuses and awards under the Stenprop STIP

Each of Paul Arenson, Patsy Watson and Julian Carey were entitled to an annual bonus of up to 150% of their base salary, determined by considering performance against the five KPIs set out in the table below, each having a 20% weighting.

KPI	% of maximum achieved
Sustainable EPRA EPS for FY2019	60%
Percentage of UK MLI assets comprised in the Group's total portfolio of properties as at 31 March 2019	100%
Group loan-to-value ratio as at 31 March 2019	100%
FY19 Actual Net Rent Receivable	52%
Personal goals specific to each individual	86%

On 5 June 2019, the Board considered the recommendation of the Committee and approved bonuses for each of the executive directors of 119.27% of their basic salary, or 79.51% of the maximum annual bonus they could have received under the scheme.

For members of the senior management team, corporate KPIs were the same as those of the executive directors set out above but with a total weighting of 50%, with the remaining 50% weighting comprising individual personal objectives.

Remuneration Report continued

Conditional awards of nil-cost options to executive directors under Stenprop's LTIP

During the financial year, conditional awards of nil-cost options were made for the three-year period ending 31 March 2021. The 2021 awards are subject to achievement of the following vesting conditions over the three years, each of which has a 20% weighting:

- growing sustainable EPRA earnings per share in a range around the budget plan forecast;
- increasing the size of the MLI portfolio so that it constitutes between 75% and 85% of the Group's total portfolio of properties;
- increasing the net rent on the MLI portfolio in a range around the business plan forecast;
- decreasing LTV levels to between 35% and 40% by the end of the period; and
- achieving a total shareholder return that results in the total shareholder return of the Company being between the 50th and 85th percentile of the total shareholder return of the European EPRA index.

In each case, except in respect of the targeted increase in net rents, the proportion of the award vesting will increase proportionally from 0% at the lower end of the range to 100% at the top of the range. In the case of the targeted increase in net rent, 50% of the relevant proportion of the award will vest at the lower end of the range (which equals to the current budgeted increase in passing rent) increasing proportionally to 100% at the top of the range.

Awards of market value options to senior management

Awards of market value options were also made to senior management on 5 June 2019 in respect of the year ended 31 March 2019. These awards were made based on KPIs similar to the ones set for the annual bonus scheme, with a 50% weighting attributed to the corporate KPIs set out on page 13 and a 50% weighting comprising individual personal objectives.

Leaving arrangements for Patsy Watson

As announced, Patsy Watson stepped down from her role as Chief Financial Officer with effect from 5 June 2019. She remained on the Board with effect from the same date as a non-independent non-executive director.

Patsy received her normal salary up to 5 June 2019. The amount of annual bonus payable to her for the year ended 31 March 2019 was determined in the normal way (see above). She will not be entitled to participate in the bonus scheme for the year ending 31 March 2020. However, she will retain all nil-cost options awarded to her under the terms of the Stenprop STIP in respect of past performance in accordance with and subject to the terms of the STIP.

Patsy did not receive an award of nil-cost options under the Stenprop LTIP for the three-year period ending 31 March 2022 (see below for conditional awards made to each of Paul Arenson and Julian Carey for the period) and agreed to forfeit any rights she may have under the terms of the LTIP to the conditional awards made to her on 6 June 2018 in respect of the three-year period ending 31 March 2021. However, when considering whether the conditional awards made to her under the Stenprop LTIP for the period ending 31 March 2020 should lapse, the Board took into consideration that she was employed and actively contributed to the strategy and success of the Company for over two years out of the three-year performance period. Accordingly, the Board determined that she would qualify for up to 83.3% of the award.

From 6 June 2019, Patsy will be remunerated on a basis similar to the other non-executive directors of the Company.

Application of the remuneration policy for the year to 31 March 2020

Salary increases

For the year ending 31 March 2020, the Committee recommended that Paul Arenson and Julian Carey receive increases of 2.5% to their base salary, in line with inflation, which was approved by the Board on 5 June 2019. This is the same increase as awarded to other employees, other than where the role, scope or responsibility of an employee changed.

KPIs for annual bonuses and awards under the Stenprop STIP for the year ending 31 March 2020

In respect of the annual bonuses for the 2020 financial year, the following corporate objectives have been set for each of Paul Arenson and Julian Carey, each of which have a 25% weighting:

- growing sustainable EPRA earnings per share in a range around the budgeted sustainable earnings per share;
- increasing the size of the MLI portfolio so that it constitutes 58% to 65% of the Group's total portfolio of properties as at 31 March 2020. No apportionment will be made for achieving a ratio of 58%, growing to 50% apportionment on a straight-line basis for achieving a ratio of 60%. From a ratio of 60% to 65%, the apportionment will grow to 100% on a straight-line basis; and
- decreasing LTV levels to 40% or less by 31 March 2020.

In respect of the remaining 25%, individual personal objectives, aligned to Stenprop's objectives and the particular role and responsibilities of the executive director concerned, were agreed.

The KPIs for James Beaumont and senior management mirror those of the executive directors, with personal objectives having a higher weighting of 33%. In James' case, this will be subject to further review once he is confirmed in the role of Chief Financial Officer.

Conditional awards under Stenprop LTIP

On 5 June 2019, conditional awards were made for the three-year period ending 31 March 2022 to each of Paul Arenson and Julian Carey. They are subject to achievement of the following vesting conditions over the three years, each of which has a 25% weighting:

- growing sustainable EPRA earnings per share in a range around the budget plan forecast;
- increasing the size of the MLI portfolio so that it constitutes between 95% to 100% of the Group's total portfolio of properties;
- growing the net income from the MLI business in a range around the budget plan forecast; and
- achieving a total shareholder return that results in the total shareholder return of the Company being between the 50th and 85th percentile of the total shareholder return of the European EPRA index.

In respect of the size of the MLI portfolio and the growth in total shareholder return, the proportion of the award vesting will increase proportionally from 0% at the lower end of the range to 100% at the top of the range. In the case of sustainable EPRA earnings, 33% of the relevant proportion of the award will vest at the lower end of the range (which equals to the current budgeted sustainable EPRA earnings per share) increasing proportionally to 100% at the top of the range. In the case of the targeted net income, 33% of the relevant proportion of the award will vest at the lower end of the range (which is equal to the current budgeted net income from the MLI business) and this will increase proportionally to 100% at the top of the range.

Social and Ethics Committee Report

"Being a responsible business continues to be an essential component of our strategy."

Philip Holland
Chairman of the Social and Ethics Committee

Dear Shareholder

I am pleased to present the Social and Ethics Committee report for the year ended 31 March 2019.

Key areas of focus

The Social and Ethics Committee is responsible for matters relating to social and economic development, responsible corporate citizenship, sustainable development, consumer relationships and labour and employment relationships. Our full terms of reference are available on our website at www.stenprop.com/our-business/governance

Information about the work of the Committee during the reporting period around the three main areas of the environmental impact of the activities of the Group, stakeholders' relationships and charitable initiatives is included on pages 40 to 41 in the Responsible Business section of this report.

I note in particular the work of the Committee and of the executive team at Stenprop in relation to the Modern Slavery Act 2015. Issues of modern slavery and human trafficking have rightly come under scrutiny in recent years and we welcome the aims and objectives of the Modern Slavery Act 2015. We have considered the application of the Act to the Group following its conversion to a UK REIT on 1 May 2018 and the development of its UK MLI business. The Company undertook an internal exercise as well as investigations into the policies and practices of its external property managers to identify areas of risks and adopted a new policy setting out the standards expected by Stenprop in this area.

Stenprop's first slavery and human trafficking statement pursuant to section 41(i) of the Modern Slavery Act 2015, which relates to the Company and its subsidiaries in respect of the financial year ended 31 March 2019, can be found on the Company's website. The statement sets out the measures that Stenprop has taken to address the risk of slavery and human trafficking taking place in the business and within its supply chain throughout the year.

During the current financial year, the Committee intends to focus on the following key areas:

- Further implementation of its sustainability road map, including identifying additional long-term sustainability targets.
- Detailed review of existing policies and procedures impacting its workforce, including family friendly policies.
- Further investigations and deepening of processes and procedures across the business and in our supply chain to further address any risk of modern slavery or human trafficking.

Membership and meetings

On 1 May 2018, Stephen Ball and Paul Miller stood down from their role as members of the Social and Ethics Committee, and Richard Grant and I (as chairman) were delighted to join Sarah Bellilchi, the Group General Counsel and Company Secretary, on the Committee.

The Committee is composed of a majority of independent non-executive directors as required by King IV.

The Committee members met three times during the year. Details of attendance at Committee meetings held during the reporting period are set out below:

Committee member	Meetings attended
Philip Holland (Chair)	3/3
Richard Grant	3/3
Sarah Bellilchi	3/3

Being a responsible business continues to be an essential component of our strategy and we look forward to continuing the work of the Committee during the current financial year.

Philip Holland
Chairman of the Social and Ethics Committee

5 June 2019

Directors' Report

The directors present their report and the audited consolidated financial statements for the year ended 31 March 2019.

Principal activities

The principal activity of the Group is that of a property investment company. The Company is a UK REIT and is incorporated in Guernsey. The address of the registered office is Kingsway House, Havilland Street, St Peter Port, Guernsey, GY1 2QE. The postal address of the Company is 180 Great Portland Street, London W1W 5QZ.

Results and dividends

The results of the Group for the year are set out in the consolidated statement of comprehensive income. A final dividend was declared on 5 June 2019 of 3.375 pence per share, which, together with the interim dividend declared on 21 November 2018 of 3.375 pence per share, results in a total dividend for the year ended 31 March 2019 of 6.75 pence per share (2018: 8.0 pence per share).

Capital structure

Details of the authorised and issued share capital are shown in note 12 to the financial statements. The Company has one class of share; all shares rank equally and each share carries the right to one vote at general meetings of the Company.

Going concern

The financial statements of the Group have been prepared on a going concern basis. At the date of signing these accounts, the Group has positive operating cash flow forecasts and positive net assets. Management has reviewed the Group's cash flow forecasts for the 18 months to 30 September 2020 and, in light of this review and the current financial position, it is satisfied that the Company and the Group have access to adequate resources to meet its obligations as they fall due for a period of at least twelve months from the date of these financial statements. Further details are set out in note 2 to the financial statements.

Directors

The directors of the Company who served during the year and to the date of this report were as follows:

Executive directors

- P Arenson
- P Watson
- N Marais (resigned 1 May 2018)
- J Carey (appointed 1 May 2018)

Non-executive directors

- S Ball (resigned 1 May 2018)
- P Miller
- W Lawlor
- R Grant (appointed 1 May 2018)
- P Holland (appointed 1 May 2018)

Independent auditor

A resolution to reappoint Deloitte LLP as independent auditor will be provided at the next Annual General Meeting.

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations. The Companies (Guernsey) Law, 2008 (as amended) requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards ('IFRS'). The financial statements are required to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement

To the best of the directors' knowledge, the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable.

Statement as to disclosure of information to the auditor

So far as the directors are aware, there is no relevant audit information of which the Group's auditor is unaware, and each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Approval of annual financial statements

The consolidated annual financial statements of Stenprop Limited were approved by the Board of Directors on 5 June 2019 and are signed on their behalf by:

Paul Arenson
Chief Executive Officer

Patsy Watson
Chief Financial Officer

Financial Statements

Independent Auditor's Report

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Stenprop Limited (the 'Parent Company') and its subsidiaries (together 'the Group'):

- give a true and fair view of the state of the Group's affairs as at 31 March 2019 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

We have audited the financial statements which comprise:

- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Financial Position;
- the Consolidated Statement of Changes in Equity;
- the Consolidated Statement of Cash Flows; and
- the related notes 1 to 35.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Investment property valuations Within this report, any new key audit matters are identified with ⌃ and any key audit matters which are the same as the prior year identified with ≫.
Materiality	The materiality that we used for the Group financial statements in the current year was £8.0 million which was determined on the basis of approximately 2% of the Group's net asset value ('NAV').
Scoping	We performed a full scope audit to respond to the risks of material misstatement for the Group and performed an audit of specified account balances for the joint venture entities. Together these elements account for 100% of the Group's net assets and 100% of profit before tax.
Significant changes in our approach	Last year our audit report included a key audit matter related to accounting for acquisitions of investment properties. This is not included in the current year as the nature of the acquisitions completed by the Group do not demonstrate any attributes which might require material judgements to be made regarding the accounting policies to be applied; specifically whether to classify the acquisitions as asset acquisitions or business combinations.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Independent Auditor's Report continued

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Investment property valuations

Key audit matter description

The Group's investment property portfolio, as disclosed in note 16, is valued at £562.8 million as at 31 March 2019 (2018: £535.5 million). In addition, the Group's share of investment property held by joint ventures is valued at £33.9 million (2018: £76.3 million) and property assets classified as held for sale valued at £16.2 million (2018: £121.8 million).

The portfolio is independently valued by professionally qualified valuers in each geographic location using an income capitalisation model.

Management is required to make a number of significant assumptions and judgements in determining the fair value and therefore we have identified this as a potential fraud risk.

The key inputs into the fair value model which are subject to significant management estimates include market rents, market yields, tenancy arrangements, vacancy rates, the credit-worthiness of tenants, as well as discount and capitalisation rates used in the discounted cash flows. Unreasonable assumptions could give rise to a material misstatement.

The valuation of investment properties is disclosed as one of the key sources of estimation uncertainty in notes 4 and 16 of the financial statements and is further described in the 'Significant areas of judgement and estimates' section of the Audit and Risk Committee Report.

How the scope of our audit responded to the key audit matter

To respond to the key audit matter, we have performed the following audit procedures:

- Verified the accuracy of the tenancy schedules and reconciled the rental values used in the valuations to the tenancy schedules including sample back to underlying lease agreements;
- Selected a sample of properties which we consider to be of most audit interest and engage with our Real Estate Valuations specialists to review the valuations in detail;
- Alongside our valuation specialists, discussed and challenged key inputs and assumptions with the valuers and management with reference to independent market data including Brexit considerations;
- Assessed whether the valuers are independent of the Group and assessed the reliability and competency of the valuers;
- Evaluated the design and implementation of key controls in relation to the valuation process;
- Assess whether the disclosures in the financial statements are appropriate and in accordance with IFRS 13 Fair Value Measurement; and
- Verified that all property valuations have been correctly included in the financial statements.

Key observations

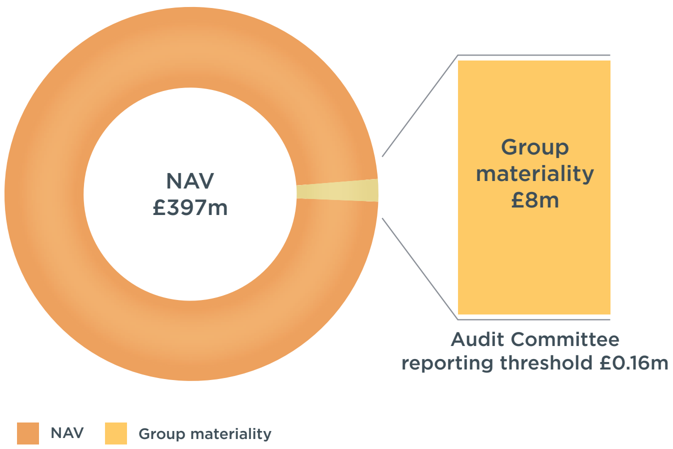
We concluded that the assumptions applied by management, in arriving at the fair value of the Group's investment properties were appropriate, and that the resulting valuations were within a reasonable range.

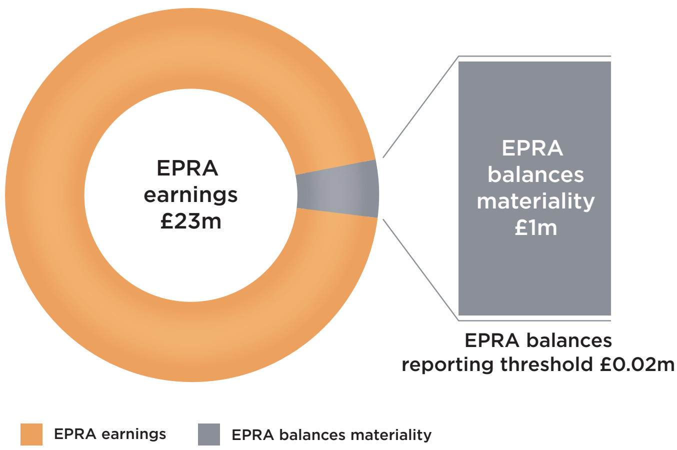
Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£8.0 million (2018: £7.4 million) and a lower materiality of £1.2 million (2018: £2.7 million) for balances affecting EPRA earnings.
Basis for determining materiality	We determined materiality for the Group based on approximately 2% of the Group's net asset value (2018: 2%). The lower materiality used for balances impacting EPRA earnings was determined based on approximately 5% (2018: 10%) of EPRA earnings. The change in the percentage applied to EPRA earnings reflects the industry benchmarking performed.
Rationale for the benchmark applied	We determined that net asset value would be the most appropriate basis for determining overall materiality given that key users of the Group's financial statements are primarily focused on the valuation of the Group's assets; principally the investment property portfolio (whether held directly or through joint ventures) net of any external finance. In addition to net assets, we consider EPRA earnings per share to be a critical financial performance measure for the Group on the basis that it is a key metric for analysts and investors. EPRA earnings per share is based on the Group's EPRA earnings which is reconciled to IFRS profit after taxation in note 14. We applied this lower threshold for testing all balances impacting EPRA earnings.





We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £0.16 million (2018: £0.15 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

We performed a full scope audit to respond to the risks of material misstatement for the Group and performed an audit of specified account balances for the joint venture entities. Together these elements account for 100% (2018: 100%) of the Group's net assets and 100% (2018: 100%) of Group's profit before tax. Our audit work was executed at levels of Group or EPRA earnings materiality applicable to each account balance. Audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team.

At the parent entity level we also tested the consolidation process. We have obtained an understanding of the Group's system of internal controls and undertaken a combination of procedures, all of which are designed to target the Group's identified risks of material misstatement in the most effective manner possible.

Independent Auditor’s Report continued

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the statement of directors’ responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Report on other legal and regulatory requirements

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the Parent Company; or
- the financial statements are not in agreement with the accounting records.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the Company’s members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

John Clacy FCA
For and on behalf of Deloitte LLP
Recognised Auditor
Guernsey

5 June 2019

JSE Accredited Independent Auditor's Report

To the Shareholders of Stenprop Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Stenprop Limited (the Group), which comprise the statement of financial position as at 31 March 2019, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in the audit
Investment property valuations	
The Group's investment property portfolio, as disclosed in note 16, is valued at £562.8 million as at 31 March 2019 (2018: £535.5 million). In addition, the Group's share of investment property held by joint ventures is valued at £33.9 million (2018: £76.3 million) and property assets classified as held for sale valued at £16.2 million (2018: £121.8 million). The portfolio is independently valued by professionally qualified valuers in each geographic location using an income capitalisation model. Management is required to make a number of significant assumptions and judgements in determining the fair value and therefore we have identified this as a potential fraud risk. The key inputs into the fair value model which are subject to significant management estimates include market rents, market yields, tenancy arrangements, vacancy rates, the credit-worthiness of tenants, as well as discount and capitalisation rates used in the discounted cash flows. Unreasonable assumptions could give rise to a material misstatement. The valuation of investment properties is disclosed as one of the key sources of estimation uncertainty in notes 4 and 16 of the financial statements and is further described in the Significant audit risks section of the Audit and Risk Committee Report.	To respond to the key audit matter, we have performed the following audit procedures: • Verified the accuracy of the tenancy schedules and reconciled the rental values used in the valuations to the tenancy schedules including sample back to underlying lease agreements; • Selected a sample of properties which we consider to be of most audit interest and engage with our Real Estate Valuations specialists to review the valuations in detail; • Alongside our valuation specialists, discussed and challenged key inputs and assumptions with the valuers and management with reference to independent market data including Brexit considerations; • Assessed whether the valuers are independent of the Group and considered the reliability and competency of the valuers; • Evaluated the design and implementation of key controls in relation to the valuation process; • Assessed whether the disclosures in the financial statements are appropriate and in accordance with IFRS 13 Fair Value Measurement; and • Verified that all property valuations have been correctly included in the financial statements.

