STENPROP

Annual Report 2020

Welcome to the Stenprop Annual Report 2020

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.

Our Purpose:

TO REVOLUTIONISE THE MLI SECTOR

Our Vision:

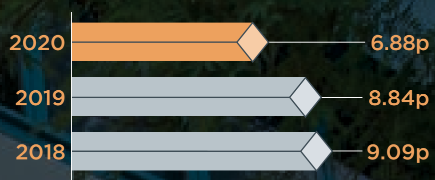
TO BE THE LEADING UK MLI BUSINESS

Highlights

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

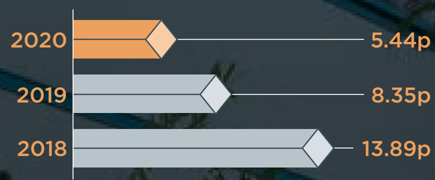
Financial Highlights

Diluted adjusted EPRA EPS



Full-year dividend per share

Diluted IFRS EPS

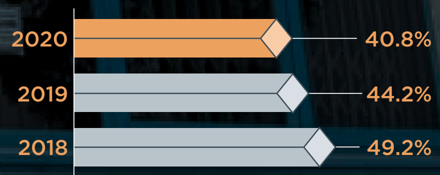


Dividend yield on NAV

Diluted IFRS NAV per share

Diluted EPRA NAV per share

Average Loan to Value Ratio ('LTV')



Read more on **EPRA Key Performance Measures** on page 154

Read more about the **Alternative Performance Measures (APMs)** on page 157

Stenprop's Annual Report 2020 consists of two parts:

- Annual report
- Annual financial statements

View more online at **stenprop.com**

Contents

Our Mission:

TO DELIVER SUSTAINABLE AND GROWING INCOME TO OUR SHAREHOLDERS

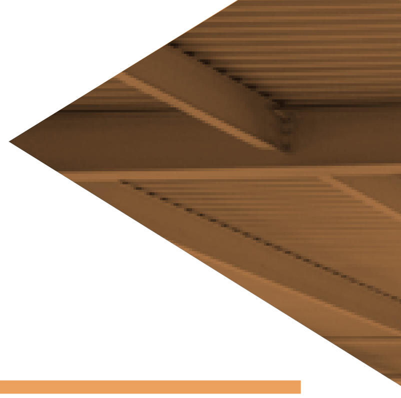
Our Values:

CUSTOMER FOCUSED

RESULTS ORIENTED

INNOVATIVE

DECISIVE



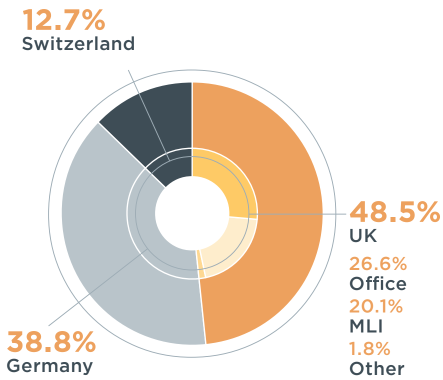
At a Glance

Our investment proposition

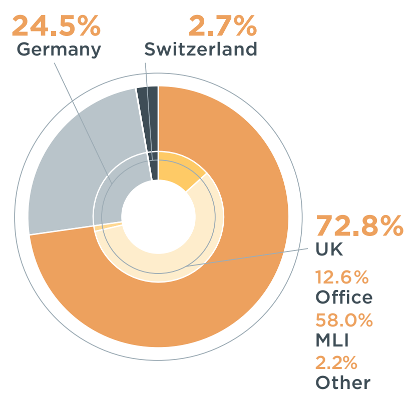
1. Experienced management team
2. Diversified income
3. Strong sector fundamentals
4. Earnings growth potential
5. Utilising technology to drive efficiencies
6. Culture that promotes learning and innovation
7. Transformative business model

Change in our portfolio based on property value.