We concluded that the assumptions applied by management, in arriving at the fair value of the Group's investment properties were appropriate, and that the resulting valuations were within a reasonable range.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

JSE Accredited Independent Auditor's Report continued

To the Shareholders of Stenprop Limited

Responsibilities of the Directors for the Consolidated Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Risk Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Risk Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Risk Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte has been the auditor of Stenprop Limited for 5 years.

Deloitte & Touche
Registered Auditor
Deloitte Place
20 Woodlands Drive
Woodmead
Johannesburg
2052

Per: Leon Taljaard
Partner
5 June 2019

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2019

	Note	31 March 2019 £'000	31 March 2018 £'000
Continued operations			
Net rental income	6	**33,905**	32,861
Rental income		**44,502**	42,349
Property expenses		**(10,597)**	(9,488)
Net management fee income	5	**5,846**	5,092
Management fee income		**9,541**	5,092
Adjustment to deferred consideration		**(3,695)**	–
Operating costs	7	**(11,258)**	(8,290)
Net operating income		**28,493**	29,663
Fair value (loss)/gain on investment properties		**(3,404)**	20,223
Income from associates	18	**101**	292
Income from joint ventures	19	**1,607**	7,624
Profit/(loss) on disposal of subsidiaries	29	**11,126**	(26)
Profit from operations		**37,923**	57,776
Net (loss)/gain from fair value of derivative financial instruments		**(1,092)**	2,453
Interest receivable		**355**	356
Finance costs	9	**(8,251)**	(9,843)
Net foreign exchange loss		**(102)**	(492)
Other losses		**(60)**	–
Gain on disposal of property		**17**	1,046
Goodwill impairment	27	**–**	(3,500)
Profit for the year before taxation		**28,790**	47,796
Current tax	10	**(1,963)**	(563)
Deferred tax	10	**(480)**	(4,286)
Profit for the year from continuing operations		**26,347**	42,947
Discontinued operations			
Loss for the year from discontinued operations	20	**(2,323)**	(2,712)
Profit for the year		**24,024**	40,235
Profit attributable to:			
Equity holders		**23,828**	39,357
Non-controlling interest derived from continuing operations		**196**	878
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation reserve		**(1,272)**	(154)
Total comprehensive profit for the year		**22,752**	40,081
Total comprehensive profit attributable to:			
Equity holders		**22,556**	39,203
Non-controlling interest		**196**	878
Earnings per share		**Pence**	Pence
From continuing operations			
IFRS EPS	14	**9.26**	14.94
Diluted IFRS EPS	14	**9.16**	14.85
From continuing and discontinued operations			
IFRS EPS	14	**8.43**	13.98
Diluted IFRS EPS	14	**8.35**	13.89

Consolidated Statement of Financial Position

As at 31 March 2019

	Note	31 March 2019 £'000	31 March 2018 £'000
ASSETS			
Non-current assets			
Investment properties	16	**562,815**	535,509
Investment in associates	18	**–**	303
Investment in joint ventures	19	**14,542**	14,660
Other debtors	21	**13,365**	13,617
Derivative financial instruments	26	**–**	712
		590,722	564,801
Current assets			
Cash and cash equivalents	22	**57,425**	24,549
Trade and other receivables	21	**6,699**	8,208
Assets classified as held for sale		**21,423**	147,408
		85,547	180,165
Total assets		**676,269**	744,966
LIABILITIES			
Current liabilities			
Bank loans	24	**29,805**	2,800
Taxes payable		**1,625**	2,792
Derivative financial instruments	26	**176**	–
Accounts payable and accruals	23	**16,862**	14,622
Liabilities directly associated with assets classified as held for sale		**9,326**	67,707
		57,794	87,921
Non-current liabilities			
Bank loans	24	**215,285**	256,697
Derivative financial instruments	26	**554**	699
Deferred tax	30	**10,416**	9,379
		226,255	266,775
Total liabilities		**284,049**	354,696
Net assets		**392,220**	390,270
EQUITY			
Capital and reserves			
Share capital and share premium	12	**322,993**	315,551
Equity reserve		**(15,708)**	(8,453)
Retained earnings		**60,952**	57,947
Foreign currency translation reserve		**21,014**	22,286
Total equity attributable to equity shareholders		**389,251**	387,331
Non-controlling interest		**2,969**	2,939
Total equity		**392,220**	390,270
		£	£
IFRS net asset value per share	15	**1.38**	1.37

The consolidated financial statements were approved by the board of directors on 5 June 2019 and signed on its behalf by

Patsy Watson
Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 March 2019

	Note	Share capital and share premium £'000	Equity reserve £'000	Retained earnings £'000	Foreign currency translation reserve £'000	Attributable to equity shareholders £'000	Non-controlling interest £'000	Total equity £'000
Balance at 1 April 2018		**315,551**	**(8,453)**	**57,947**	**22,286**	**387,331**	**2,939**	**390,270**
Issue of share capital	12	**7,377**	**–**	**–**	**–**	**7,377**	**–**	**7,377**
Exercised share bonus plan		**65**	**(65)**	**–**	**–**	**–**	**–**	**–**
Credit to equity for equity-settled share-based payments	13	**–**	**730**	**–**	**–**	**730**	**–**	**730**
Repurchase of own shares		**–**	**(7,920)**	**–**	**–**	**(7,920)**	**–**	**(7,920)**
Total comprehensive profit/(loss) for the period		**–**	**–**	**23,828**	**(1,272)**	**22,556**	**30**	**22,586**
Ordinary dividends	11	**–**	**–**	**(20,823)**	**–**	**(20,823)**	**–**	**(20,823)**
Balance at 31 March 2019		**322,993**	**(15,708)**	**60,952**	**21,014**	**389,251**	**2,969**	**392,220**
Balance at 1 April 2017		310,141	(8,976)	40,945	22,440	364,550	2,051	366,601
Issue of share capital	12	5,410	(16)	–	–	5,394	–	5,394
Credit to equity for equity-settled share-based payments	13	–	539	–	–	539	–	539
Total comprehensive profit/(loss) for the year		–	–	39,357	(154)	39,203	888	40,091
Ordinary dividends	11	–	–	(22,355)	–	(22,355)	–	(22,355)
Balance at 31 March 2018		315,551	(8,453)	57,947	22,286	387,331	2,939	390,270

Consolidated Statement of Cash Flows

For the year ended 31 March 2019

	Note	31 March 2019 £'000	31 March 2018 £'000
Operating activities			
Profit from operations from continuing operations		**37,923**	57,776
Loss from discontinued operations	20	**(3,034)**	(2,127)
		34,889	55,649
Share of gains from associates		**(101)**	(292)
Decrease/(increase) in fair value of investment property		**5,259**	(14,305)
Share of profit in joint ventures		**(1,607)**	(7,624)
Dividends received from associates		**18**	–
Dividends received from joint ventures		**1,367**	563
(Profit)/loss on disposal of subsidiaries		**(8,890)**	26
Exchange rate losses		**(102)**	(492)
Increase in trade and other receivables		**(1,124)**	(416)
Increase/(decrease) in trade and other payables		**3,818**	(594)
Interest paid		**(7,850)**	(9,098)
Interest received		**1,149**	976
Net tax paid		**(2,383)**	(855)
Net cash from operating activities		**24,443**	23,538
Contributed by: Continuing operations		**25,382**	20,552
Discontinued operations		**(939)**	2,986
Investing activities			
Asset acquisitions	27	**–**	(57,858)
Purchases of investment property	16	**(110,188)**	(22,831)
Capital expenditure	16	**(9,996)**	(5,553)
Proceeds on disposal of investment property		**82,590**	35,850
Acquisition of investment in joint venture		**–**	1
Proceeds on disposal of investment in associate	18	**391**	18,345
Proceeds on disposal of joint venture		**22,726**	–
Disposal of subsidiary	29	**74,094**	42,608
Net cash disposed of in subsidiary	29	**(2,132)**	(1,831)
Net cash from investing activities		**57,485**	8,731
Financing activities			
New bank loans raised		**37,051**	20,703
New third party loans raised	25	**48,086**	34,080
Dividends paid		**(13,151)**	(22,355)
Repayment of borrowings		**(61,208)**	(29,509)
Repayment of third party loans	25	**(48,086)**	(34,591)
Repurchase of shares		**(7,920)**	–
Financing fees paid		**(1,054)**	(1,247)
Net cash used in financing activities		**(46,282)**	(32,919)
Net increase/(decrease) in cash and cash equivalents		**35,646**	(650)
Effect of foreign exchange (losses)/gains		**(1,713)**	110
Cash and cash equivalents at beginning of the period		**25,287**	25,827
Cash and cash equivalents at end of the period		**59,220**	25,287
Contributed by: Continuing operations	22	**57,425**	24,549
Discontinued operations and assets held for sale	22	**1,795**	738

Notes to the Consolidated Financial Statements

1 General Information

Stenprop Limited (the 'Company' and together with its subsidiaries the 'Group') is registered in Guernsey with effect from 23 March 2018 (Registration number 64865). The registered address of the Company is Kingsway House, Havilland Street, St Peter Port, GY1 2QE, Guernsey. With effect from 1 May 2018, the Company converted to a UK real estate investment trust ('REIT').

2 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS's) as issued by the IASB, the JSE Listings Requirements, the Disclosure and Transparency Rules of the UK's FCA and applicable Guernsey law. The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of investment properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The principal accounting policies, which are consistent with those applied in the previous annual financial statements, except for the adoption of new and revised standards (described below), are set out below.

The consolidated financial statements are presented in GBP (Pounds Sterling).

Going concern

At the date of signing these consolidated financial statements, the Group has positive operating cash flow forecasts and positive net assets. Management has reviewed the Group's cash flow forecasts for the 18 months to 30 September 2020 and, in light of this review and the current financial position, they are satisfied that the Company and the Group have access to adequate resources to meet the obligations and continue in operational existence for a period of at least twelve months from the date of these financial statements.

The directors believe that it is therefore appropriate to prepare the accounts on a going concern basis.

Note 31 to the consolidated financial statements includes the Group's objectives, policies and procedures for managing its market, credit, interest and liquidity risks.

Adoption of new and revised standards

In the current period the following new and revised Standards and Interpretations have been adopted. Their adoption has not had any material impact on the disclosures or the amounts reported in these financial statements:

- IAS 40 (amendments) — Transfers of Investment Property
- IFRS 2 (amendments) — Classification and Measurement of Share-based Payment Transactions
- IFRS 4 (amendments) — Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IFRS 9 — Financial Instruments
- IFRS 15 — Revenue from Contracts with Customers
- IFRIC 22 — Foreign Currency Transactions and Advance Consideration

At the date of approval of these consolidated financial statements, the Group has not applied the following new standards that have been issued but are not yet effective:

- IFRS 16 — Leases
- IFRS 3 — Amendments resulting from annual improvements 2015-2017 Cycle
- IFRS 9 — Amendments regarding prepayment features with negative compensation and modifications of financial liabilities
- IFRS 11 — Amendments resulting from annual improvements 2015-2017 Cycle
- IFRS 17 — Insurance contracts
- IAS 1 — Amendments regarding the definition of material
- IAS 8 — Amendments regarding the definition of material
- IAS 12 — Amendments resulting from annual improvements 2015-2017 Cycle
- IAS 19 — Amendments regarding plan amendments, curtailments or settlements
- IAS 23 — Amendments resulting from annual improvements 2015-2017 Cycle
- IAS 28 — Amendments regarding long-term interests in associates and joint ventures

Impact assessment of adopting new accounting standards

Management have completed or are in the process of assessing these standards and do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods.

IFRS 9: Financial Instruments. This standard replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement and outlines an impairment model which reflects expected credit losses. This differs from IAS 39 which only recognised those credit losses which have been incurred. The new impairment model applies to the Group's financial assets including trade and other receivables and cash and cash equivalents. It does not apply to financial liabilities as derivative financial instruments continue to qualify for designation as at fair value through profit and loss under IFRS 9.

Where applicable the Group has applied a simplified approach to recognise expected credit losses for current assets. There has been no material change in the classification and recognition of financial assets with no material quantitative impact due to the recognition of an expected credit loss, with no corresponding reduction in financial assets.

Notes to the Consolidated Financial Statements

2 Basis of preparation continued

IFRS 15: Revenue from Contracts with Customers. This standard combines a number of previous standards, setting out a five-step model for the recognition of revenue as well as establishing principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue. The standard applies to service charge income, car park income, performance and management fee income.

Rental income arising from the leasing of property continues to be within the scope of IAS 17. Management has assessed that the operating leases of the business are combined and have no separate performance obligations identifiable therein. In regard to management and performance fees, fees earned are based on investments with infinite lives and are not subject to claw-back on a cumulative basis. For these reasons the changes introduced by IFRS 15 have resulted in no qualitative changes to the revenue disclosure and have no quantitative impact on the consolidated financial statements of the Group.

IFRS 16: Leases. This standard does not impact the Group's financial position as a lessor or the Group's rental income from its investment properties. The standard requires lessees to recognise a right-of-use asset and related lease liability representing the obligation to make lease payments. Having reviewed the Group's operating leases, the most significant is the lease of office space at 180 Great Portland Street, London. The right-of-use asset and corresponding lease liability expected to be recognised is approximately £730,000 with the net impact on the income statement also being immaterial.

3 Significant accounting policies

Basis of consolidation

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, the results of the subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 Financial Instruments or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

Joint ventures

The Group's investment properties are typically held in property-specific special purpose vehicles ('SPVs'), which may be legally structured as joint ventures. In assessing whether a particular SPV is accounted for as a subsidiary or joint venture, the Group considers all of the contractual terms of the arrangement, including the extent to which the responsibilities and parameters of the venture are determined in advance of the joint venture agreement being agreed between the two parties. The Group will then consider whether it has the power to govern the financial and operating policies of the SPV, so as to obtain benefits from its activities, and the existence of any legal disputes or challenges to this control in order to conclude on the classification of the SPV as a joint venture or subsidiary undertaking. The Group considers this position with the evidence available at the time.

The consolidated financial statements account for interests in joint ventures using the equity method of accounting per IFRS 11.

3 Significant accounting policies continued

Business combinations and asset acquisitions

Business combinations are accounted for using the acquisition method and any excess of the purchase consideration over the fair value of the net assets acquired is initially recognised as goodwill and reviewed for impairment. Any discount received and/or acquisition costs are recognised in the consolidated income statement. Where an acquisition of properties held within a corporate structure is not judged to be an acquisition of a business, the transaction is accounted for as if the Group had acquired the underlying properties directly.

Revenue recognition

The Group earns returns from investments in direct property assets and management fees. Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably.

Revenue includes amounts receivable in respect of property rental income and service charges earned in the normal course of business, net of sales-related taxes.

Rental income from operating leases is recognised on an accruals basis. A rent adjustment based on open market estimated rental value is recognised from the rent review date in relation to unsettled rent reviews. Where a significant rent-free period is included in a lease, the rental income forgone is allocated evenly over the period from the date of lease commencement to the expiry date of the lease.

Rental income from fixed and minimum guaranteed rent reviews is recognised on a straight-line basis over the entire lease term. Where such rental income is recognised ahead of the related cash flow, an adjustment is made to ensure the carrying value of the investment property, including the accrued rent, does not exceed the external valuation. Initial significant direct costs incurred in negotiating and arranging a new lease are amortised on a straight-line basis over the period from the date of lease commencement to the expiry date of the lease.

Where a lease incentive payment, or surrender premium is paid to enhance the value of a property, it is amortised on a straight-line basis over the period from the date of lease commencement to the expiry date of the lease. Upon receipt of a surrender premium for the early determination of a lease, the profit, net of dilapidations and non-recoverable outgoings relating to the lease concerned, is immediately reflected in income.

Contingent rents, such as turnover rents, rent reviews and indexation, are recorded as income in the periods in which they are earned.

Management fees are recognised in the income statement over time as performance obligations are satisfied.

Service charge income is recognised in the accounting period in which the services are rendered and the related property expenses are recognised in the period in which they are incurred.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position are expressed in GBP Sterling, which is the functional currency of the Company and the presentational currency for the Group.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss for the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

Borrowing costs

Interest costs are recognised in the consolidated statement of comprehensive income using the effective interest rate method.

Borrowing costs directly attributable to arranging finance are amortised over the facility term in the consolidated statement of comprehensive income.

Current tax

Tax currently payable is based on taxable profit for the year. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Notes to the Consolidated Financial Statements

3 Significant accounting policies continued

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Non-controlling interest

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of the changes in equity since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Investment properties

Properties held to earn rental income and/or capital appreciation are classified as investment properties. Investment properties comprise both freehold and long leasehold land and buildings.

Investment properties are recognised as assets when:

- it is probable that the future economic benefits that are associated with the investment property will flow to the Group;
- there are no material conditions precedent which could prevent completion; and
- the cost of the investment property can be measured reliably.

Investment properties are measured initially at cost, including related transaction costs. After initial recognition, investment properties are carried at fair value, determined by the directors and/or based on independent external appraisals.

The Group uses the valuations prepared by its independent valuers as the fair value of its investment properties. These valuations are undertaken in accordance with the appropriate sections of the current Practice Statements contained in the Royal Institution of Chartered Surveyors Valuation – Professional Standards ('Red Book'). This is an internationally accepted basis of valuation. The valuations are based upon assumptions including contractual and estimated rental values, future rental income, anticipated maintenance costs, future development costs and appropriate discount rates. The valuers also make reference to market evidence of transaction prices for similar properties.

The difference between the fair value of a property at the reporting date and its carrying amount prior to remeasurement is included in the consolidated statement of comprehensive income as a valuation surplus or deficit.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and short-term deposits with an original maturity of three months or less.

Expenditure

Expenses are accounted for on an accrual basis.

3 Significant accounting policies continued

Financial instruments

A financial instrument is a contract that gives rise to a financial asset to one entity and a financial liability or equity instrument to another. The classification of financial assets and financial liabilities depends on the nature and purpose of the instrument and is determined at the time of initial recognition.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss ('FVTPL')) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in the statement of comprehensive income.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3 – Inputs are unobservable inputs for the asset or liability.

Financial assets

The Group classifies its financial assets as either at fair value through profit and loss or amortised cost.

The Group's financial assets classified at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include current assets with maturities or terms less than 12 months after the reporting date, as well as financial assets with maturities greater than 12 months after the reporting date, which are classified as non-current assets.

Financial assets, including those relating to the purchase of Stenprop shares (note 21), are measured at amortised cost using the effective interest method, less any loss allowance for expected credit losses (ECL) which are recognised in the statement of comprehensive income. The amount of expected credit loss is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The effective interest rate is the rate that exactly discounts estimated future cash receipts excluding expected credit losses, through the expected life of the financial instrument, or, where appropriate, as shorter period, to the gross carrying amount of the financial instrument on initial recognition.

In the case of short-term trade receivables and other debtors the Group recognises lifetime ECL in accordance with the simplified approach under IFRS 9 Financial Instruments. The expected credit losses on these financial assets are estimated based on the

Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date.

The carrying amount of the financial asset is reduced by the ECL directly for all financial assets. When a trade receivable is considered uncollectable, it is written off against the ECL provision account. Changes in the ECL are recognised in the statement of comprehensive income in the period.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset have expired or have been transferred and the Group has transferred substantially all risk and rewards of ownership of the asset to another entity.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual agreement.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities. Ordinary shares are classed as equity. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

The Group's financial liabilities comprise interest-bearing borrowings, loans and payables and trade payables. Financial liabilities are recognised when the Group becomes party to the contractual provisions of the instrument. Financial liabilities are measured at amortised cost using the effective interest method. Trade and other payables are valued at their nominal value as the time value of money is immaterial for these current liabilities.

The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or they expire.

Interest rate swaps have been initially recognised at fair value, and subsequently remeasured at fair value through profit and loss in accordance with IFRS 9, Financial Instruments. They have been entered into in order to hedge against the exposure to variable interest rate loans as described in note 26. They have been valued by an independent valuer in line with internationally accepted practice.

Notes to the Consolidated Financial Statements

3 Significant accounting policies continued

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. It is Group policy not to hedge account. Other derivatives are presented as current assets or current liabilities.

Non-current assets and disposal groups held for sale

A non-current asset or a disposal group (comprising assets and liabilities) is classified as held for sale if their carrying amount is expected to be recovered or settled principally through sale rather than through continuing use. The asset or disposal group must be available for immediate sale, have the appropriate level of management commitment and the sale must be highly probable within one year of the reporting date. Investment properties included in the held for sale category continue to be measured in accordance with the accounting policy for investment properties.

Segmental reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and in respect of which it may incur expenses. An operating segment's operating results are reviewed regularly by the Chief Operating Decision Makers (the executive directors) to inform decisions about resources to be allocated to the segment and to assess its performance. Segmental financial information is available as disclosed in Note 5.

Dividends

Dividends to the Group's ordinary shareholders are recognised when they are declared. This is when they are approved by the Board.

Earnings per share

Earnings per share is calculated on the weighted average number of shares in issue in respect of the current period and is based on the profit attributable to the ordinary shareholders.

Share-based payments

Deferred Share Bonus Plan and Long term incentive plans

Share options are granted to key management. The cost of equity-settled transactions is measured with reference to the fair value at the date at which they were granted. The Company accounts for the fair value of these options on a straight-line basis over the vesting period in the statement of comprehensive income, with a corresponding increase to the share-based payment reserve in equity. The cost to the Company is based on the Company's best estimate of the number of equity instruments that will ultimately vest.

Readers are referred to note 13: Share-based payments, where share-based payments are further disclosed.

Share Purchase Plan

As part of the Group's previous remuneration policy, the Company awarded shares to qualifying participants, funded through the advance of loans to the participants. Loans advanced under the share purchase plan are interest-bearing at a rate equal to the average interest rate incurred by the Group from time to time. Interest is payable six monthly in arrears. Loans are repayable within 30 days of cessation of employment or loss of office (unless the participant ceases employment in circumstances beyond his or her control, in which case the loan is repayable within 12 months), and must in all circumstances be repaid in ten years. All dividends received by such employees (or his or her nominee) by virtue of their shareholding must first be utilised to discharge any interest outstanding in terms of the loan advanced in terms of the Share Purchase Plan.

The loans have full recourse to the participants and as such fall outside of the scope of IFRS 2 and are accounted for as financial instruments under IFRS 9. The participants must charge their shares by way of security for the loan. The loans have full recourse to the participants who waive all rights to compensation for any loss in relation to the Plan. No further awards will be made under the Share Purchase Plan.

Repurchase of share capital (Own Shares)

Where share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Such shares may either be held as Own Shares (treasury shares) or cancelled. Where Own Shares are subsequently re-sold from treasury, the amount received is recognised as an increase in equity.

4 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Although the estimates are based on management's best knowledge of the amount, events or actions, actual results may ultimately differ from those estimates.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting year, that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Significant estimates

Investment properties

The Group's investment properties are stated at estimated fair value, determined by directors, based on an independent external appraisal. The valuation of the Group's property portfolio is inherently subjective due to a number of factors including the individual nature of each property, its location, expectation of future rentals and the discount yield applied to those cash flows. As a result, the valuations placed on the property portfolio are subject to a degree of uncertainty and are made on the basis of assumptions that may not prove to be accurate, particularly in years of volatility or low transaction flow in the market. The estimated market value may differ from the price at which the Group's assets could be sold at a particular time, since actual selling prices are negotiated between willing buyers and sellers. As a result, if the assumptions prove to be false, actual results of operations and realisation of net assets could differ from the estimates set forth in these financial statements, and the difference could be significant. Further details can be found in note 16.

Deferred tax assets and liabilities

Tax liabilities are recognised when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgement as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognised in income in the period in which the change occurs. Deferred tax assets are recognised only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognised in respect of deferred tax assets as well as in the amounts recognised in income in the period in which the change occurs. Deferred tax assets and liabilities are presented in note 30.

Significant judgements

Assets held for sale

The directors have disclosed one property which meets the criteria defined in IFRS 5: Assets held for sale and discontinued operations. Stenprop is committed to the disposal of the asset in line with its strategy to exit the Swiss market. In respect of this property, the final Swiss property at Lugano, the directors consider the exceptions permitted by IFRS 5:9 to apply in respect to the one-year requirement within which a sale should complete. This is due to the fact that during the one-year period, circumstances arose that were previously considered unlikely. As a result, the property which was previously classified as held for sale was not sold; however:

(i) during the initial one-year period the entity took action necessary to respond to the change in circumstances;

(ii) the property was still being marketed at a price that is reasonable, given the change in circumstances; and

(iii) all other criteria in paragraphs 7 and 8 of IFRS 5 are met.

The fair value has been determined by the directors, based on an independent external appraisal.

Notes to the Consolidated Financial Statements

5 Operating segments

The Group is focused on real estate investment in well-developed, large economies with established real estate markets. The investment portfolio is geographically distributed across Germany, the United Kingdom and Switzerland, with a further sub-division within the UK between multi-let industrial and non-multi-let industrial. Each segment derives its revenue from the rental of investment properties in the respective geographical regions.

Relevant financial information is set out below:

i) Information about reportable segments

	Continuing operations			Discontinued operations	
	Germany £'000	UK Non-Multi-let Industrial £'000	UK Multi-let Industrial £'000	Switzerland £'000	Total £'000
For the year ended 31 March 2019					
Net rental income	11,038	10,591	12,101	–	33,730
Fair value movement on investment properties	(841)	(2,045)	(517)	–	(3,403)
Net (loss)/gain from fair value of financial liabilities	(43)	64	(1,113)	–	(1,092)
Income from associates	101	–	–	–	101
Income from joint ventures	1,044	231	–	–	1,275
Profit on disposal of subsidiaries	–	11,126	–	–	11,126
Net finance costs	(1,719)	(2,830)	(3,363)	–	(7,912)
Operating costs	(722)	(314)	(605)	–	(1,641)
Net foreign exchange loss	46	–	–	–	46
Other gains/(losses)	63	–	(56)	–	7
Loss for the year from discontinued operations (see note 20)	–	–	–	(2,323)	(2,323)
Taxation	(2,345)	(223)	(149)	–	(2,717)
Total profit/(loss) per reportable segment	6,622	16,600	6,298	(2,323)	27,197
As at 31 March 2019					
Investment properties	217,429	83,855	261,530	–	562,814
Investment in joint ventures	14,485	–	–	–	14,485
Cash	10,524	36,612	8,701	–	55,837
Other	14,762	517	4,401	–	19,680
Assets classified as held for sale	–	–	–	21,423	21,423
Total assets	257,200	120,984	274,632	21,423	674,239
Borrowings – bank loans	108,579	38,910	97,601	–	245,090
Other	14,813	3,711	9,417	–	27,941
Liabilities directly associated with assets classified as held for sale	–	–	–	9,326	9,326
Total liabilities	123,392	42,621	107,018	9,326	282,357

5 Operating segments continued

	Continuing operations			Discontinued operations	
	Germany £'000	UK Non-Multi-let Industrial £'000	UK Multi-let Industrial £'000	Switzerland £'000	Total £'000
For the year ended 31 March 2018					
Net rental income	11,589	14,628	6,644	–	32,861
Fair value movement of investment properties	23,969	448	(4,194)	–	20,223
Net gain from fair value of financial liabilities	346	1,370	737	–	2,453
Income from associates	292	–	–	–	292
Income from joint ventures	4,678	2,880	–	–	7,558
Loss on disposal of subsidiaries	–	(26)	–	–	(26)
Net finance costs	(2,081)	(5,403)	(1,713)	–	(9,197)
Operating costs	(735)	(853)	(342)	–	(1,930)
Net foreign exchange loss	(25)	(321)	–	–	(346)
Other gains	–	1,046	–	–	1,046
Loss for the year from discontinued operations (see note 20)	–	–	–	(2,712)	(2,712)
Taxation	(4,325)	156	(570)	–	(4,739)
Total profit/(loss) per reportable segment	33,708	13,925	562	(2,712)	45,483
As at 31 March 2018					
Investment properties	221,354	166,400	147,755	–	535,509
Investment in associates	303	–	–	–	303
Investment in joint ventures	14,617	–	–	–	14,617
Cash	12,074	4,460	5,853	–	22,387
Other	15,091	1,724	2,331	–	19,146
Assets classified as held for sale	28,987	23,546	–	94,875	147,408
Total assets	292,426	196,130	155,939	94,875	739,370
Borrowings – bank loans	110,889	70,800	77,808	–	259,497
Other	13,289	5,676	5,238	–	24,203
Liabilities directly associated with assets classified as held for sale	14,063	–	–	53,644	67,707
Total liabilities	138,241	76,476	83,046	53,644	351,407

Notes to the Consolidated Financial Statements

5 Operating segments continued

ii) Reconciliation of reportable segment profit or loss

	31 March 2019 £'000	31 March 2018 £'000
Rental income		
Net rental income for reported segments	**33,730**	32,861
Profit or loss		
Fair value movement of investment properties	**(3,403)**	20,223
Net (loss)/gain from fair value of financial liabilities	**(1,092)**	2,453
Income from associates	**101**	292
Income from joint ventures	**1,275**	7,558
Profit/(loss) on disposal of subsidiaries	**11,126**	(26)
Finance costs	**(7,912)**	(9,197)
Operating costs	**(1,641)**	(1,930)
Net foreign exchange gain/(loss)	**46**	(346)
Other gains	**7**	1,046
Loss for the year from discontinued operations (see note 20)	**(2,323)**	(2,712)
Taxation	**(2,717)**	(4,739)
Total profit per reportable segments	**27,197**	45,483
Other profit or loss – unallocated amounts		
Net management fee income	**5,846**	5,092
Other income	**75**	–
Income from associates	**–**	66
Income from joint ventures	**331**	66
Interest received	**17**	–
Finance costs	**–**	(290)
Tax, legal and professional fees	**(2,740)**	(295)
Audit fees	**(261)**	(194)
Administration fees	**(226)**	(764)
Investment advisory fees	**–**	(73)
Non-executive directors costs	**(203)**	(405)
Staff remuneration costs	**(4,275)**	(3,375)
Other operating costs	**(1,862)**	(1,255)
Net foreign exchange loss	**(148)**	(145)
Other losses	**–**	(3,500)
Taxation	**273**	(110)
Consolidated profit after taxation	**24,024**	40,235

Unallocated profit or loss amounts relate to management fee income and central costs incurred by the Group.

The terms of the Group's acquisition of the property management business of Stenham Group Limited ("SGL") in 2014 included provision for additional consideration to be paid to SGL by the Group arising from future performance fees earned by the Group.

During the year to 31 March 2019, a gross performance fee of £7,390,000 was received by the Group. Additional consideration of £3,695,000 was subsequently paid to SGL in accordance with the sale agreement.

In 2014 Paul Arenson and Patsy Watson each agreed with SGL to waive certain rights in return for an entitlement to receive from SGL 10% of any additional consideration received by SGL.

There are no further performance fees that may be receivable by the Group that would give rise to any further additional consideration payable to SGL.

5 Operating segments continued

iii) Reconciliation of reportable segment financial position

	31 March 2019 £'000	31 March 2018 £'000
ASSETS		
Investment properties	**562,814**	535,509
Investment in associates	**–**	303
Investment in joint venture	**14,485**	14,617
Cash	**55,837**	22,387
Other	**19,680**	19,146
Assets classified as held for sale	**21,423**	147,408
Total assets per reportable segments	**674,239**	739,370
Other assets – unallocated amounts		
Investment in joint ventures	**57**	43
Cash	**1,588**	2,162
Other	**385**	3,391
Total assets per consolidated statement of financial position	**676,269**	744,965
LIABILITIES		
Borrowings – bank loans	**245,090**	259,497
Other	**27,941**	24,203
Liabilities directly associated with assets classified as held for sale	**9,326**	67,707
Total liabilities per reportable segments	**282,357**	351,407
Other liabilities – unallocated amounts		
Other	**1,692**	3,289
Total liabilities per consolidated statement of financial position	**284,049**	354,696

6 Net rental income

	31 March 2019 £'000	31 March 2018 £'000
Rental income	**38,428**	40,293
Other income – tenant recharges	**7,064**	7,413
Other income	**1,078**	806
Discontinued operations adjustment (note 20)	**(2,068)**	(6,163)
Rental income	**44,502**	42,349
Direct property costs	**(11,383)**	(11,262)
Discontinued operations adjustment (note 20)	**786**	1,774
Property expenses	**(10,597)**	(9,488)
Total net rental income	**33,905**	32,861

Notes to the Consolidated Financial Statements

7 Operating costs

	31 March 2019 £'000	31 March 2018 £'000
Tax, legal and professional fees	**3,767**	2,402
Audit fees	**263**	226
Interim review fees	**30**	30
Administration fees	**531**	553
Investment advisory fees	**319**	431
Non-executive directors costs	**203**	405
Staff remuneration costs	**3,545**	3,098
Share-based payments	**730**	277
Other operating costs	**2,095**	1,466
Discontinued Operations Adjustment (note 20)	**(225)**	(598)
	11,258	8,290

The increase in tax, legal and professional fees is driven by the costs associated with London listing and conversion to REIT status of £0.9 million and costs of £1.2 million associated with the aborted acquisition of a material multi-let industrials portfolio.

Share-based payments of £730,000 (2018: £277,000) relates to the equity-settled incentive schemes operated by the Group. As at 31 March 2019 the Group's equity reserve held £1.8 million (March 2018: £1.1 million) in relation to the schemes after the exercise of options at fair value of £65,000 (2018: £16,000) during the period.

8 Employees' and directors' emoluments

The Group had 23 employees at 31 March 2019 (2018: 20). The aggregate remuneration paid to employees during the period, including that to executive directors, was:

	31 March 2019 £'000	31 March 2018 £'000
Wages and salaries (including key management)	**3,158**	2,760
Social security costs	**218**	201
Pension costs	**169**	137
Share-based payments	**730**	277
	4,275	3,375

As at 31 March 2019, the Group had seven directors (2018: six). The directors of the Company during the financial year and at the date of this report were as follows:

Non-executive directors	Appointed	Change in appointment
S Ball	02/10/2014	resigned 01/05/2018
P Miller	14/09/2016	
W Lawlor	05/04/2017	
R Grant (chairman)	01/05/2018	
P Holland	01/05/2018	

Executive directors	Appointed	Change in appointment
P Arenson (CEO)	02/10/2014	
N Marais	02/10/2014	resigned 01/05/2018
P Watson (CFO)	02/10/2014	
J Carey	01/05/2018	

8 Employees' and directors' emoluments continued

Emoluments paid to executive and non-executive directors are summarised below:

	Basic salary £'000	Pension £'000	Other benefits^ £'000	Cash bonus £'000	Vested share options £'000	Total remuneration 31 March 2019 £'000
Executive directors						
P Arenson	**268**	**27**	**2**	**156**	**83**	**536**
N Marais*	**11**	**1**	**–**	**3**	**6**	**21**
P Watson	**258**	**26**	**–**	**150**	**80**	**514**
J Carey*	**236**	**24**	**1**	**103**	**55**	**419**
	773	**78**	**3**	**412**	**224**	**1,490**

	Basic salary £'000	Pension £'000	Other benefits^ £'000	Cash bonus £'000	Vested share options £'000	Total remuneration 31 March 2018 £'000
Executive directors						
P Arenson	260	26	1	118	40	445
N Marais	130	13	2	32	12	189
P Watson	250	25	–	95	32	402
	640	64	3	245	84	1,036

^ Other benefits relates to the provision of private medical insurance.
* Remuneration covers the period of directorship.

	31 March 2019 £'000	31 March 2018 £'000
Non-executive directors		
S Ball – paid to Sphere Management Limited	**4**	50
M Yachad – paid to Peregrine SA Holdings Proprietary Limited	**–**	21
R Grant	**53**	–
P Holland	**39**	–
P Miller	**40**	44
W Lawlor – paid to Ferryman Capital Partners (Pty) Limited	**39**	28
Share-based payments	**–**	262
	175	405

The above non-executive fees include all management, consulting, technical or other fees paid for such services rendered, including payments to management companies.

The Group's share-based payments comprise the Deferred Share Bonus Plan ('STIP') and the Long-Term Incentive Plan ('LTIP') for executive directors and senior management respectively, and various share option schemes.

The Company measures the fair value of these options at grant date and accounts for the cost over the vesting period in the income statement, with a corresponding increase to the share-based payment reserve. The cost is based on the quantity of shares that are likely to vest taking into account expected performance against the relevant performance targets, where applicable, and service periods. Share-based awards and the respective vesting dates are further detailed in note 13.

Notes to the Consolidated Financial Statements

8 Employees' and directors' emoluments continued

On 5 June 2019, the board of directors, on the recommendation of the remuneration committee, approved the following:

	Bonuses in respect of the year ended 31 March 2019				
Executive directors	**Cash bonus £'000**	**Deferred Share Bonus Plan £'000**	**Number of share options (estimated)**	**LTIP for executive directors £'000**	**Number of share options (estimated)**
P Arenson	**161**	**159**	**140,500**	**549**	**486,000**
P Watson	**155**	**153**	**135,100**	**-**	**-**
J Carey*	**142**	**140**	**123,800**	**528**	**467,100**
	458	**452**	**399,400**	**1,077**	**953,100**

* Remuneration covers the period of directorship.

On 6 June 2018, the board of directors, on the recommendation of the remuneration committee, approved the following:

	Bonuses in respect of the year ended 31 March 2018				
Executive directors	**Cash bonus £'000**	**Deferred Share Bonus Plan £'000**	**Number of share options**	**LTIP for executive directors £'000**	**Number of share options**
P Arenson	156	125	113,800	536	487,096
N Marais	33	20	18,363	105	95,816
P Watson	150	120	109,381	515	468,182
	339	265	241,544	1,156	1,051,094

Directors' interests – beneficial direct and indirect holdings in the Company

As at 31 March 2019:

	Direct number of shares	% of shares	Indirect number of shares	% of shares in issue	Number of share options held	% of shares
P Arenson (CEO)	**–**	**–**	**13,387,114**	**4.48%**	**1,601,293**	**0.54%**
P Watson (CFO)	**–**	**–**	**4,548,618**	**1.52%**	**1,491,330**	**0.50%**
W Lawlor	**–**	**–**	**1,208,669**	**0.40%**	**2,000,000**	**0.67%**
P Miller	**21,898**	**0.01%**				
R Grant (chairman)	**100,000**	**0.03%**				
J Carey	**–**	**–**	**3,271,923**	**1.10%**	**1,016,973**	**0.34%**
P Holland	**24,999**	**0.01%**				

The above directors' interests have not changed from 31 March 2019 to the date of the signing of these financial statements.