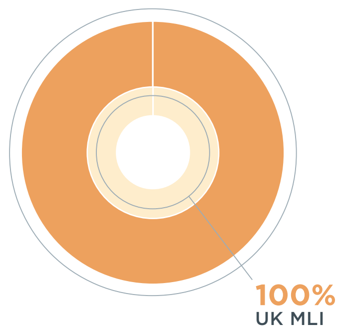
2018



2020



2022 target



Portfolio highlights

£532.6m
PORTFOLIO VALUE

£217.3m
TOTAL DEBT

£309.0m
UK MLI
58.0% of total portfolio

40.8%
AVERAGE LTV

The platform opportunity

A focus on delivering efficiencies and enhanced sustainable earnings

What is MLI?

MLI comprises multi-purpose, industrial space, with units of typically 500 to 10,000 sq ft 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 include 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 to five years in duration, and rents typically range between £3–£8 per square foot depending upon unit size, quality and location.

Branding

The industrials.co.uk website provides a powerful and recognisable brand to our customers

Potential to leverage the brand to grow the Group's reach and further penetrate the market in the future

Flexible leasing

Moving away from a traditional leasing model to a short-form flexible lease structure

Leases can be agreed and documented, signed online and can price in greater flexibility regarding terms and repairing liabilities

Serviced MLI model

Providing our customers with additional services and a high-quality service will generate additional revenue per sq ft from the same space

Permanent 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

Technology

We use innovative technology to improve efficiency, reduce irrecoverable expenditure and maximise returns from our MLI assets

What this means for our stakeholders

Shareholders

The Industrials operating platform will reduce the costs of operating MLI properties, delivering greater earnings and leading to higher levels of sustainable earnings growth. It also has the potential to scale our business more easily and to be leveraged across a wider spectrum of assets.

Customers

Our class-leading customer service is designed to make leasing MLI space easier, leaving our customers with more time to focus on running their business.

Employees

The Industrials operating platform provides an innovative and exciting arena where our team can share ideas and revolutionise the MLI sector. The benefit of a more efficient business is to release employees from administrative work, to free up time to focus on value-add activities.

Read more in **our Business model** on page 16

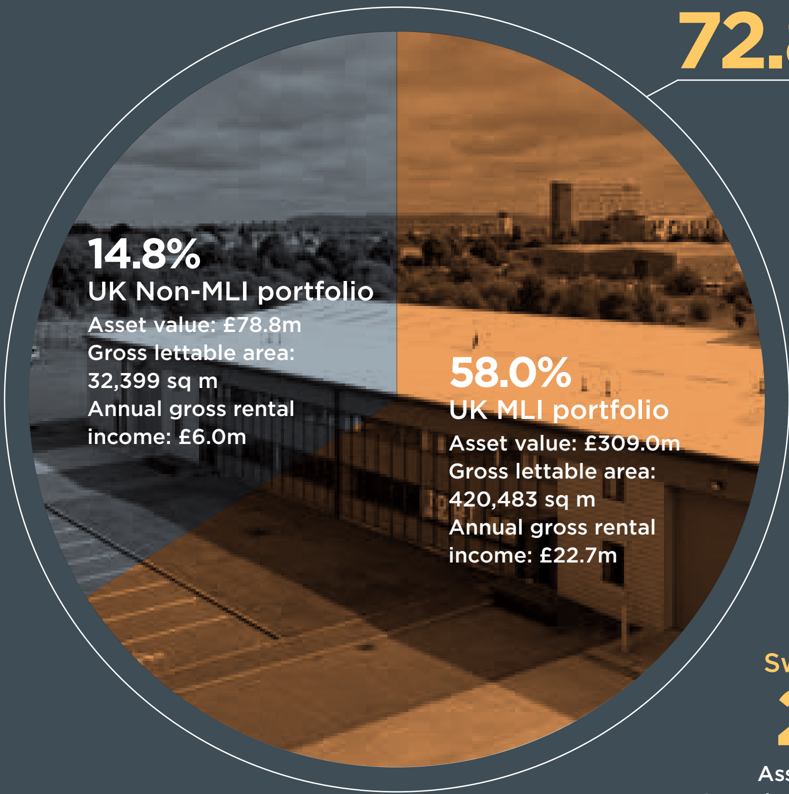
Read more about the **value generated** on page 30