As at 31 March 2018:

	Direct number of shares	% of shares	Indirect number of shares	% of shares in issue	Number of share options held	% of shares
P Arenson (CEO)	–	–	12,523,096	4.29	959,531	0.33
P Watson (CFO)	–	–	4,364,027	1.50	887,722	0.30
W Lawlor	–	–	1,154,100	0.40	2,000,000	0.69
N Marais	–	–	280,600	0.10	12,632	–
S Ball (chairman)	–	–	250,000	0.09	–	–
P Miller	–	–	21,898	0.01	–	–

9 Finance costs

	31 March 2019 £'000	31 March 2018 £'000
Bank interest	**(7,898)**	(9,443)
Amortisation of facility costs	**(609)**	(1,087)
Discontinued Operations Adjustment (note 20)	**256**	687
Net finance costs	**(8,251)**	(9,843)

10 Taxation

Real Estate Investment Trust regime (REIT regime)

The Company converted to UK REIT status on 1 May 2018. As a member of the REIT regime, profits from its UK property rental business are tax exempt. The REIT regime only applies to certain property-related profits and has several criteria which have to be met. The main criteria are:

– the assets of the property rental business must be at least 75% of the Group's assets;

– the profit from the tax-exempt property rental business must exceed 75% of the Group's total profit; and

– at least 90% of the Group's profit from the UK property rental business must be paid as dividends.

The Company continues to meet these conditions and management intends that Stenprop should continue as a REIT for the foreseeable future.

(i) Tax recognised in statement of comprehensive income

	31 March 2019 £'000	31 March 2018 £'000
Income tax in respect of current year	**3,652**	1,354
Deferred tax (see note 30)	**(1,638)**	3,260
Discontinued Operations Adjustment (see note 20)	**429**	235
Total tax expense	**2,443**	4,849

No tax was recognised on other comprehensive income during the period (2018: Nil).

- Germany: 15.825%
- United Kingdom: 19%
- Switzerland (depending on the district in which the property is situated): average rate of 19.6%.

(ii) Reconciliation of tax charge for the year

	31 March 2019 £'000	31 March 2018 £'000
Profit before taxation on continuing operations	**28,790**	47,796
Expected tax charge on ordinary activities at the standard rate of taxation of 19% (2018: Nil)	**5,470**	–
Revaluation loss not taxable	**854**	–
Gains on disposal of subsidiary not taxable	**(2,114)**	–
Income not taxable	**(946)**	–
UK REIT tax exemption	**(2,621)**	–
Expenditure not allowed for income tax purposes	**165**	–
Tax losses	**723**	–
Effect of tax rates in other jurisdictions	**(452)**	563
Other	**884**	–
Total income tax charge	**1,963**	563

Tax charged in the prior year was nil due to Stenprop's management and control residing in Guernsey. Following its conversion to a UK REIT, Stenprop has moved its management and control to the UK.

Notes to the Consolidated Financial Statements

11 Dividends

	31 March 2019 £'000	31 March 2018 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the prior year	**11,281**	11,047
Interim dividend for the current year	**9,542**	11,308
Total dividends	**20,823**	22,355

On 7 June 2018, the directors of the Company declared a final dividend of 4.00 pence per share in respect of the year ended 31 March 2018 equating to £11.3 million (2018: £11 million). This was paid in cash on 17 August 2018. An interim dividend of 3.375 pence per share equating to £9.5 million (2018: £11.3 million) was declared on 22 November 2018 and paid in cash on 8 February 2019.

The directors declared a final dividend on 5 June 2019, for the year ended 31 March 2019, of 3.375 pence per share, which is detailed in note 35.

12 Share capital

Authorised

1,000,000,000 ordinary shares with a par value of €0.000001258 each:

Issued share capital	31 March 2019 (no. shares)	31 March 2018 (no. shares)
Opening balance	**291,718,476**	286,681,880
Issue of new shares	**7,056,699**	5,036,596
Closing number of shares issued	**298,775,175**	291,718,476

Authorised share capital	£'000	£'000
Share capital	**1**	1
Share premium	**325,223**	317,781
Less: Acquisition/transaction costs	**(2,231)**	(2,231)
Total share capital and share premium	**322,993**	315,551

There were no changes made to the number of authorised shares of the Company during the period under review. Stenprop Limited has one class of share. All shares rank equally and are fully paid.

The Company has 298,775,175 (2018: 291,718,476) ordinary shares in issue at the reporting date. On 14 June 2018 the Company's shares ceased trading on the BSX and on 15 June 2018 they commenced trading on the Specialist Fund Segment of the LSE. During the period 54,838 new ordinary shares were issued at an average issue price of £1.16 per share in respect of the Deferred Share Bonus Plan.

On 7 June 2018, the Company announced a final dividend of 4.0 pence per share in respect of the six months to 31 March 2018. On 16 August 2018, the Company announced a take up of the scrip dividend and 2,636,280 shares were subsequently issued on 17 August 2018. On 22 November 2018, the Company announced an interim dividend of 3.375 pence per share in respect of the six months to 30 September 2018. On 7 February 2019, the Company announced a take up of the scrip dividend and 4,365,581 shares were subsequently issued on 8 February 2019.

In the period the shareholders were offered the option to receive either a scrip dividend by way of an issue of new Stenprop shares, or a cash dividend. Given the Company's share price, which is at a discount relative to NAV, the directors matched the scrip alternative through share purchases to mitigate the dilutive effect that would otherwise have occurred through the issuance of new ordinary shares. During the period 19 July 2018 to 7 August 2018 the Company repurchased 2,636,280 shares at an average price of £1.146 per share. During the period 22 January 2019 to 13 March 2019 the Company repurchased 4,365,581 shares at an average price of £1.122 per share.

As at 31 March 2019, the Company held 16,028,050 treasury shares (2018: 9,026,189).

The related credit is included within equity reserves as disclosed in the consolidated statement of changes in equity.

13 Share-based payments

The Group operates share incentive plans which are used to attract and retain high-calibre employees to help grow the business. All awards are considered by the remuneration committee and are subject to board approval.

The Group recognised a total share-based expense of £730,000 in the year (2018: £539,000) in relation to the share option schemes. As at 31 March 2019, the equity reserve held £1,798,000 in relation to share-based payment transactions (2018: £1,133,000).

The incentive plans are discussed in more detail below.

Deferred Share Bonus Plan

The board may grant an award to an eligible employee following a recommendation from the remuneration committee over such number of shares that have an aggregate value equal to the deferred bonus. Such share options vest in three equal tranches; the first tranche vests on the date of grant with subsequent tranches vesting at the first and second anniversaries of the relevant year end. Share options may be exercised until the tenth anniversary of the grant date, after which time they will lapse.

The fair value of this nil-cost option is determined using the Black–Scholes model. The key inputs used in determining the award granted on 7 June 2018 are shown below:

Share price at date of grant	£1.13
Expected option life in years	2
Risk-free rate	0.82%
Standard deviation (annualised)	22%
Value per option	£1.13

Movement in options granted in terms of this plan are detailed below:

Date of grant	At 1 April 2018	Granted	Dividend equivalents	Exercised/ Other	Outstanding at 31 March 2019	Exercisable at 31 March 2019	Fair value at grant date in GBP	Exercise dates From	Exercise dates To
10 June 2015	422,274	–	20,819	(49,529)	393,564	**393,564**	£1.08	10 June 2015	10 June 2025
8 June 2016	276,637	–	31,242	(23,191)	284,688	**284,688**	£1.05	8 June 2016	8 June 2026
7 June 2017	39,057	–	2,747	(9,384)	29,748	**29,748**	£1.08	7 June 2017	7 June 2027
7 June 2018	–	384,035	7,749	(14,601)	381,644	**253,632**	£1.13	7 June 2018	7 June 2028

Notes to the Consolidated Financial Statements

13 Share-based payments continued

LTIP for senior management

Such share options vest in three equal tranches; the first tranche vests on the first anniversary of year end, with subsequent tranches vesting at the second and third anniversaries of the relevant year ends. Share options may be exercised until the tenth anniversary of the grant date, after which time they will lapse.

The fair value of this award is determined using the Black–Scholes model. The key inputs used in determining the award granted on 7 June 2018 are shown below:

Share price at date of grant	£1.13
Exercise price at grant date	£1.10
Expected option life in years	10
Risk-free rate	1.50%
Expected volatility	22%
Value per option	£0.27

Date of grant	At 1 April 2018	Granted	Dividend equivalents	Exercised/ Other	Outstanding at 31 March 2019	Exercisable at 31 March 2019	Fair value at grant date	Exercise dates From	Exercise dates To
24 January 2018	142,887	–	–	(58,798)	84,089	56,059	£0.47	31 March 2018	24 January 2028
7 June 2018	–	411,270	–	(69,835)	341,435	113,812	£0.27	31 March 2019	7 June 2028

LTIP for executive directors

Such share options vest on the third anniversary of grant date subject to pre-determined vesting conditions being met. All options not vesting on the vesting date will automatically lapse. All vested options and shares received upon the exercise of vested options are subject to a further two-year lock-in period during which they cannot be sold. The fair value of these nil-cost options is determined by external valuers using an intrinsic model. The key inputs used in determining the award granted on 7 June 2018 are shown below:

Share price	£1.13
Exercise price at grant date	£0.00
Expected option life in years	3+2
Discount applied for two-year lock-in period	10%
Value per option	£1.13

Date of grant	At 1 April 2018	Granted	Dividend equivalents	Exercised/ Other	Outstanding at 31 March 2019	Exercisable at 31 March 2019	Fair value at grant date	Exercise dates From	Exercise dates To
24 January 2018	1,416,231	–	34,261	–	1,450,492	–	£0.68	8 June 2022*	8 June 2027
7 June 2018	–	1,423,460	45,920	–	1,469,380	–	£0.52	8 June 2023*	8 June 2028

* Lock-in period of two years applies after vesting.

13 Share-based payments continued

Other share options

On 30 March 2017, the Company agreed to grant to Ferryman Capital Partners Limited, a company in which Warren Lawlor, a non-executive director, has a one-third beneficial interest, an option to subscribe for 2,000,000 Stenprop shares. The exercise price was £1.31 (€1.53), with a seven-month vesting period. The full cost of this option was therefore recognised in the current year. The option lapses should the individual cease to be a director, or after five years, whichever is sooner. The option only has a dilutive effect when the average market price of ordinary shares exceeds the exercise price of the options. The share price at year end was £1.10, which was below the exercise price. The fair value of this award is determined using the Black–Scholes model. The key inputs used in determining the award granted on 30 March 2017 are shown below:

Share price	£1.08
Exercise price at grant date	£1.31
Expected option life in years	5
Risk-free rate	1.50%
Expected volatility	31.31%
Expected dividend yield	5%
Value per option	£0.13

Date of grant	At 1 April 2018	Granted	Exercised	Outstanding at 31 March 2019	Exercisable at 31 March 2019	Fair value at grant date	Exercise dates From	Exercise dates To
30 March 2017	2,000,000	–	–	2,000,000	2,000,000	£0.13	30 December 2017	30 March 2022

Share Purchase Plan

Loans advanced under the share purchase plan are interest-bearing at a rate equal to the average interest rate incurred by the Group from time to time. Interest is payable six-monthly in arrears. Loans are repayable within 30 days of cessation of employment or loss of office (unless the participant ceases employment in circumstances beyond his or her control, in which case the loan is repayable within 12 months), and must in all circumstances be repaid in 10 years. All dividends received by such employees (or his or her nominee) by virtue of their shareholding must first be utilised to discharge any interest outstanding in terms of the loan advanced in terms of the Share Purchase Plan. The loans have full recourse to the participants who must charge their shares by way of security for the loans.

The table below summarises the position at year end in terms of loans advanced and the number of shares to which they relate. Loans relating to the Share Purchase Plan issued to executive directors are disclosed in more detail in note 8.

		31 March 2019	31 March 2018
Brought forward at start of year	(number of shares)	**10,211,145**	8,656,219
Share Purchase Plan shares issued in year	(number of shares)	**–**	1,752,358
Share Purchase Plan shares redeemed	(number of shares)	**–**	(197,432)
Carried forward at end of year	(number of shares)	**10,211,145**	10,211,145
Stock price at advancement	(€)	**N/A**	1.24
Share Purchase Plan loans advanced (including accrued interest)	(£'000)	**12,304**	12,536

Other share purchase loan

On 30 March 2017, a €1.22 million loan was advanced from Stenprop (Germany) Limited to Ferryman Capital Partners Limited, a company in which Warren Lawlor, a non-executive director, has a one-third beneficial interest, to purchase 1,000,000 Stenprop shares in the market. The loan advanced is interest-bearing at a rate equal to the average interest rate incurred by the Group from time to time. Interest is payable six-monthly in arrears. The loan has full recourse to the borrower and the shares are charged as security for the loans.

		31 March 2019	31 March 2018
Brought forward at start of year	(number of shares)	**1,000,000**	1,000,000
Shares issued in year	(number of shares)	**–**	–
Shares redeemed	(number of shares)	**–**	–
Carried forward at end of year	(number of shares)	**1,000,000**	1,000,000
Loan advanced (including accrued interest)	(£'000)	**1,056**	1,081

Notes to the Consolidated Financial Statements

14 Earnings per ordinary share

	31 March 2019 £'000	31 March 2018 £'000
Reconciliation of profit for the period to adjusted EPRA[1] earnings		
Earnings per IFRS income statement attributable to shareholders	**23,828**	39,357
Adjustment to exclude loss from discontinued operations	**2,323**	2,712
Earnings per IFRS income statement from continuing operations attributable to shareholders	**26,151**	42,069
Earnings per IFRS income statement attributable to shareholders	**23,828**	39,357
Adjustments to calculate EPRA earnings, exclude:		
Changes in fair value of investment properties	**5,259**	(14,305)
Changes in fair value of financial instruments	**1,092**	(2,453)
Deferred tax in respect of EPRA adjustments	**(1,137)**	3,728
Goodwill impairment	**–**	3,500
Loss/(profit) on disposal of properties	**2,514**	(507)
(Profit)/loss on disposal of subsidiaries	**(8,890)**	679
Adjustments above in respect of joint ventures and associates		
Changes in fair value	**386**	(5,802)
Deferred tax in respect of EPRA adjustments	**(9)**	800
EPRA earnings attributable to shareholders	**23,043**	24,997
Further adjustments to arrive at adjusted EPRA earnings		
Straight-line unwind of purchased swaps	**40**	239
Cost associated with Group listing and REIT conversion	**905**	528
Costs associated with significant aborted portfolio acquisition	**1,248**	–
Adjusted EPRA earnings attributable to shareholders	**25,236**	25,764
Weighted average number of shares in issue (excluding treasury shares)	**282,555,942**	281,494,114
Share-based payment award	**2,852,255**	1,796,978
Diluted weighted average number of shares in issue	**285,408,197**	283,291,092

Earnings per share from continuing operations	**pence**	**pence**
IFRS EPS	**9.26**	14.94
Diluted IFRS EPS	**9.16**	14.85
Earnings per share	**pence**	pence
IFRS EPS	**8.43**	13.98
Diluted IFRS EPS	**8.35**	13.89
EPRA EPS	**8.16**	8.88
Diluted EPRA EPS	**8.07**	8.82
Adjusted EPRA EPS	**8.93**	9.15
Diluted adjusted EPRA EPS	**8.84**	9.09

1. The European Public Real Estate Association (EPRA) issued Best Practices Policy Recommendations in November 2016, which provide guidelines for performance measures relevant to real estate companies. Their recommended reporting standards are widely applied across this market, aiming to bring consistency and transparency to the sector. The EPRA earnings measure is intended to show the level of recurring earnings from core operational activities with the purpose of highlighting the Group's underlying operating results from its property rental business and an indication of the extent to which current dividend payments are supported by earnings. The measure excludes unrealised changes in the value of investment properties, gains or losses on the disposal of properties and other items that do not provide an accurate picture of the Group's underlying operational performance. The measure is considered to accurately capture the long-term strategy of the Group, and is an indication of the sustainability of dividend payments.

As at 31 March 2019, the Company held 16,028,050 treasury shares (2018: 9,026,189).

Straight-line unwind of purchased swaps

A further adjustment was made to the EPRA earnings attributable to shareholders relating to the straight-line unwind of the value as at 1 April 2014 of the swap contracts in the property companies acquired. When the property companies were acquired by Stenprop with effect from 1 April 2014, it also acquired the bank loans and swap contracts which were in place within these property companies. As a result, Stenprop took over loans with higher swap interest rates than would have been the case had new loans and swaps been put in place at 1 April 2014. To compensate for this, the value of the swap break costs was calculated at 1 April 2014 and the purchase consideration for the property companies was reduced accordingly to reflect this liability.

14 Earnings per ordinary share continued

Costs associated with Group listing and REIT conversion

A further adjustment was made to the EPRA earnings attributable to shareholders relating to the costs associated with converting to REIT status and the planned listing on the Special Funds Segment of the London Stock Exchange. Both costs are specific to non-recurring activities and are not relevant to the underlying net income performance of the Group.

Costs associated with significant aborted portfolio acquisition

During the period, Stenprop explored and advanced a material transaction pertaining to the acquisition of a large portfolio of multi-let industrial estates. At the end of the process, and following extensive due diligence, it was decided not to progress the transaction to completion. While EPRA earnings are not adjusted for one-off costs for a failed acquisition, the amount was very significant and accordingly has been adjusted for as a 'company-specific adjustment'.

Reconciliation of profit for the period to headline earnings

	31 March 2019 £'000	31 March 2018 £'000
Earnings per IFRS income statement attributable to shareholders	**23,828**	39,357
Adjustments to calculate headline earnings, exclude:		
Changes in fair value of investment properties	**5,259**	(14,305)
Deferred tax in respect of headline earnings adjustments	**(1,145)**	3,675
Goodwill impairment	**–**	3,500
Loss on disposal of properties	**2,514**	–
(Profit)/loss on disposal of subsidiaries	**(8,890)**	679
Adjustments above in respect of joint ventures and associates		
Changes in fair value of investment properties	**(55)**	(4,857)
Deferred tax	**58**	757
Headline earnings attributable to shareholders	**21,569**	28,806
Earnings per share	**pence**	pence
Headline EPS	**7.63**	10.23
Diluted headline EPS	**7.56**	10.17

15 Net asset value per ordinary share

	31 March 2019 £'000	31 March 2018 £'000
Net assets attributable to equity shareholders	**389,251**	387,331
Adjustments to arrive at EPRA net asset value:		
Derivative financial instruments	**730**	(13)
Deferred tax	**10,416**	13,276
Adjustments above in respect of non-controlling interests	**1,649**	1,641
EPRA net assets attributable to shareholders	**402,046**	402,235
Number of shares in issue (excluding treasury shares)	**282,747,125**	282,692,287
Share-based payment award	**2,852,255**	1,796,978
Diluted number of shares in issue	**285,599,380**	284,489,265

Net asset value per share (basic and diluted)	**£**	**£**
IFRS net asset value per share	**1.38**	1.37
Diluted IFRS net asset value per share	**1.36**	1.36
EPRA net asset value per share	**1.42**	1.42
Diluted EPRA net asset value per share	**1.41**	1.41

As at 31 March 2019, the Company held 16,028,050 treasury shares (2018: 9,026,189).

Notes to the Consolidated Financial Statements

16 Investment property

The fair value of the consolidated investment properties at 31 March 2019 was £562.8 million (2018: £535.5 million). This excludes an amount of £16.2 million (2018: £121.8 million) for the last remaining Swiss property (2018: eight Swiss properties) which has been classified as Held for Sale. The carrying amount of investment property is the fair value of the property as determined by registered independent appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued ('valuers').

The fair value of each of the properties for the period ended 31 March 2019, excluding Bleichenhof as discussed below, was assessed by the valuers in accordance with the Royal Institution of Chartered Surveyors ('RICS') standards and IFRS 13. Valuers are qualified for purposes of providing valuations in accordance with the 'Appraisal and Valuation Manual' published by RICS.

In the case of the valuation of the property known as Bleichenhof (Hamburg) information pertinent to the property became available subsequent to the finalisation of the external valuers report. This information related to certain structural and refurbishment works required to be undertaken at the underground car-park. Accordingly, a directors' valuation has been adopted for this property. Based on a third party appraisal report on the works, it was agreed to reduce the external valuation by €7.0 million (£6.0 million), being the amount of anticipated capital expenditure.

The valuations performed by the independent valuers are reviewed internally by senior management. This includes discussions of the assumptions used by the external valuers, as well as a review of the resulting valuations.

Discussions of the valuations process and results are held between the senior management and the external valuers on a biannual basis. The audit committee reviews the valuation results and, provided the committee is satisfied with the results, recommends them to the board for approval.

The valuation techniques used are consistent with IFRS 13 and use significant 'unobservable' inputs. Investment properties are all at level 3 in the fair value hierarchy and valuations represent the highest and best use of the properties. There have been no changes in valuation techniques since the prior year.

There are interrelationships between all these unobservable inputs as they are determined by market conditions. An increase in more than one unobservable input would magnify the impact on the valuation. The impact on the valuation would be mitigated by the interrelationship of two unobservable inputs moving in opposite directions e.g. an increase in rent may be offset by an increase in yield, resulting in no net impact on the valuation. Expected vacancy rates may impact the yield with higher vacancy rates resulting in higher yield. All revenue is derived from the underlying tenancies given on the investment properties.

With the exception of five recently acquired MLI properties, all investment properties are mortgaged, details of which can be seen in note 24. As at the date of signing this report, there are no restrictions on the realisability of any of the underlying investment properties, nor on the remittance of income and disposal proceeds.

The key unobservable inputs used in the valuation of the Group's investment properties at 31 March 2019 are detailed in the table below:

Combined Portfolio (including share of joint ventures)	Market value 31 March 2019 (£m)	Portfolio by market value (%)	Properties (number)	Area (sq m)	Annualised gross rental income (£m)	Net initial yield (Weighted average) (%)	Voids by area (%)	Market rent range per month (£/sq m)
Investment properties								
UK non-multi-let industrial	**83.8**	**13.7**	**9**	**40,077**	**6.7**	**7.57**	**–**	**3.0-34.2**
UK multi-let industrial	**261.5**	**42.7**	**60**	**372,051**	**18.2**	**6.26**	**10.2**	**1.0-7.8**
Germany	**217.5**	**36.5**	**9**	**72,599**	**10.8**	**4.09**	**2.4**	**7.7-22.0**
Sub-total	**562.8**	**91.9**	**78**	**484,727**	**35.7**	**5.60**	**8.2**	**–**
Assets Held for Sale								
Switzerland	**16.2**	**2.6**	**1**	**6,974**	**1.2**	**5.68**	**–**	**13.8**
Total – wholly owned	**579.0**	**94.5**	**79**	**491,701**	**36.9**	**5.60**	**8.1**	**–**
Share of joint ventures and associates	**33.9**	**5.5**	**4**	**19,330**	**2.4**	**6.04**	**–**	**10.4**
Total	**612.9**	**100.0**	**83**	**511,031**	**39.3**	**5.60**	**7.8**	**–**

Investment property	31 March 2019 £'000	31 March 2018 £'000
Opening balance	**535,509**	470,603
Properties acquired	**110,188**	149,831
Capitalised expenditure	**9,996**	5,549
Foreign exchange movement in foreign operations	**(757)**	(1,814)
Net fair value (loss)/gain on investment property	**(3,404)**	20,223
Assets Held for Sale	**(88,717)**	(108,883)
Closing balance	**562,815**	535,509

17 Group companies

Details of the Group's subsidiaries as at 31 March 2019 are as follows:

Name	Place of incorporation	Principal activity	% equity owned by Company	% equity owned by Subsidiary
BVI				
Davemount Properties Limited	BVI	Property Investment		100.00
Leatherback Property Holdings Limited	BVI	Holding Company		100.00
Ruby Red Holdings Limited	BVI	Management		100.00
SP Corporate Services Limited	BVI	Management		100.00
SP Nominees Limited	BVI	Management		100.00
SP Secretaries Limited	BVI	Management		100.00
Stenprop Management Holdings Limited	BVI	Holding Company	100.00	
Stenprop Hermann Limited	BVI	Property Investment		100.00
Stenprop Victoria Limited	BVI	Property Investment		100.00
Stenprop Industrials 1 Limited	BVI	Holding Company		100.00
Stenprop Industrials 2 Limited	BVI	Holding Company		100.00
Stenprop Industrials 3 Limited	BVI	Property Investment		100.00
Stenprop Industrials 4 Limited	BVI	Property Investment		100.00
Stenprop Industrials 5 Limited	BVI	Dormant		100.00
Stenprop (UK) Limited	BVI	Holding Company	100.00	
Curacao				
Anarosa Holdings N.V.	Curacao	Holding Company		94.90
C.S. Property Holding N.V.	Curacao	Holding Company		94.90
Lakewood International N.V.	Curacao	Holding Company		89.00
T.B. Property Holdings N.V.	Curacao	Holding Company		100.00
Germany				
KG Bleichenhof Grundtuscksverwaaltung GmbH & Co. KG	Germany	Property Investment		94.90
Guernsey				
Bernina Property Holdings Limited	Guernsey	Holding Company		100.00
GGP1 Limited	Guernsey	Property Investment		100.00
Kantone Holdings Limited	Guernsey	Property Investment		100.00
LPE Limited	Guernsey	Property Investment		100.00
Nova Eventis LP	Guernsey	Property Investment		100.00
Stenprop Advisers Limited	Guernsey	Management	10.00	90.00
Stenprop Arsenal Limited	Guernsey	Dormant		100.00
Stenprop Industrials Holdings Limited	Guernsey	Holding Company	100.00	
Stenprop Industrials 6 Limited	Guernsey	Property Investment		100.00
Stenprop Industrials 7 Limited	Guernsey	Dormant		100.00
Stenprop Industrials 8 Limited	Guernsey	Dormant		100.00
Stenprop Trafalgar Limited	Guernsey	Holding Company		100.00
Stenprop (Germany) Limited	Guernsey	Holding Company	100.00	
Stenprop (Guernsey) Limited	Guernsey	Dormant		100.00
Stenprop (Swiss) Limited	Guernsey	Holding Company	100.00	
Jersey				
Industrials Investment Unit Trust	Jersey	Holding Company		100.00

Notes to the Consolidated Financial Statements

17 Group companies continued

Name	Place of incorporation	Principal activity	% equity owned by Company	% equity owned by Subsidiary
Luxembourg				
Algy Properties S.a.r.l.	Luxembourg	Property Investment		100.00
Bruce Properties S.a.r.l.	Luxembourg	Property Investment		100.00
Clint Properties S.a.r.l.	Luxembourg	Property Investment		100.00
David Properties S.a.r.l.	Luxembourg	Property Investment		100.00
Jimmy Investments S.a.r.l.	Luxembourg	Holding Company		100.00
Spike Investments S.A.	Luxembourg	Holding Company		100.00
Netherlands				
Century 2 BV	Netherlands	Property Investment		94.90
Century BV	Netherlands	Property Investment		94.90
Isabel Properties BV	Netherlands	Property Investment		94.90
Mindel Properties BV	Netherlands	Holding Company		94.50
Isle of Man				
Stenham Beryl Limited	IoM	Property Investment		100.00
Stenham Crystal Limited	IoM	Property Investment		100.00
Stenham Jasper Limited	IoM	Property Investment		100.00
Gemstone Properties Limited	IoM	Holding Company		100.00
United Kingdom				
C2 Capital Limited	England	Management		100.00
Stenprop Management Limited	England	Management		100.00
Stenprop Limited	England	Dormant		100.00
United States				
Industrials UK GP LLC	United States	Holding Company		100.00
Industrials UK LP	United States	Property Investment		100.00

Details of the Group's investments in associates and joint ventures are disclosed in note 18 and note 19 respectively.

18 Investment in associates

Associates are accounted for using the equity method in these consolidated financial statements as set out in the Group's accounting policies.

Summarised financial information in respect of each of the Group's associates is set out below:

	Stenham European Shopping Centre Fund Limited £'000	Stenham Berlin Residential Fund Limited £'000	Total £'000
31 March 2019			
Current assets	**58**	**–**	**58**
Current liabilities	**(58)**	**–**	**(58)**
Revenue	**388**	**–**	**388**
Profit from continuing operations	**329**	**–**	**329**
31 March 2018			
Current assets	1,298	–	1,298
Current liabilities	(523)	–	(523)
Equity attributable to owners of the Company	775	–	775
Revenue	3,415	21,351	24,766
Profit from continuing operations	786	1,568	2,354

Reconciliation of the Group's interest in associates recognised in the financial statements:

	Stenham European Shopping Centre Fund Limited £'000	Stenham Berlin Residential Fund Limited £'000	Total £'000
31 March 2019			
Opening balance as at 1 April 2018	**303**	**–**	**303**
Share of associates' profit*	**101**	**–**	**101**
Share in associates disposed of during the period	**(391)**	**–**	**(391)**
Distribution received from associates	**(18)**	**–**	**(18)**
Foreign exchange movement in foreign operations	**5**	**–**	**5**
Closing balance	**–**	**–**	**–**
31 March 2018			
Opening balance as at 1 April 2017	15,994	1,869	17,863
Share of associates' profit*	221	71	292
Share in associates disposed of during the period	(16,353)	(1,992)	(18,345)
Foreign exchange movement in foreign operations	441	52	493
Closing balance	303	–	303

* The share of associates' profit includes the fair value movement in the underlying investments for the period.

Notes to the Consolidated Financial Statements

19 Investment in joint ventures

Details of the Group's joint ventures at the end of the reporting period are as follows:

Name	Place of incorporation	Principal activity	% equity owned by subsidiary
Luxembourg			
Elysion S.A.	Luxembourg	Holding company	50.00
Elysion Braunschweig S.a.r.l	Luxembourg	Property company	50.00
Elysion Dessau S.a.r.l	Luxembourg	Property company	50.00
Elysion Kappeln S.a.r.l	Luxembourg	Property company	50.00
Elysion Winzlar S.a.r.l	Luxembourg	Property company	50.00
Guernsey			
Stenpark Management Limited	Guernsey	Management company	50.00
Republic of Ireland			
Ardale Industrials Limited	Republic of Ireland	Management company	50.00

On 4 June 2018, Stenprop completed the sale of its joint venture interest in Argyll Street in the West End of London by way of sale of shares.

Summarised consolidated financial information in respect of the Group's joint ventures is set out below. Where applicable, these represent the consolidated results of the respective holding companies.

	Elysion S.A. £'000	Stenpark Management Limited £'000	Stenprop Argyll Limited £'000	Ardale Industrials Limited £'000	Total £'000
31 March 2019					
Investment property	34,151	–	–	–	34,151
Current assets	570	96	–	121	787
Assets	34,721	96	–	121	34,938
Bank loans	(18,442)	–	–	–	(18,442)
Shareholder loan	(13,666)	–	–	–	(13,666)
Deferred tax	(1,124)	–	–	–	(1,124)
Financial liability	(524)	–	–	–	(524)
Current liabilities	(145)	(15)	–	(88)	(248)
Liabilities	(33,901)	(15)	–	(88)	(34,004)
Net assets of joint ventures	820	81	–	33	934
Net assets of joint ventures excluding shareholder loans	14,486	81	–	33	14,600
Group share of joint ventures' net assets	14,486	40	–	17	14,542
Revenue	2,489	38	876	753	4,156
Interest payable	(1,755)	–	(199)	–	(1,954)
Tax expense	(110)	–	–	(95)	(205)
Profit from continuing operations and total comprehensive income excluding interest due to the Group	1,044	14	462	651	2,171
Share of joint ventures' profit due to the Group	1,044	7	231	325	1,607

19 Investment in joint ventures continued

	Elysion S.A. £'000	Stenpark Management Limited £'000	Stenprop Argyll Limited £'000	Ardale Industrials Limited £'000	Total £'000
31 March 2018					
Investment property	34,878	–	83,400	–	118,278
Current assets	607	151	5,751	18	6,527
Assets	35,485	151	89,151	18	124,805
Bank loans	(19,454)	–	(37,373)	–	(56,827)
Shareholder loan	(13,463)	–	–	–	(13,463)
Deferred tax	(1,104)	–	–	–	(1,104)
Financial liability	(137)	–	(453)	–	(590)
Current liabilities	(172)	(82)	(4,235)	(1)	(4,490)
Liabilities	(34,330)	(82)	(42,061)	(1)	(76,474)
Net assets of joint ventures	1,155	69	47,090	17	48,331
Net assets of joint ventures excluding shareholder loans	14,618	69	47,090	17	61,777
Group share of net assets	14,618	34	23,545	8	38,205
Net assets directly associated with assets classified as held for sale adjustment	–	–	(23,545)	–	(23,545)
Group share of joint ventures' net assets	14,618	34	–	8	14,660
Revenue	2,450	381	4,794	35	7,660
Interest payable	(1,795)	–	(1,115)	–	(2,910)
Tax expense	(713)	–	–	–	(713)
Profit from continuing operations and total comprehensive income excluding interest due to the Group	4,678	101	5,760	30	10,569
Share of joint ventures' profit due to the Group	4,678	51	2,880	15	7,624

Elysion S.A.

Stenprop owns 100% of the shares and shareholder loans in Bernina Property Holdings Limited ('Bernina'). Bernina in turn owns 50% of the issued share capital and 100% of the shareholder loans of Elysion S.A., a company incorporated in Luxembourg which is the beneficial owner of the Care Home portfolio. The remaining 50% of Elysion S.A. is owned by a joint venture partner who manages the portfolio.

The acquired shareholder loans have attracted, and continue to attract, a 10% compounded interest rate since inception in 2007. The outstanding shareholder loan, which is wholly-owned by Stenprop, has been valued at the recoverable balance which is deemed equal to the net assets of the joint venture excluding the shareholder loan.

Notes to the Consolidated Financial Statements

19 Investment in joint ventures continued

Reconciliation of the above summarised financial information to the carrying amount of the interest recognised in the consolidated financial statements:

	Elysion S.A. £'000	Stenpark Management Limited £'000	Stenprop Argyll Limited £'000	Ardale Industrials Limited £'000	Total £'000
31 March 2019					
Opening balance	**14,618**	**34**	**–**	**8**	**14,660**
Share of joint venture profit	**1,044**	**7**	**231**	**325**	**1,607**
Distribution received from joint venture	**(852)**	**–**	**–**	**(317)**	**(1,169)**
Foreign exchange movement in foreign operations	**(324)**	**(1)**	**–**	**–**	**(325)**
Disposal of joint venture	**–**	**–**	**(231)**	**–**	**(231)**
Closing balance	**14,486**	**40**	**–**	**16**	**14,542**
31 March 2018					
Opening balance	10,283	37	21,115	–	31,435
Share in associates acquired during the period	–	–	–	(1)	(1)
Share of joint venture profit	4,678	51	2,880	15	7,624
Distribution received from joint venture	(613)	(54)	(450)	(6)	(1,123)
Foreign exchange movement in foreign operations	270	–	–	–	270
Transfer to Assets Held for Sale	–	–	(23,545)	–	(23,545)
Closing balance	14,618	34	–	8	14,660

20 Assets held for sale and discontinued operations

Management considers the remaining Swiss property meets the conditions relating to Assets Held for Sale, as per IFRS 5: Non-current Assets Held for Sale and Discontinued Operations. The property is expected to be disposed of during the next 12 months. The Swiss property at Lugano, which is valued at year end at CHF21 million (£16.2 million), is classified as held for sale. Although the sale may not complete within 12 months, Stenprop is committed to the disposal of the asset in line with its strategy to exit the Swiss market. Accordingly, Stenprop has disclosed the asset as Held For Sale and the fair value has been determined by a third-party valuer, Jones Lang LaSalle.

The fair value of this property, and the properties shown as held for sale in the prior year are disclosed in the table below:

	31 March 2019 £'000	31 March 2018 £'000
Investment properties	**16,160**	121,764
Investment in joint ventures	**–**	23,545
Cash and cash equivalents	**1,795**	738
Trade and other receivables	**3,468**	1,361
Total assets classified as held for sale	**21,423**	147,408
Bank loans	**6,106**	62,225
Derivative financial instruments	**–**	14
Deferred tax	**–**	3,897
Accounts payable and accruals	**3,220**	1,571
Liabilities directly associated with assets classified as held for sale	**9,326**	67,707

20 Assets held for sale and discontinued operations continued

The Swiss property is the only asset shown as held for sale and is also a discontinued operation as the Swiss segment is a disposal group. In the prior year, nine properties (the entire Swiss portfolio) were recognised as discontinued operations in accordance with IFRS 5.32. The results of the discontinued operations were as follows:

	31 March 2019 £'000	31 March 2018 £'000
Net rental income	**1,282**	4,389
Rental income	**2,068**	6,163
Property expenses	**(786)**	(1,774)
Operating costs	**(225)**	(598)
Net operating income	**1,057**	3,791
Fair value movement of investment properties	**(1,855)**	(5,918)
Loss on disposal of subsidiaries	**(2,236)**	–
Loss from operations	**(3,034)**	(2,127)
Profit/(loss) on disposal of property	**531**	(141)
Net gain from fair value of derivative financial instruments	**–**	–
Interest receivable	**7**	–
Finance costs	**(256)**	(687)
Net foreign exchange gains	**–**	8
(Loss)/Profit for the year before taxation	**(2,752)**	(2,947)
Current tax	**(1,689)**	235
Deferred tax	**2,118**	–
Loss for the year from discontinued operations	**(2,323)**	(2,712)

Disposals

On 19 July 2018, the Group disposed of seven properties in Switzerland, two of which were disposed of as subsidiaries and are further discussed in note 29, with the remaining five disposed of as assets. Of the five assets sold, three were located in Baar, Vevey and Montreux and were owned by Kantone Holdings Limited while Chiasso and Sissach were owned by Bruce Properties Sarl and Clint Properties Sarl respectively. The gross purchase consideration of CHF103.65 million (£81.6 million) compared with the valuation of these seven properties at 31 March 2018 of CHF103.23 million (£77.2 million).

As part of the agreements entered into for the sale of the seven Swiss properties, all of which were sold to the same buyer, Stenprop provided a guarantee for obligations and liabilities of each of the selling entities. The maximum amount of the guarantee is CHF6.0 million, which lasts until all obligations under the sale agreements have been fulfilled, with a backstop date of 31 July 2028. As at the date of signing these accounts, there had not been any claim under the guarantee.