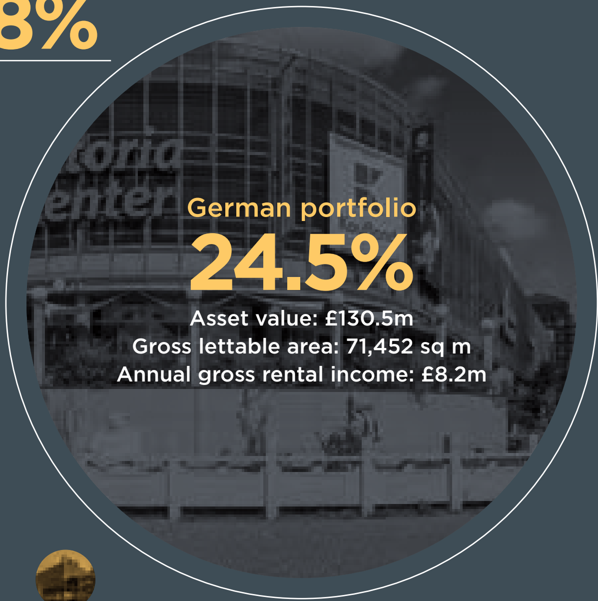
Strategic Report


VEHICLE ENTRY
TYRE
WHEEL ALIGNMENT
QUICK CHECK

Our Portfolio

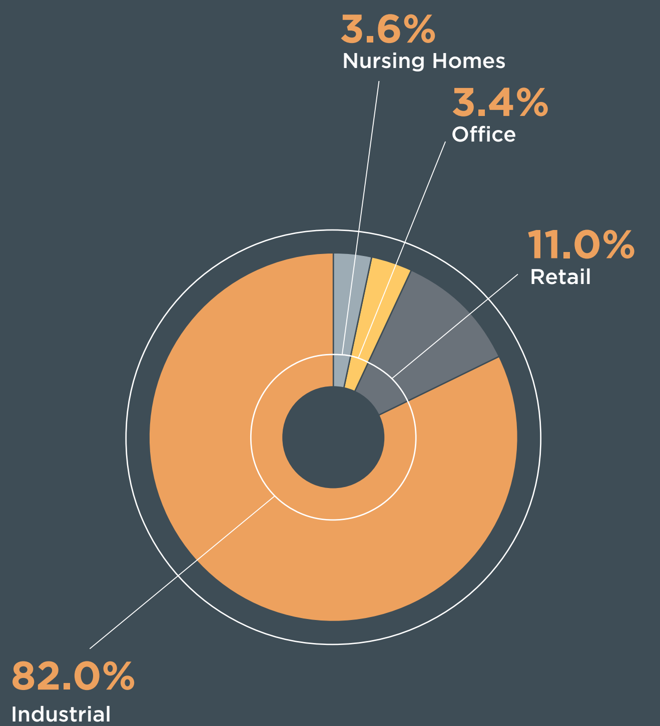
UK portfolio
72.8%



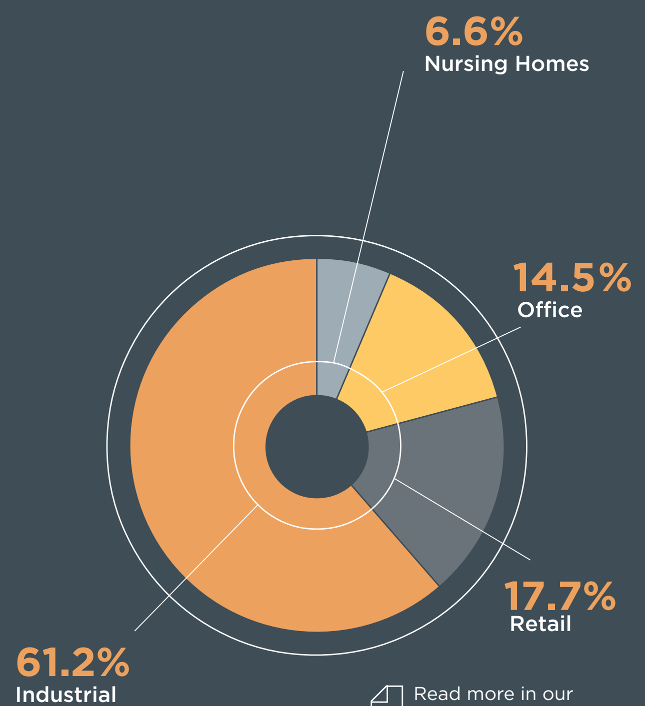


Swiss portfolio
2.7%
Asset value: £14.3m
Gross lettable area: 5,974 sq m
Annual gross rental income: £1.0m