On 31 December 2018, the Group disposed of 14 properties in Germany, comprising the Aldi portfolio of properties. The properties were all sold to the occupier for €35.8 million (£31.9 million).

Prior year disposals

During the prior year, the Group disposed of the two Swiss properties in separate transactions for CHF34.2 million (£26.9 million). At disposal, there was a loss of CHF0.2 million (£0.1 million) to the Group equating to the disposal costs, as the properties were already held at a fair value equivalent to the sale price.

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21 Trade and other receivables

Non-current receivables	31 March 2019 £'000	31 March 2018 £'000
Other debtors	**13,365**	13,617
	13,365	13,617

Non-current other debtors includes £12.27 million (2018: £12.52 million) of loans advanced under the Share Purchase Plan (see note 13: Share-based payments) and a £1.1 million (2018: £1.1 million) loan used to purchase 1,000,000 Stenprop shares in the market by Ferryman Capital Partners Limited, a company in which Warren Lawlor, a non-executive director, has a one-third beneficial interest. Part of the loans are denominated in EUR and are therefore subject to foreign exchange movements.

Current receivables	31 March 2019 £'000	31 March 2018 £'000
Accounts receivable	**6,173**	7,350
Loss allowance	**(1,120)**	(261)
Other debtors	**4,490**	1,755
Prepayments	**624**	725
Transfer to Assets Held for Sale	**(3,468)**	(1,361)
	6,699	8,208

22 Cash and cash equivalents

	31 March 2019 £'000	31 March 2018 £'000
Cash at bank	**59,220**	25,287
Transfer to Assets Held for Sale	**(1,795)**	(738)
	57,425	24,549

Restricted cash

At year end funds totalling £8.7 million (2018: £11.1 million) were restricted. Tenant deposits of £1.6 million (2018: £2.6 million) are included in this amount as are net rents held in bank accounts which are secured by the lenders for the purposes of debt repayments and redevelopment, including £4.9 million (2018: £8.0 million) for the redevelopment of Bleichenhof. As the Group is in compliance with all the terms and conditions of its loans as at the date of signing these financial statements, there are no further restrictions, and any surplus will flow to the Group.

23 Accounts payable and accruals

	31 March 2019 £'000	31 March 2018 £'000
Accruals	**3,980**	4,745
Deferred income	**5,128**	4,883
Other payables	**9,286**	6,565
Liabilities directly associated with assets classified as Held for Sale adjustment	**(1,532)**	(1,571)
	16,862	14,622

24 Borrowings

	31 March 2019 £'000	31 March 2018 £'000
Opening balance	**259,497**	229,051
New loans	**37,051**	89,703
Amortisation of loans	**(3,593)**	(5,751)
Capitalised borrowing costs	**(873)**	(505)
Amortisation of transaction fees	**436**	401
Foreign exchange movement in foreign operations	**(1,264)**	(1,152)
Adjustment for liabilities directly associated with assets classified as Held for Sale	**(46,164)**	(52,250)
Total borrowings	**245,090**	259,497

Of the movement in borrowings in the year ending 31 March 2019, £37.05 million relates to cash received from new bank loans raised and £61.21 million relates to repayments of bank loans. Non-cash movements relate to amortisation of capitalised transaction fees and foreign exchange movements.

	31 March 2019 £'000	31 March 2018 £'000
Amount due for settlement within 12 months	**29,805**	2,800
Amount due for settlement between one to three years	**106,943**	76,258
Amount due for settlement between three to five years	**108,342**	180,439
Total borrowings	**245,090**	259,497
Non-current liabilities		
Bank loans	**215,285**	256,697
Total non-current loans and borrowings	**215,285**	256,697
Current liabilities		
Bank loans	**29,805**	2,800
Total current loans and borrowings	**29,805**	2,800
Total loans and borrowings	**245,090**	259,497

Notes to the Consolidated Financial Statements

24 Borrowings continued

The facilities are secured by legal charges over the properties to which they correspond. There is no cross-collateralisation of the facilities. The terms and conditions of outstanding loans are as follows:

Entity	Note	Amortising	Loan interest rate	Currency	Maturity date	Nominal value 31 March 2019 £'000	Nominal value 31 March 2018 £'000	Carrying value* 31 March 2019 £'000	Carrying value* 31 March 2018 £'000
United Kingdom									
Laxton Properties Limited		No	LIBOR +1.4%	GBP	–	**–**	27,540	**–**	27,410
Davemount Properties Limited		No	LIBOR +2.25%	GBP	26/05/2021	**4,000**	4,000	**3,983**	3,975
LPE Limited		Yes	LIBOR +2.0%	GBP	31/03/2020	**30,000**	34,708	**29,805**	34,317
GGP1 Limited		No	LIBOR +2.25%	GBP	26/05/2021	**5,175**	5,175	**5,123**	5,099
Industrials UK		No	LIBOR +2.25%	GBP	02/06/2022	**61,484**	77,984	**61,215**	77,808
Stenprop Industrials 4 Limited		No	LIBOR +2.25%	GBP	01/06/2023	**10,211**	–	**10,043**	–
Stenprop Industrials 6 Limited		No	LIBOR +2.0%	GBP	01/02/2024	**26,840**	–	**26,343**	–
Switzerland									
Algy Properties S.a.r.l.	1	Yes	LIBOR +2.47%	CHF	31/03/2019	**–**	2,310	**–**	2,310
Bruce Properties S.a.r.l.	1	No	LIBOR +1.35%	CHF	29/03/2019	**–**	3,557	**–**	3,557
Kantone Holdings Limited	1	Yes	LIBOR +1.15%	CHF	3-month rolling facility	**6,106**	26,296	**6,106**	26,296
Polo Property GmbH	1	Yes	LIBOR +1.15%	CHF	3-month rolling facility	**–**	17,019	**–**	17,020
Germany									
Century BV		Yes	Euribor +1.55%	EUR	31/12/2022	**7,135**	7,290	**7,070**	7,205
Century 2 BV		Yes	Euribor +1.55%	EUR	31/12/2022	**3,711**	3,791	**3,673**	3,742
Stenham Beryl Limited		Yes	Euribor +1.85%	EUR	30/04/2018	**–**	4,565	**–**	4,565
Stenham Crystal Limited		Yes	Euribor +1.85%	EUR	30/04/2018	**–**	3,812	**–**	3,812
Stenham Jasper Limited		Yes	Euribor +1.85%	EUR	30/04/2018	**–**	4,665	**–**	4,665
Isabel Properties BV		No	Euribor +2.32%	EUR	30/12/2021	**7,747**	7,915	**7,747**	7,915
Bleichenhof GmbH & Co. KG		No	1.58%	EUR	28/02/2022	**73,114**	74,694	**73,114**	74,694
Stenprop Hermann Ltd		No	Euribor +1.13%	EUR	30/06/2020	**8,117**	8,293	**8,109**	8,274
Stenprop Victoria Ltd		No	Euribor +1.28%	EUR	31/08/2020	**8,866**	9,058	**8,866**	9,058
						252,506	322,672	**251,197**	321,722

* The difference between the nominal and the carrying value represents unamortised facility costs.

1. All of the Swiss properties owned by the Group, with the exception of Lugano, were sold in July 2018. At this time all outstanding loans in respect of the whole of the Swiss portfolio were repaid. In August 2018 the sole remaining property, Lugano, was refinanced for CHF8 million (£6.1 million) on a three-month rolling credit facility at a margin of LIBOR +1.15%. Excluding the £6.1 million loan, which relates to discontinued operations, the total carrying value of loans at 31 March 2019 is £245.1 million as detailed on the previous page in total borrowings.

25 Other loans

	31 March 2019 £'000	31 March 2018 £'000
Loans	**48,086**	34,080
Loan repayments including foreign exchange movement	**(48,506)**	(34,591)
Foreign exchange movement	**–**	518
Interest	**420**	1,503
Interest repayments including foreign exchange movement	**–**	(1,510)
	–	–

During the period a £50 million revolving credit facility ('RCF') was agreed with Investec Bank plc at an all-in interest rate of 7% + 1 month LIBOR. It is intended that drawdowns under the Investec RCF will be short term in nature to fund new acquisitions and will be repaid as soon as possible from a combination of disposal proceeds and longer term debt finance. As at year end, the facility was undrawn.

26 Derivative financial instruments

In accordance with the terms of the borrowing arrangements and Group policy, the Group has entered into interest rate swap agreements which are entered into by the borrowing entities to convert the borrowings from floating to fixed interest rates and are used to manage the interest rate profile of financial liabilities and eliminate future exposure to interest rate fluctuations. It is the Group's policy that no economic trading in derivatives is undertaken by the Group. In the current year, the Group recognised a total net loss in fair value of financial instruments from continuing and discontinuing operations of £1,092,000 (2018: profit £2,453,000) and £nil (2018: £nil) respectively.

The following table sets out the interest rate swap agreements at 31 March 2018 and 31 March 2019.

Entity	Effective date	Maturity date	Swap rate %	Notional value 31 March 2019 £'000	Fair value 31 March 2019 £'000	Notional value 31 March 2018 £'000	Fair value 31 March 2018 £'000
UK							
Laxton Properties Limited	14/04/2014	08/05/2020	1.62	**–**	**–**	27,540	(361)
LPE Limited	26/03/2015	31/03/2020	1.35	**30,000**	**(176)**	30,000	(207)
Industrials UK LP	02/06/2017	02/06/2022	0.95	**60,375**	**(82)**	60,375	691
Industrials 6	01/02/2019	01/02/2024	1.27	**22,814**	**(310)**	–	–
Germany							
Century BV	31/12/2017	30/12/2022	2.50	**7,005**	**–**	7,156	14
Century 2 BV	31/12/2017	30/12/2022	2.50	**3,841**	**–**	3,924	7
Stenham Beryl Limited	01/04/2014	30/04/2018	0.83	**–**	**–**	4,565	(5)
Stenham Crystal Limited	01/04/2014	30/04/2018	0.83	**–**	**–**	3,812	(4)
Stenham Jasper Limited	01/04/2014	30/04/2018	0.83	**–**	**–**	4,665	(5)
Isabel Properties BV	30/01/2015	30/12/2021	0.48	**7,747**	**(162)**	7,915	(131)
Adjustment for liabilities directly associated with assets classified as Held for Sale adjustment (see note 20)				**–**	**–**	–	14
Total swaps				**131,782**	**(730)**	149,952	13
Liabilities maturing within 12 months				**–**	**(176)**	–	–
Assets maturing after 12 months				**–**	**–**	–	712
Liabilities maturing after 12 months				**–**	**(554)**	–	(699)
Derivative financial instruments - on balance sheet				**–**	**(730)**	–	13
Swaps included in investments in associates and joint ventures							
Regent Arcade House Holdings Ltd	20/05/2015	20/05/2020	1.57	**–**	**–**	37,500	(453)
Elysion Braunschweig S.a.r.l	01/04/2014	29/12/2023	2.43	**4,860**	**(127)**	–	–
Elysion Dessau S.a.r.l	01/04/2014	29/12/2023	2.43	**4,809**	**(126)**	–	–
Elysion Kappeln S.a.r.l	01/04/2014	29/12/2023	2.80	**5,350**	**(167)**	5,346	(82)
Elysion Winzlar S.a.r.l	01/04/2014	29/12/2023	2.80	**3,423**	**(104)**	3,564	(55)
Derivative financial instruments - associates and joint ventures				**18,442**	**(524)**	46,410	(590)

Notes to the Consolidated Financial Statements

27 Acquisitions of subsidiaries (business combinations and asset acquisitions)

Prior year business combinations

On 30 June 2017, the Group acquired 100% of the share capital of C2 Capital Limited which is the management platform that, among other mandates, provides asset management and portfolio services to Industrials LP, the partnership which owns 25 multi-let industrial estates across the UK. Stenprop acquired the shares in C2 Capital Limited for £3.5 million, which was settled by the issue of 3,270,500 Stenprop shares valued at €1.22 per share.

Details of the assets and liabilities acquired and goodwill arising are as follows:

	Attributed fair value £'000
Investment in joint venture	(1)
Cash and cash equivalents	89
Trade and other receivables	52
Trade and other payables	(138)
Fair value of acquired interest in net assets of subsidiary	2
Goodwill	3,500
Total purchase consideration	3,502

Goodwill of £3.5 million arising as a result of the acquisition of C2 Capital Limited was impaired in full during the period.

Prior year asset acquisitions

On 30 June 2017, the Group acquired 100% of the interests in Industrials UK LP which owns a portfolio of multi-let industrial properties. The total purchase consideration was calculated with reference to the net asset value of the entities acquired as detailed below:

	Total attributed fair value £'000
Investment property	127,000
Cash and cash equivalents	2,983
Trade and other receivables	1,260
Trade and other payables	(4,252)
External debt	(69,133)
Total purchase consideration settled in cash	57,858

Costs incurred in the acquisition of the MLI Portfolio amounted to £1.65 million. These acquisition costs were capitalised to the cost of the asset. At 31 March 2018, the investment was stated at fair value, and any movement was recognised as fair value movement in the statement of comprehensive income.

28 Acquisition of subsidiaries and joint ventures

During the year the Group incorporated the following companies:

Name	Jurisdiction	Incorporation date	Cost £'000	Net assets acquired £'000
Acquisition of industrial properties			–	–
Stenprop Industrials 5 Limited	BVI		–	–
Stenprop Industrials 6 Limited	Guernsey	24/08/2018	–	–
Stenprop Industrials 7 Limited	Guernsey	30/08/2018	–	–
Stenprop Industrials 8 Limited	Guernsey	30/08/2018	–	–
Stenprop Industrials Holdings Limited	Guernsey	24/08/2018	–	–

29 Disposal of subsidiaries

On 17 July 2018, the Group disposed of its 100% shareholding in Polo Property GmbH for a consideration of CHF12.7 million. Polo Property GmbH owned the properties known as Altendorf and Arlesheim in Switzerland.

On 12 March 2019, the Group disposed of its 100% shareholding in Euston PropCo Limited for a consideration of £66.6 million. Euston PropCo Limited owned the property Euston House, London.

In the prior year, on 11 January 2018, the Group disposed of its 100% shareholding in Normanton Properties Limited for a consideration of £42.6 million. Normanton Properties Limited owned the property Pilgrim Street, London.

The impact of these disposals on the Group is shown below:

	31 March 2019 £'000	31 March 2018 £'000
Carrying value of net assets at disposal date		
Investment property	**110,419**	79,900
Trade and other receivables	**627**	205
Cash and cash equivalents	**2,132**	1,831
Borrowings	**(45,334)**	(37,608)
Trade and other payables	**(2,871)**	(1,694)
Net assets disposed	**64,973**	42,634
Net disposal proceeds	**74,094**	42,608
Foreign exchange movement in foreign operations	**(231)**	–
Profit/(loss) on disposal of subsidiaries (including discontinued operations)	**8,890**	(26)
Net assets disposed	**64,973**	42,634
Discontinued Operations – Loss on disposal of subsidiary (note 20)	**(2,236)**	–
Continuing Operations – Profit/(loss) on disposal of subsidiary	**11,126**	(26)
Profit/(loss) on disposal of subsidiaries (including discontinued operations)	**8,890**	(26)

30 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	31 March 2019 £'000	31 March 2018 £'000
Opening balance	**(9,379)**	(5,794)
Deferred tax recognised on investment properties	**2,905**	(3,675)
Deferred tax recognised on revaluation of financial liabilities	**8**	(53)
Deferred tax on tax losses	**492**	590
Deferred tax – other withholding tax	**(1,768)**	–
Exchange movements	**1,223**	–
Adjustment for liabilities directly associated with assets classified as Held for Sale adjustment	**(3,897)**	(447)
Closing balance	**(10,416)**	(9,379)

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	31 March 2019 £'000	31 March 2018 £'000
Deferred tax liabilities	**(15,574)**	(18,040)
Deferred tax assets	**5,158**	4,764
Adjustment for liabilities directly associated with assets classified as Held for Sale adjustment	**–**	3,897
Closing balance	**(10,416)**	(9,379)
Deferred tax opening balance	**13,276**	10,139
Exchange movements	**(1,223)**	(123)
Deferred tax liability closing balance	**(10,416)**	(13,276)
Movement in deferred tax	**1,637**	(3,260)

Notes to the Consolidated Financial Statements

31 Financial Risk Management (i)

The Group is exposed to a variety of financial risks including market risk, credit risk and liquidity risk. The overall risk management strategy seeks to minimise the potential adverse effects on the Group's financial performance. Certain risk exposures are hedged via the use of financial derivatives.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing these risks, and the Group's management of capital. Further quantitative disclosures are included throughout these audited financial statements where relevant. The Group's board has overall responsibility for the establishment and oversight of the Group's risk management framework.

During the reporting period, the Risk Committee, established by the board, assumed responsibility for developing and monitoring the Group's risk management policies. With effect from 1 May 2018, the Risk Committee was replaced with a combined Audit and Risk Committee. The committee participates in management's process of formulating and implementing the risk management plan and it reports on the plan adopted by management to the board.

The objective of risk management is to identify, assess, manage and monitor the risks to which the business is exposed, including, but not limited to, information technology risk. The board is responsible for ensuring the adoption of appropriate risk management policies by management. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. The board will also ensure that there are processes in place between itself and management enabling complete, timely, relevant, accurate and accessible risk disclosure to shareholders.

To enable the Audit and Risk Committee to meet its responsibilities, terms of reference were adopted by the board. These include appropriate standards, the implementation of systems of internal control and an effective risk-based internal audit which comprises policies, procedures, systems and information to assist in:

- safeguarding assets and reducing the risk of loss, error, fraud and other irregularities;
- ensuring the accuracy and completeness of accounting records and reporting;
- preparing timely, reliable financial statements and information in compliance with relevant legislation and generally accepted accounting policies and practices; and
- increasing the probability of anticipating unpredictable risk.

The 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 risks faced by the Group.

Credit risk

The Group's principal financial assets are cash and cash equivalents as well as trade and other receivables. The credit risk arising from deposits with banks is managed through a policy of utilising only independently rated banks with acceptable credit ratings.

The credit quality of cash and cash equivalents can be assessed by reference to external credit ratings of the counterparty where the account or deposit is placed. The credit rating summary below represents the nine European financial institutions that hold more than £1 million (or GBP equivalent) of the Group's cash at 31 March 2019. Together these banks hold 96% of the Group's total cash at bank.

	31 March 2019	31 March 2018
• ABN AMRO Bank NV	**A+**	A
• Barclays Private Clients International Limited	**A+**	A
• Berlin Hyp AG	**AA-**	N/A
• Credit Suisse AG	**A**	N/A
• Deutsche Bank AG	**A-**	A-
• Hamburg Commercial Bank AG	**A+**	N/A
• Lloyds Bank plc	**A+**	N/A
• Royal Bank of Scotland Group plc	**A+**	BBB+
• Santander UK plc	**A+**	A

The directors are satisfied as to the creditworthiness of the banks where the remaining cash is held.

At the time of acquisition of a property, and from time to time thereafter, the Company reviews the quality of the contracted tenants to ensure that the tenants meet acceptable covenants. Trade receivables are presented in the statement of financial position net of allowances for doubtful receivables. An allowance for impairment is made where there is an indefinable loss event, which based on previous experience, may give risk to a non-recovery of a receivable.

The carrying amount of financial assets represents the maximum credit exposure at the reporting date.