Lettable area by market sector



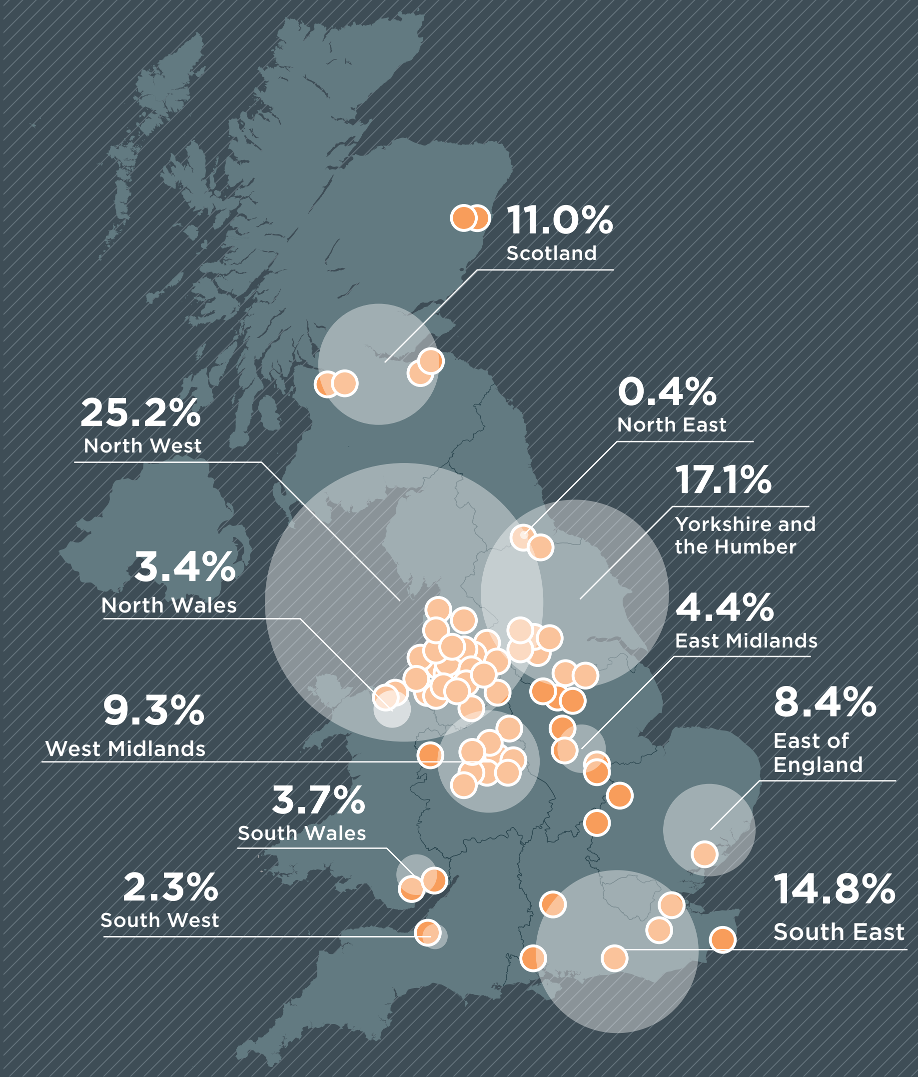
Annual gross rental income by market sector



Read more in our **Marketplace** on page 14

Our MLI Portfolio

UK geographic sector breakdown



1,264
UNITS

4,526,041
SQ FT

£22.7m
ANNUAL GROSS RENTAL INCOME

£309.0m
GROSS PORTFOLIO VALUE

70
ASSETS

58.0%
OF TOTAL ASSETS

Tenant industry sectors of MLI Portfolio, by area

28.1%
Manufacturing

21.4%
Wholesale and retail trade; repair of motor vehicles and motorcycles

14.0%
Administrative and support service activities

6.5%
Construction

4.9%
Arts, entertainment and recreation

5.5%
Professional, scientific and technical activities

19.6%
Other

Chief Executive's Report

Paul Arenson
Chief Executive Officer

We have successfully delivered on our two-year roadmap set out in 2018.

This last year has been a very positive one for Stenprop and we are pleased with the progress we have made during the year in delivering on our designated milestones.

We have brought our leverage (LTV ratio) down to 40.8% from a peak of more than 55% two and a half years ago. After taking into account free cash of approximately £70 million, our effective leverage was down to 28% at 31 March 2020.

Our UK multi-let industrial (MLI) portfolio ended the year at 58% of our total portfolio. We were on track to achieve our targeted level of 60% MLI with some small acquisitions which we were negotiating prior to year end, but chose not to pursue them once the seriousness of COVID-19 became clear.

Excellent progress has been made in evolving our platform strategy, both on the ground and by embracing technology to enhance efficiencies and enable us to manage significantly more scale with marginal incremental cost. We are also making good progress with putting in place the infrastructure to create additional revenue streams by being able to offer other services and products to our customer base which they currently procure independently from third parties.

At the same time, notwithstanding the levels of cash held, the costs involved in transitioning assets from non-MLI to MLI assets and the investment in our platform, we have delivered diluted adjusted EPRA earnings of 6.88p per share. Read more on the financial performance of the Group in the Financial Review.

Until early to mid-March, and following our deliberate decision to accelerate disposals, we considered our primary challenge to be the potential reduction in earnings from holding excess cash, with free cash standing at approximately £70 million at the year end. Cash was expected to earn 0.5% compared with generating more than 7% in earnings if deployed into MLI with 40% leverage. A further concern related to the potential impact of Brexit.

With the sudden advent of COVID-19, the challenge of cash drag on earnings has become much less of a focus, with large cash holdings now regarded as extremely beneficial as companies move to bolster their balance sheets and ensure survival. We are pleased to report that our strategy of bringing down leverage, negotiating significant covenant headroom and accelerating our sales, notwithstanding the potential dampening effect on earnings, has greatly strengthened our financial position going into the COVID-19 crisis.

Although Brexit has also faded from the current dialogue as a result of COVID-19, it will present challenges to the UK economy in due course.

Our primary focus now is to maintain a strong balance sheet to have the ability to meet obligations through the COVID-19 period, at a time when some of our tenants may be struggling and unable, or unwilling, to pay their rent. We intend to continue to build our MLI portfolio subject to prevailing market opportunities.

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

"BUILDING A FOCUSED SCALABLE MLI PLATFORM BUSINESS."

Paul Arenson
Chief Executive Officer

Impact of COVID-19 on our business

Sales, purchases and debt strategy

During the year we sold three small UK retail properties for an aggregate consideration of £4.60 million. We also sold our largest property in central Hamburg known as Bleichenhof for €160.15 million (£136.2 million).

Motivated by our belief that we could take advantage of high sales prices in the cycle, we took a strategic decision midway through the year to accelerate our sales strategy and accept the potential reduction in earnings as a result of holding surplus cash. We did not want to risk utilising our revolving debt facility to increase leverage for purchases and find ourselves caught with higher leverage and needing to dispose of assets to bring leverage down.

This proved to be a good decision, as we now find ourselves in a much stronger financial position to deal with COVID-19.

We plan to continue with the sale of the three Berlin daily needs centres and the five retail warehouses in Germany. The three Berlin centres have been marketed and were at an advanced stage of the sales process, with potential buyers having completed their inspections and preliminary due diligence, when COVID-19 struck. We anticipate that good sales prices will still be achieved, but will take longer to complete. The five retail warehouses are at an early stage of the sales process and we anticipate interest in these assets to increase once the German government eases their COVID-19 lockdown measures.

On the debt side, much of our debt has deliberately been kept short, as many assets were due to be sold. We were also investigating refinancing a large part of our MLI portfolio on a seven-to- ten-year term with insurers rather than banks, at an estimated annual saving of approximately 80bps in overall interest costs. Again, this will need to be delayed as a result of COVID-19, as finance providers are focusing on the issues facing existing borrowers and new refinancings are not straightforward.

We intend to start making acquisitions with the cash we have available as soon as we feel the crisis is beginning to pass and we are able to properly understand its impact. We hope that the crisis will create some interesting buying opportunities. Until then we prefer to maintain a conservative stance and remain financially strong albeit with lower earnings as a result of holding surplus cash.