At 31 March 2019, trade and other receivables and cash and cash equivalents amounts to £64.1 million (2018: £32.8 million) as shown in the statement of financial position.

31 Financial Risk Management (ii)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash resources, the availability of funding through appropriate and adequate credit lines and managing the ability of tenants to settle within lease obligations. Through the forecasting and budgeting of cash requirements the Group ensures that adequate committed resources are available.

By its nature, the market for investment property is not immediately liquid; therefore, the Group's ability to vary its portfolio in a timely fashion and to receive a fair price in response to changes in economic and other conditions may be limited. Furthermore, where the Group acquires investment properties for which there is not a readily available market, the Group's ability to deal in any such investment or obtain reliable information about the value of such investment or risks to which such property investment is exposed may be limited. The Group's short-term liquidity risk is secured by the existence of cash balances, through the fact that rental income exceeds the Group's cost structures and through ensuring that facilities are managed within debt covenants.

The following table details the contractual maturity date of the Group's financial liabilities. The table has been compiled based on the undiscounted contractual maturities of the financial liabilities, including interest that will accrue to those liabilities, except where the Group is entitled and intends to repay the liability before its maturity. The discount column represents the possible future cash flows included in the maturity analysis, such as future interest or potential payments that have not been included in the carrying amount of the financial liability. The table also includes a reconciliation to the carrying value in the statement of financial position.

	Less than one month £'000	One to three months £'000	Three to twelve months £'000	One to five years £'000	Over five years £'000	Discount £'000	Total £'000
Interest-bearing loans	–	160	35,751	106,942	108,344	–	251,197
Loan interest	685	1,806	4,704	12,025	–	(18,311)	909
Financial liabilities	–	–	176	554	–	–	730
Deferred tax	–	–	–	10,415	–	–	10,415
Other payables (incl. tax)	–	2,136	10,462	–	–	–	12,598
Accruals	–	38	3,033	–	–	–	3,071
Deferred income	–	5,128	–	–	–	–	5,128
Liabilities directly associated with assets classified as Held for Sale	–	(219)	(9,106)	–	–	–	(9,325)
As at 31 March 2019	685	9,049	45,020	129,936	108,344	(18,311)	274,723

	Less than one month £'000	One to three months £'000	Three to twelve months £'000	One to five years £'000	Over five years £'000	Discount £'000	Total £'000
Interest-bearing loans	56,358	–	8,667	76,261	180,436	–	321,722
Loan interest	825	1,912	5,509	15,684	–	(23,076)	854
Financial liabilities	14	–	–	699	–	–	713
Deferred tax	–	–	3,898	9,379	–	–	13,277
Other payables (incl. tax)	–	2,177	7,180	–	–	–	9,357
Accruals	–	–	3,891	–	–	–	3,891
Deferred income	–	4,883	–	–	–	–	4,883
Liabilities directly associated with assets classified as Held for Sale	(56,405)	(286)	(11,016)	–	–	–	(67,707)
As at 31 March 2018	792	8,686	18,129	102,023	180,436	(23,076)	286,990

Notes to the Consolidated Financial Statements

31 Financial Risk Management (iii)

Fair value of financial instruments

The following table summarises the Group's financial assets and liabilities into categories required by IFRS 7 Financial Instruments disclosures. The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

	Held at fair value through profit and loss £'000	Held at amortised cost £'000	Total carrying amount 31 March 2019 £'000
Financial assets			
Cash and cash equivalents	**–**	**57,425**	**57,425**
Derivative financial instruments	**–**	**–**	**–**
Accounts receivable	**–**	**5,053**	**5,053**
Other debtors	**–**	**15,011**	**15,011**
31 March 2019	**–**	**77,489**	**77,489**
Financial liabilities			
Bank loans	**–**	**245,090**	**245,090**
Derivative financial instruments	**730**	**–**	**730**
Accounts payable and accruals	**–**	**18,487**	**18,487**
31 March 2019	**730**	**263,577**	**264,307**

	Held at fair value through profit and loss £'000	Held at amortised cost £'000	Total carrying amount 31 March 2018 £'000
Financial assets			
Cash and cash equivalents	–	24,549	24,549
Derivative financial instruments	712	–	712
Accounts receivable	–	7,089	7,089
Other debtors	–	15,372	15,372
31 March 2018	712	47,010	47,722
Financial liabilities			
Bank loans	–	259,497	259,497
Derivative financial instruments	699	–	699
Accounts payable and accruals	–	17,414	17,414
31 March 2018	699	276,911	277,610

31 Financial Risk Management (iv)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns to shareholders.

Investment in property is subject to varying degrees of risk. The main factors which affect the value of the investment in property include:

- changes in the general economic climate;
- local conditions in respective markets, such as oversupply, or a reduction in demand, for commercial space in a specific area;
- competition from other available properties; and
- government regulations, including planning, environmental and tax laws.

While a large number of these factors are outside the control of the management, market and property-specific factors relevant to maintain a sustainable income stream within the Group's yield parameters are considered as part of the initial due diligence. Properties and tenant leases are actively managed.

Foreign currency risk

The Group's presentation currency is Sterling. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency or exchange rates. At the reporting date, the following table summarises the Group's exposure to foreign currency risk in respect of assets and liabilities held in EUR (Germany) and CHF (Switzerland).

	31 March 2019 £'000	31 March 2018 £'000
Assets		
CHF	**21,423**	94,875
EUR	**256,226**	292,426
Liabilities		
CHF	**9,326**	53,644
EUR	**122,251**	138,241

Foreign currency sensitivity analysis

The sensitivity analysis measures the impact on the Group's exposure in Sterling (based on a change in the reporting date spot rate) and the impact on the Group's Sterling profitability, given a simultaneous change in the foreign currencies to which the Group is exposed at the reporting date.

A 10% strengthening in the Sterling exchange rate against the following currencies at year end would have decreased equity and profits by the amounts shown below. The 10% threshold was selected as a reasonable, worst-case scenario and is considered a prudent threshold. This analysis assumes that all other variables remain constant. For a 10% weakening of Sterling, there would be an equal but opposite impact on the profit and equity and the balance would be positive.

	Equity £'000	Profit or loss £'000
CHF impact	**(1,210)**	**237**
EUR impact	**(13,398)**	**(1,127)**
	(14,608)	**(890)**

The exchange rates against GBP during the year were:

	Average rate for year to 31 March 2019	As at 31 March 2019
CHF	**0.7691**	**0.7710**
EUR	**0.8820**	**0.8608**

Interest rate risk

The Group's interest rate risk is associated with cash and cash equivalents, on the one hand, and interest-bearing borrowings, on the other. If the interest is variable, it presents the Group with a cash flow interest rate risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As stated in note 24, borrowings from credit institutions are protected against movements in interest rates. The Group uses interest rate swaps to manage its interest rate exposure.

Notes to the Consolidated Financial Statements

31 Financial Risk Management (v)

Fair value hierarchy

The table below analyses the Group's financial instruments carried at fair value, by valuation method. The fair value measurement for the Group's financial assets and financial liabilities are categorised into different levels in the fair value hierarchy. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Total financial instruments recognised at fair value £'000	Designated at fair value Level 1 £'000	Level 2 £'000	Level 3 £'000
31 March 2019				
Assets				
Derivative financial instruments	–	–	–	–
Total assets	–	–	–	–
Liabilities				
Derivative financial instruments	730	-	730	-
Total liabilities	730	-	730	-
31 March 2018				
Assets				
Derivative financial instruments	712	–	712	–
Total assets	712	–	712	–
Liabilities				
Derivative financial instruments	699	–	699	–
Total liabilities	699	–	699	–

Details of changes in valuation techniques

There have been no significant changes in valuation techniques during the period under review.

Significant transfers between Level 1, Level 2 and Level 3

There have been no significant transfers during the period under review.

Unobservable inputs

Unobservable inputs for Level 3 investment properties are disclosed in note 16.

Capital risk management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 24, cash and cash equivalents and equity attributable to ordinary shareholders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity. Stenprop's average loan-to-value ratio ('LTV') ratio at 31 March 2019 was 44.2% (2018: 49.2%), including joint ventures and associates and the Group is not subject to any external capital requirements. The Group strategy is to maintain a debt-to-equity ratio and LTV to ensure that property performance is translated into an enhanced return for shareholders while at the same time ensuring that it will be able to continue as a going concern through changing market conditions. The directors are of the opinion that a 40% LTV in respect of secured external borrowings is an appropriate target for the Group, given the current market conditions.

32 Related party transactions

Parties are considered related if one party has control, joint control or significant influence over the other party in making financial and operating decisions. Transactions with related parties are made on terms equivalent to those that prevail in an arm's length transaction.

Directors' remuneration and interests in the ordinary shares of the Company are set out in Note 8, 'Employees' and directors' emoluments'.

33 Minimum lease payments

The Group earns rental income by leasing its investment properties to tenants under non-cancellable operating leases.

At the balance sheet date the Group had contracted with tenants for the following future minimum lease payments on its investment properties:

	31 March 2019 £'000	31 March 2018 £'000
Continuing operations		
Within one year	**33,167**	30,006
Between one and two years	**26,796**	26,849
Between two and five years	**45,658**	57,087
After five years	**38,039**	42,336
	143,660	156,278
Discontinuing operations		
Within one year	**1,157**	7,086
Between one and two years	**1,157**	6,516
Between two and five years	**3,470**	17,779
After five years	**15,623**	27,621
	21,407	59,002

34 Contingent liabilities and commitments

As at 31 March 2019, the Group was contractually committed to £2.16 million for the redevelopment at the Conningsby Park MLI site in Peterborough. Works are estimated to be completed by September 2019.

The Group has a further £1.1 million of construction contracts committed to for the continuing redevelopment of Bleichenhof in central Hamburg. Construction is expected to be complete by the end of 2019.

35 Events after the reporting period

(i) Declaration of dividend

On 5 June 2019, the board declared a final dividend of 3.375 pence per share. The final dividend will be payable in cash or as a scrip dividend by way of an issue of new Stenprop shares. An announcement containing details of the dividend and the timetable will be made in due course.

(ii) Share incentive awards

On 5 June 2019, the board, on the recommendation of the remuneration committee, approved share-based awards in relation to the Long Term Incentive Plan and the Deferred Share Bonus Plan. Details of awards made to executive directors can be seen in note 8.

Other Information

Property Summary

Unaudited

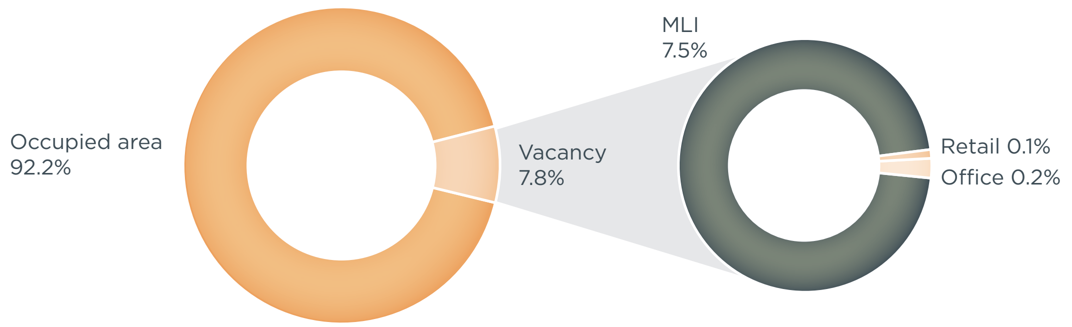
Combined Portfolio (Including share of jointly controlled entities)

		Asset value (£m)	Asset value as % of portfolio	Gross lettable area (m²)	Occupancy (by area) (%)	Annual gross rental income (£m)	WAULT (by revenue) (Years)	WAULT (by area) (Years)	W.A. rental (per sq.m) (£/m²)
UK	**Office**	72.1	11.8%	18,086	99.9%	5.5	7.2	6.1	302.3
	Retail	4.4	0.7%	7,678	100.0%	0.7	1.6	1.4	100.3
	MLI	261.5	42.7%	372,051	89.8%	18.2	2.5	2.5	48.9
	Other Industrial	7.4	1.2%	14,313	100.0%	0.6	1.4	1.4	40.3
	Total	**345.4**	**56.4%**	**412,128**	**90.8%**	**25.0**	**3.5**	**2.6**	**60.6**
Germany	**Retail**	102.4	16.7%	56,212	98.9%	6.1	7.0	6.8	107.8
	Office	59.2	9.7%	15,040	93.0%	2.4	4.9	4.9	159.8
	Nursing Homes	33.9	5.5%	19,330	100.0%	2.4	10.1	10.1	125.4
	Other	55.8	9.1%	1,135	93.0%	2.3	4.9	4.9	1,994.1
	Total	**251.3**	**41.0%**	**91,718**	**98.1%**	**13.2**	**6.8**	**7.2**	**143.3**
Switzerland	**Retail**	16.2	2.6%	6,974	100.0%	1.2	18.5	18.5	165.8
	Total	**16.2**	**2.6%**	**6,974**	**100.0%**	**1.2**	**18.5**	**18.5**	**165.8**
Total	**Office**	**131.3**	**21.4%**	**33,126**	**96.8%**	**7.9**	**6.5**	**5.6**	**237.6**
	Retail	**122.9**	**20.0%**	**71,864**	**99.1%**	**7.9**	**8.1**	**7.4**	**112.7**
	MLI	**261.5**	**42.7%**	**372,051**	**89.8%**	**18.2**	**2.5**	**2.5**	**48.9**
	Other Industrial	**7.4**	**1.2%**	**14,313**	**100.0%**	**0.6**	**1.4**	**1.4**	**40.3**
	Nursing Homes	**33.9**	**5.5%**	**19,330**	**100.0%**	**2.4**	**10.1**	**10.1**	**125.4**
	Other	**55.8**	**9.1%**	**1,135**	**93.0%**	**2.3**	**4.9**	**4.9**	**1,994.1**
	Total	**612.9**	**100.0%**	**510,820**	**92.2%**	**39.3**	**5.0**	**3.7**	**77.0**

Rental escalation profile

Stenprop operates in countries with low inflation rates. The annual inflation rate during the 2018 calendar year was 2.1% for the UK, 1.6% for Germany and 0.7% for Switzerland. Rental escalation clauses vary across the portfolio, irrespective of sector or lettable area. In the UK, a majority of leases are subject to periodic upwards-only rent reviews, at different stages of the tenancy. Leases in the German and Swiss portfolios are generally adjusted for CPI with a hurdle rate before an increase can be applied. Rental escalation clauses within leases, as in previous years, currently have a minor impact on rents. Rental growth is rather driven by lease events such as new lettings and re-gears when passing rent realigns with estimated rental value.

Vacancy profile, by sector by rentable area



Portfolio Analysis

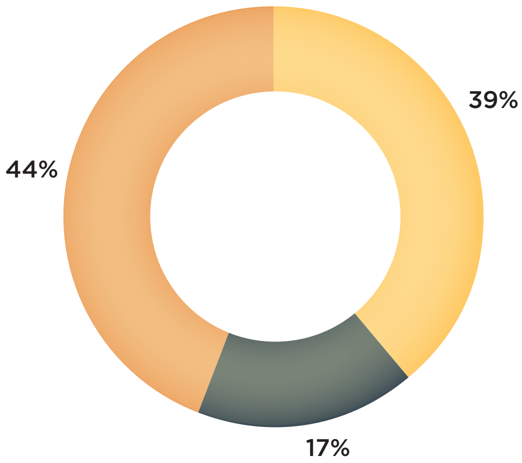
Unaudited

Property/ Portfolio	Portfolio by market value (%)	Market value 31 March 2019 (£m)	Properties	Area (m²)	Annualised gross rental Income (£m)	Net initial yield 31/03/2019	WAULT (by rental) (years)	Voids (by area) (%)	Rental per m² (£/m²)
UK MLI	42.7%	261.5	60	372,051	18.2	6.26%	2.5	10.2%	49
UK non-MLI	13.7%	83.9	9	40,076	6.8	7.53%	6.1	0.0%	170
Germany	35.5%	217.4	9	72,389	10.8	4.11%	6.1	2.4%	148
Subtotal	91.8%	562.8	78	484,516	35.7	5.62%	4.3	8.2%	74
Held for Sale: Switzerland	2.6%	16.2	1	6,974	1.2	5.68%	18.5	0.0%	166
Total	**94.5%**	**579.0**	**79**	**491,490**	**36.9**	**5.62%**	**4.7**	**8.1%**	**75**
Share of Joint Ventures	5.5%	33.9	4	19,330	2.4	6.04%	10.4	0.0%	125
Total	**100.0%**	**612.9**	**83**	**510,820**	**39.3**	**5.64%**	**5.1**	**7.8%**	**77**

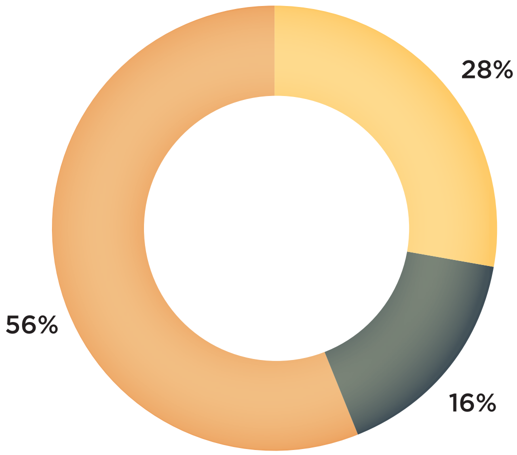
Tenant profile

Stenprop's tenants are classified into three groups as follows:

Tenant profile by annual rent



Tenant profile by let area



A B C

Type A: Large tenants with a national presence or multi-national tenants, government and major franchisees.

Type B: Nationally recognised tenants, listed tenants, franchisees, and medium to large professional firms.

Type C: 734 other tenants.