Performance of the UK MLI sector

The imbalance in supply and demand continued to deliver inflation-beating rental growth throughout the year. The fundamentals in the sector, until the advent of COVID-19, remained extremely positive and we were experiencing underlying rental growth of 4-5% for the year.

We held the view before COVID-19 that this imbalance would continue for a number of years, as it was not economically feasible to build MLI units at current rental levels and yields. Our MLI portfolio is valued at approximately £68.26 per sq ft which in our view approximates to 50% to 60% of replacement cost of these assets. On the demand side we were seeing more and more new types of businesses, enabled by the internet, wanting space in MLI units. These are occupiers which have not previously occupied MLI space and are now realising the value of affordable, flexible space close to towns and cities.

Whilst COVID-19 is causing immense disruption to the economy and to our customers, we believe that the response is also paving the way for greater future demand for MLI units. The internet sales and distribution channel for all businesses will have taken another big step forward as the whole population has been forced into isolation and have had no choice but to embrace the new technologies and supply and distribution channels. Home working and the explosion of communication technologies will also foster greater ability to work in a decentralised way, which feeds demand for MLI space.

We believe companies will reassess their globalised 'just-in-time' supply chains. It is becoming clear to many businesses that it is not viable to rely on geographically distant supply chains from single undiversified sources. We sense a desire for companies to have greater control over supplies and easier access, even if it means more cost. As a result, we expect to see more demand for MLI units as the trend for ever increasing globalisation falters and more is made, sourced or stored locally.

Chief Executive's Report continued

Strategy for the MLI business

Our overall strategy remains to become a 100% focused UK MLI business. We are well advanced with that transition and will continue to sell our non-MLI assets as soon as markets return to some form of normal functioning. The initial assets to be sold are our three daily needs Berlin centres and our five small standalone retail warehouses. We remain confident that these will sell well when normal market conditions resume, based on offers received before COVID-19.

We also will use part of our free cash of approximately £70 million to make further MLI purchases as soon as it is economically sensible to do so.

In addition to the transition, our strategy is to invest in and build a market leading technology enabled MLI management platform. We believe the UK MLI sector is ready for this in much the same way as platforms have transformed the risks, efficiencies and valuations in other sectors like self-storage, student accommodation and hotels. Our intention is to continue with the investment into this during this year and future years.

Outlook for the year

COVID-19 has had a significant impact on our priorities for the coming year. Before COVID-19 our focus was largely on delivering earnings and dividends to shareholders whilst transitioning the business. The immediate focus has now changed to that of ensuring that Stenprop maintains its robust financial health in order to be able to withstand the challenges arising from COVID-19. A strong balance sheet and vigilant risk management are vital to ensure we successfully navigate through this period.

As outlined earlier in this report, our past risk management has ensured that we go into this crisis with a strong balance sheet and a cushion of approximately £60 million of free cash (after paying the final dividend of approximately £9.6 million). As such, we are confident that our survival is not under threat.

We are also focused on how our earnings will be impacted during the period and at this stage it is too early to provide further meaningful detail. We have provided regular update announcements on our rent collection statistics and readers can read more about the financial impact of COVID-19 on the business on page 11.

The diversity of our customer base, both as to type of business and region, has contributed to a high degree of resilience on the part of our portfolio during COVID-19 as different businesses are impacted in different ways. Fortunately, most have been able to continue in business, albeit at reduced levels in many instances, as the MLI units allow for social distance working and most businesses in MLI have some form of e-commerce component either being part of the distribution chain or as part of an online sales channel.

Conclusion

We are confident that we have a strong balance sheet and cash reserves to weather the COVID-19 storm.

We also have sufficient capital in the form of saleable non-MLI assets to implement our business plan and are not reliant on needing to raise new capital for this.

Our focus during the COVID-19 crisis will be on assisting our customers and on building our management platform. Once the crisis has passed, we will endeavour to be quick out of the blocks with selling our non-MLI assets and completing our transition into a 100% MLI business.

The fundamentals of the MLI asset class remain very positive in the medium to long term. We believe Stenprop is well positioned to benefit from these fundamentals and to take a strong leap forward when the COVID-19 crisis passes, as it inevitably will.

We take this opportunity to thank all of our stakeholders and our Board for their support. In particular we wish to thank our staff who have adjusted magnificently to working from home and to managing the relationships with our customers through these challenging times.