Consolidated Portfolio

Unaudited

Sector	Company	Property/ Portfolio	Ownership interest %	Market value 31 March 2019 (£m)	Properties	Area (m²)	Annualised gross rental income (£m)	Net initial yield 31 March 2019 (%)	WAULT (by rental) (years)	Voids (by area) (%)	Rental per m² (£/m²)
UK MLI											
MLI	Industrials UK LP	Rawdon Network Centre	100.00%	2.3	1	3,008	0.2	6.49%	2.3	0.0%	52
MLI	Industrials UK LP	Shire Court	100.00%	3.3	1	5,844	0.2	6.99%	2.6	0.0%	41
MLI	Industrials UK LP	Sherwood Network Centre	100.00%	3.4	1	4,960	0.3	7.37%	1.8	1.9%	55
MLI	Industrials UK LP	Caldene Business Centre	100.00%	5.3	1	7,524	0.4	7.42%	2.0	7.3%	58
MLI	Industrials UK LP	Imex Business Centre	100.00%	5.1	1	4,346	0.4	6.94%	1.7	0.0%	87
MLI	Industrials UK LP	Boaler Street	100.00%	2.7	1	4,480	0.2	6.81%	2.0	6.3%	42
MLI	Industrials UK LP	Croft Business Park	100.00%	2.8	1	3,099	0.2	6.91%	1.4	7.6%	68
MLI	Industrials UK LP	Eurolink 31	100.00%	3.3	1	4,573	0.2	2.83%	3.4	43.4%	33
MLI	Industrials UK LP	Dana Trading Estate	100.00%	18.0	1	20,966	1.2	6.50%	2.9	0.0%	59
MLI	Industrials UK LP	Wharton Street Industrial Estate	100.00%	1.5	1	2,104	0.1	5.40%	3.2	0.0%	50
MLI	Industrials UK LP	Wainright Street Industrial Estate	100.00%	1.5	1	1,746	0.1	6.51%	2.6	0.0%	60
MLI	Industrials UK LP	Argyle Business Centre	100.00%	1.0	1	746	0.1	5.94%	1.8	15.6%	87
MLI	Industrials UK LP	Cuckoo Trade Park	100.00%	0.8	1	565	0.1	6.25%	3.3	0.0%	94
MLI	Industrials UK LP	Sovereign Business Park	100.00%	3.3	1	4,528	0.2	5.46%	1.8	7.7%	45
MLI	Industrials UK LP	Poulton Close Business Centre	100.00%	3.6	1	4,389	0.3	7.02%	0.8	0.0%	61
MLI	Industrials UK LP	Rivermead Estate	100.00%	3.3	1	2,527	0.2	5.76%	1.5	8.1%	84
MLI	Industrials UK LP	Wholesale District Nottingham	100.00%	3.1	1	3,327	0.2	6.71%	1.4	4.4%	66
MLI	Industrials UK LP	Davey Close Trade Park	100.00%	5.4	1	5,042	0.3	5.23%	2.1	8.6%	64
MLI	Industrials UK LP	Redbrook Business Park	100.00%	6.8	1	15,353	0.5	6.77%	1.8	6.7%	34
MLI	Industrials UK LP	Lion Business Park	100.00%	6.1	1	4,984	0.4	6.24%	2.4	0.0%	81
MLI	Industrials UK LP	Greenway Business Park	100.00%	4.4	1	4,762	0.3	6.57%	1.8	0.0%	58
MLI	Industrials UK LP	Compass Industrial Park	100.00%	16.2	1	22,508	1.2	6.27%	3.1	2.9%	52
MLI	Industrials UK LP	Lea Green Business Park	100.00%	9.8	1	14,179	0.7	6.87%	6.0	0.0%	50
MLI	Industrials UK LP	Anniesland Business Park	100.00%	12.2	1	16,913	1.0	7.45%	2.3	19.5%	56
MLI	Industrials UK LP	Capital Business Park	100.00%	7.3	1	8,845	0.5	6.46%	2.4	10.5%	58
MLI	Industrials UK LP	Southerhead Industrial Estate	100.00%	4.4	1	3,736	0.3	6.22%	1.5	14.8%	93
MLI	Industrials UK LP	Venture Park	100.00%	4.0	1	6,530	0.3	6.49%	4.7	0.0%	42
MLI	Industrials UK LP	Coningsby Park	100.00%	9.7	1	22,817	0.3	0.90%	1.0	73.0%	12

Consolidated Portfolio continued

Unaudited

Sector	Company	Property/ Portfolio	Ownership interest %	Market value 31 March 2019 (£m)	Properties	Area (m²)	Annualised gross rental income (£m)	Net initial yield 31 March 2019 (%)	WAULT (by rental) (years)	Voids (by area) (%)	Rental per m² (£/m²)
MLI	Industrials UK LP	Globe Park	100.00%	2.6	1	3,528	0.1	2.59%	1.7	34.1%	39
MLI	Stenprop Industrials 4 Ltd	Ellis Hill	100.00%	5.8	1	7,072	0.5	7.40%	3.9	0.0%	65
MLI	Stenprop Industrials 4 Ltd	Greenwood Industrial Estate	100.00%	3.0	1	4,144	0.2	6.08%	1.4	0.0%	49
MLI	Stenprop Industrials 4 Ltd	Kirkstall Industrial Estate	100.00%	8.2	1	10,320	0.5	5.72%	3.8	0.0%	53
MLI	Stenprop Industrials 4 Ltd	Estuary Court	100.00%	3.2	1	3,343	0.3	7.36%	3.0	0.0%	75
MLI	Stenprop Industrials 4 Ltd	Trinity Court	100.00%	3.9	1	3,418	0.2	4.95%	2.4	7.9%	63
MLI	Stenprop Industrials 4 Ltd	Carnfield Place	100.00%	4.0	1	5,528	0.3	6.59%	1.6	0.0%	50
MLI	Stenprop Industrials 4 Ltd	Lombard Centre	100.00%	3.2	1	3,031	0.3	7.96%	1.2	7.4%	83
MLI	Stenprop Industrials 4 Ltd	Dunball Industrial Estate	100.00%	4.9	1	4,499	0.3	4.05%	2.7	25.0%	58
MLI	Stenprop Industrials 6 Ltd	Star Road Industrial Estate	100.00%	6.4	1	6,146	0.4	6.03%	5.1	0.0%	61
MLI	Stenprop Industrials 6 Ltd	Albion Gateway	100.00%	2.7	1	2,598	0.2	6.03%	7.3	0.0%	67
MLI	Stenprop Industrials 6 Ltd	Chasewater Heaths Business Pk	100.00%	2.5	1	3,739	0.1	4.07%	1.5	27.7%	36
MLI	Stenprop Industrials 6 Ltd	Queensway Industrial Estate	100.00%	3.6	1	5,999	0.3	7.02%	2.6	0.0%	45
MLI	Stenprop Industrials 6 Ltd	Tyburn Trading Estate	100.00%	3.5	1	4,766	0.2	6.07%	3.4	7.6%	50
MLI	Stenprop Industrials 6 Ltd	Windmill Road Industrial Estate	100.00%	1.8	1	2,724	0.1	6.45%	1.9	11.6%	50
MLI	Stenprop Industrials 6 Ltd	Greenfield Business Pk (A-M)	100.00%	4.4	1	11,929	0.3	6.52%	1.2	12.9%	28
MLI	Stenprop Industrials 6 Ltd	Tir Llwyd Industrial Estate	100.00%	3.7	1	6,321	0.3	7.03%	1.7	15.8%	42
MLI	Stenprop Industrials 6 Ltd	Phoenix Close Ind Est	100.00%	3.0	1	3,909	0.2	6.14%	1.5	20.5%	49
MLI	Stenprop Industrials 6 Ltd	Holbrook Enterprise Park	100.00%	3.5	1	4,930	0.2	5.83%	1.8	14.6%	45
MLI	Stenprop Industrials 6 Ltd	Cleveland Trading Estate	100.00%	1.3	1	2,765	0.1	6.57%	1.2	16.7%	37
MLI	Stenprop Industrials 6 Ltd	Venture Point	100.00%	2.9	1	4,195	0.2	6.32%	1.8	9.9%	54
MLI	Stenprop Industrials 6 Ltd	Chapel Brook Trade Park	100.00%	5.5	1	7,875	0.3	5.19%	1.8	9.9%	39
MLI	Stenprop Industrials 6 Ltd	Brasenose Road	100.00%	3.1	1	7,909	0.3	8.20%	3.4	0.0%	34
MLI	Stenprop Industrials 6 Ltd	Hanson Park	100.00%	0.9	1	938	0.1	6.91%	1.6	0.0%	66
MLI	Stenprop Industrials 6 Ltd	Jubilee Park	100.00%	0.8	1	1,421	0.1	8.47%	1.3	0.0%	52
MLI	Stenprop Industrials 6 Ltd	Townley Park	100.00%	2.0	1	3,029	0.2	7.28%	2.0	0.0%	51

Sector	Company	Property/ Portfolio	Ownership interest %	Market value 31 March 2019 (£m)	Properties	Area (m²)	Annualised gross rental income (£m)	Net initial yield 31 March 2019 (%)	WAULT (by rental) (years)	Voids (by area) (%)	Rental per m² (£/m²)
MLI	Stenprop Industrials 6 Ltd	Larch Lea Industrial Estate	100.00%	2.2	1	4,309	0.2	7.53%	1.9	0.0%	41
MLI	Stenprop Industrials 6 Ltd	Link at Huyton Business Pk	100.00%	4.2	1	8,080	0.3	7.20%	2.2	0.0%	40
MLI	Stenprop Industrials 6 Ltd	Mountheath Trading Est	100.00%	3.7	1	3,400	0.3	7.01%	1.3	0.0%	81
MLI	Stenprop Industrials 6 Ltd	Old Mill Industrial Estate	100.00%	4.3	1	9,548	0.4	7.94%	1.7	2.6%	37
MLI	Stenprop Industrials 6 Ltd	Watery Lane	100.00%	0.7	1	1,208	0.1	7.08%	1.6	0.0%	43
MLI	Stenprop Industrials 4 Ltd	Gainsborough Trading Estate	100.00%	6.2	1	15,029	0.6	8.05%	1.3	0.2%	37
Total UK MLI				**261.5**	**60**	**372,051**	**18.2**	**6.26%**	**2.5**	**10.2%**	**49**
UK non-MLI											
Retail	Davemount Properties	Hemel Hempstead	100.00%	1.6	1	2,262	0.2	11.89%	1.0	0.0%	88
Retail	Davemount Properties	Grimsby	100.00%	0.7	1	2,667	0.2	30.86%	0.2	0.0%	79
Retail	Davemount Properties	Walsall	100.00%	2.1	1	2,747	0.4	12.21%	2.9	0.0%	131
Office	GGP1 Limited	Ashby de la Zouch	100.00%	5.9	1	4,718	0.4	6.57%	3.2	0.0%	88
Industrial	GGP1 Limited	Merthyr Tydfil	100.00%	1.3	1	3,739	0.1	9.60%	2.3	0.0%	36
Office	GGP1 Limited	Reading	100.00%	8.4	1	2,803	0.7	8.02%	3.0	0.0%	256
Industrial	GGP1 Limited	Sheffield	100.00%	3.1	1	6,860	0.3	7.62%	1.3	0.0%	36
Industrial	GGP1 Limited	Worcester	100.00%	3.0	1	3,714	0.2	6.00%	1.0	0.0%	52
Office	LPE Ltd	Trafalgar	100.00%	57.8	1	10,564	4.3	7.01%	8.2	0.2%	410
Total UK non-MLI				**83.9**	**9**	**40,076**	**6.8**	**7.53%**	**6.1**	**0.0%**	**170**
Retail	Century BV	Ludwigsburg	100.00%	5.7	1	4,779	0.3	6.93%	4.5	0.0%	66
Retail	Century BV	Frankfurt	100.00%	6.8	1	4,379	0.5	6.39%	3.1	0.0%	115
Retail	Century BV	Marburg	100.00%	1.8	1	1,513	0.2	7.96%	2.7	0.0%	112
Retail	Century 2 BV	Sindelfingen	100.00%	7.2	1	5,255	0.6	6.79%	5.2	0.0%	107
Retail	Century 2 BV	Kassel	100.00%	1.3	1	1,800	0.1	7.72%	3.1	0.0%	67
Retail	KG Bleichenhof GmbH	Bleichenhof	94.90%	126.9	1	3,948	0.6	3.24%	4.9	7.0%	122
Office	KG Bleichenhof GmbH	Bleichenhof				14,487	2.4				166
Other	KG Bleichenhof GmbH	Bleichenhof				882	0.0				38
Carpark	KG Bleichenhof GmbH	Bleichenhof				–	2.2				n/a
Retail	Isabel Properties BV	Isabel	100.00%	19.4	1	13,365	1.2	5.37%	6.6	0.0%	92
Retail	Stenprop Hermann Ltd	Hermann	100.00%	21.5	1	8,272	1.2	4.85%	5.7	3.2%	148
Retail	Stenprop Victoria Ltd	Victoria	100.00%	26.9	1	13,710	1.5	4.38%	12.4	0.9%	108
Total Germany				**217.4**	**9**	**72,389**	**10.8**	**4.11%**	**6.1**	**2.4%**	**118**

Assets Held for Sale

Unaudited

Sector	Company	Property/ Portfolio	Ownership interest %	Market value 31 March 2019 (£m)	Properties	Area (m²)	Annualised gross rental income (£m)	Net initial yield 31 March 2019 (%)	WAULT (by rental) (years)	Voids (by area) (%)	Rental per m² (£/m²)
Switzerland											
Retail	Kantone Holdings Ltd	Lugano	100.00%	16.2	1	6,974	1.2	5.68%	18.5	0.0%	166
Total Switzerland				**16.2**	**1**	**6,974**	**1.2**	**5.68%**	**18.5**	**0.0%**	**166**

Jointly Controlled Entities

Unaudited

Sector	Company	Property/ Portfolio	Ownership interest %	Market value 31 March 2019 (£m)	Properties	Area (m²)	Annualised gross rental income (£m)	Net initial yield 31 March 2019	WAULT (by rental) (years)	Voids (by area)	Rental per m² (£/m²)
Germany											
Nursing Homes	Elysion Braunschweig	Braunschweig	100.00%	9.4	1	4,131	0.7	6.18%	9.0	0.0%	162
Nursing Homes	Elysion Dessau	Dessau	100.00%	7.7	1	6,195	0.6	5.65%	7.3	0.0%	89
Nursing Homes	Elysion Kappeln	Kappeln	100.00%	12.0	1	5,225	0.7	5.27%	14.8	0.0%	140
Nursing Homes	Elysion Winzlar	Winzlar	100.00%	4.8	1	3,779	0.5	8.32%	9.0	0.0%	125
Total Germany				**33.9**	**4**	**19,330**	**2.4**	**6.04%**	**10.4**	**0.0%**	**125**

Tenant Analysis

Unaudited

Number of tenants

	Number of tenants	Annual rental income %
UK	774	63.6%
Germany	100	33.5%
Switzerland	1	2.9%
Total	**875**	**100.00%**

Top 15 tenants

Tenant	Sum of annualised rent 31 March 2019	Percentage of total rent	WAULT
1 Northern Trust (Gsy) Ltd	3,185,319	8.10%	9.50
2 Apcoa Autoparking GmbH	2,231,792	5.68%	2.67
3 Bike + OUTDOOR COMPANY	1,343,996	3.42%	3.08
4 Unipart Group Limited	1,246,374	3.17%	2.94
5 The Planet Wellness SA	1,156,515	2.94%	18.50
6 Close Brothers Properties Guernsey Ltd	1,117,540	2.84%	4.25
7 Kappeln	730,417	1.86%	14.75
8 Thames Water Utilities Ltd	718,458	1.83%	3.05
9 Kaufland	679,560	1.73%	12.42
10 Braunschweig	668,414	1.70%	9.02
11 Dessau	550,572	1.40%	7.33
12 Holmes Place Health Clubs	536,813	1.37%	14.75
13 Winzlar	473,589	1.20%	9.33
14 Siemens PLC	413,550	1.05%	3.16
15 EDEKA MIHA-Immobilien-Service GmbH	389,030	0.99%	7.58
Grand Total	**15,441,941**	**39.27%**	**7.66**

EPRA Key Performance Measures

Unaudited

The European Public Real Estate Association ('EPRA') issued Best Practices Policy Recommendations in November 2016, which provide guidelines for performance measures relevant to real estate companies. Their recommended reporting standards are widely applied across this market, aiming to bring consistency and transparency to published results in the sector.

The EPRA earnings measure is intended to show the level of recurring earnings from core operational activities with the purpose of highlighting the Group's underlying operating results from its property rental business and provide an indication of the extent to which current dividend payments are supported by earnings. The measure excludes unrealised changes in the value of investment properties, gains or losses on the disposal of properties and other items that do not provide an accurate picture of the Group's underlying operational performance. The measure is considered to accurately capture the long-term strategy of the Group, and is an indication of the sustainability of dividend payments.

A summary of the Group's key performance indicators as recommended by EPRA is provided in the tables below for the years ended 31 March 2019 and 31 March 2018:

Indicator	Description	31 March 2019	31 March 2018
EPRA Earnings	Dilutive adjusted earnings from operational activities	**£25.2 million**	£25.8 million
EPRA Earnings per share	Dilutive adjusted earnings per share from operational activities	**8.84 pence**	9.09 pence
EPRA Net Asset Value (NAV)	NAV adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to be realised in a long-term investment property business model	**£401.9 million**	£402.2 million
EPRA Net Asset Value (NAV) per share	Diluted EPRA NAV per share	**£1.41**	£1.41
EPRA Triple Net Asset Value (NNNAV) per share	EPRA NAV adjusted to include the fair value of (i) financial instruments, (ii) debt and (iii) deferred taxes	**£1.40**	£1.40
EPRA Net Initial Yield (NIY)	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, expressed as a percentage of the market value of property	**5.67%**	5.27%
EPRA topped up NIY	EPRA NIY adjusted for the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents)	**5.79%**	5.37%
EPRA Occupancy Rate	Estimated Market Rental Value (ERV) of occupied space divided by ERV of the portfolio as a whole	**96.0%^**	94.2%^
EPRA Cost Ratio (including direct vacancy costs)	Administrative and operating costs expressed as a percentage of gross rental income	**31.8%**	28.00%

^ Excluding assets being re-positioned, Conningsby Estate, Peterborough.

Accounting policies adopted in relation to the Group's property portfolio is included in note 3 to the financial statements. Valuation information is included in note 16 of the financial statements.

Analysis of Shareholders

Unaudited

Shareholder spread	Number of shareholdings	Percentage	Number of shares	Percentage
1 – 1,000 shares	309	16.86%	78,924	0.03%
1,001 – 10,000 shares	720	39.28%	3,086,199	1.03%
10,001 – 100,000 shares	533	29.08%	19,222,406	6.43%
100,001 – 1,000,000 shares	229	12.49%	64,844,467	21.70%
1,000,001 shares and over	42	2.29%	211,543,179	70.80%
Totals	**1,833**	**100.00%**	**298,775,175**	**100.00%**

Distribution of shareholders	Number of shareholdings	Percentage	Number of shares	Percentage
Retail	1,623	88.54%	141,868,038	47.48%
Mutual Funds	44	2.40%	51,784,651	17.33%
Directors	12	0.65%	22,563,221	7.55%
Corporate	105	5.73%	20,062,769	6.72%
Treasury	3	0.16%	16,028,050	5.36%
Hedge	10	0.55%	13,222,514	4.43%
Pensions	13	0.71%	12,432,703	4.16%
Investment Trusts	2	0.11%	11,830,533	3.96%
Trading	13	0.71%	6,393,847	2.14%
Insurance	5	0.27%	1,499,178	0.50%
Charities	2	0.11%	1,069,515	0.36%
ETF	1	0.05%	20,156	0.01%
Totals	**1,833**	**100.00%**	**298,775,175**	**100.00%**

Public/non-public shareholders	Number of shareholdings	Percentage	Number of shares	Percentage
Non-public shareholders	**15**	**0.82%**	**38,591,271**	**12.92%**
Directors and associates of the Company holdings	12	0.65%	22,563,221	7.55%
Treasury stock	3	0.16%	16,028,050	5.36%
Public shareholders	**1,818**	**99.18%**	**260,183,904**	**87.08%**
Totals	**1,833**	**100.00%**	**298,775,175**	**100.00%**

Major shareholders

As at the financial year end there were 1,833 shareholders in the Company. As at 31 March 2019, Zarclear Holdings Limited held a direct and indirect interest of 6.77% in the issued share capital of the Company. The Company does not know of any other shareholder which has a beneficial interest of greater than 5% of the Company's issued share capital as at 31 March 2019.

Shareholder Diary

Financial year end	31 March 2019
Annual Report posted	June 2019
Annual general meeting	September 2019

Announcement of results

30 September 2019 Interim results	November 2019
31 March 2020 Annual results	June 2020

Dividends	**Declared**	**Paid**
2019 Interim	November 2019	January 2020
2020 Annual	June 2020	July/August 2020

Corporate Information

STENPROP LIMITED
Registered in Guernsey
Registration number 64865
LSE share code: STP
JSE share code: STP
ISIN: GG00BFWMR296

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