Paul Arenson
Chief Executive Officer

11 June 2020

COVID-19 & Stenprop

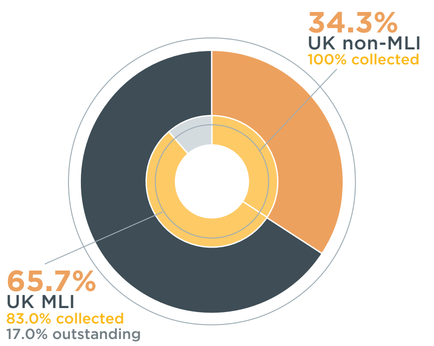
Stenprop entered the COVID-19 pandemic on the back of record levels of occupational market interest in the MLI portfolio and the successful completion of the sale of the largest building in the portfolio, Bleichenhof in Hamburg, for €160 million. As a result, the business is in a strong position from a financial perspective, with c. £60 million of free cash (after paying the final dividend of c. £9.6m), and low leverage. To date, the impact on the business can be summarised in the following three ways:

1

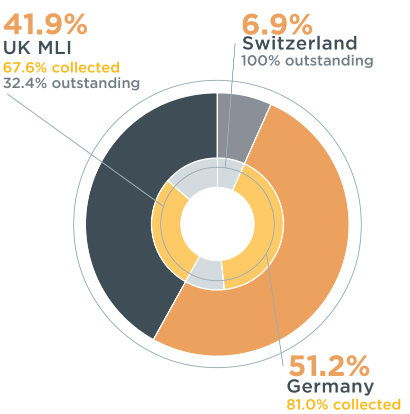
Financial

Valuations across the portfolio have remained largely flat for the year ended 31 March 2020. However, since the lockdown was put in place we have seen a fall in rent collections across the portfolio. The statistics for the portfolio as at 31 May 2020 were as follows:

Quarterly Rents



Monthly Rents



2

Operational

The requirement in the UK to work from home where possible has resulted in all Stenprop staff working from home since 16 March 2020. This transition from a largely office-based culture prior to lockdown has gone well, as during 2019 we migrated all our systems into the cloud and transferred all staff onto laptops with a remote working policy. As a result, we have experienced minimal disruption to our operations since working from home, and our systems and processes have required no intervention in order to adapt to the change in working practices. Stenprop did not furlough any employees and did not make any employees redundant as a result of COVID-19, and we do not expect that this will be necessary.

On the ground we have continued to conduct viewings and complete leases through our network of Customer Engagement Managers (CEMs). For the period from 23 March 2020 when lockdown commenced to 31 May 2020, we completed 23 new leases across our UK MLI portfolio, with a total rent roll value of £673,272 per annum, including one on a rent free basis to a food bank charity in Cardiff supplying meals to the NHS. Having our own network of CEMs played a critical role in this, as in many instances our letting agency partners were unable (due to being furloughed) to conduct viewings and deal with enquiries. The ability to generate leads through our own website and through our call centre have also been a critical component of continuing our engagement with potential and existing customers.

3

Strategic

The decisions to reduce leverage and speed up the disposals of our non-MLI assets in Germany during 2019 have been very beneficial in light of the COVID-19 pandemic. Stenprop is currently well positioned with c.£60 million of free cash (after paying the final dividend of c. £9.6 million), available for deployment into suitable MLI investments in the UK and a low LTV of 40.8%. The UK MLI portfolio continues to perform well during the crisis. We expect our MLI customers to be able to return to work relatively quickly as the lockdown conditions relax in the UK. We believe that the long-term outlook for MLI in the UK will be enhanced by this pandemic (see below), but in the meantime a mixed portfolio of assets is providing the company with additional income and capital diversity whilst the current volatility in markets and political responses unfold.

Our strategy for dealing with the COVID-19 pandemic is as follows:

- Short term (March-May 2020)

In the first few weeks of lockdown in late March and early April we moved swiftly to reassure our UK MLI customers that we would support their businesses and requested that they get in touch if they were going to be unable to meet their rental obligations. We then moved on from this position to offer those customers who were unable to pay their rents the option of deferring half of their monthly or quarterly rent for six months, so long as they paid the other half immediately. Over the course of the first six weeks of the lockdown we spoke to the majority of our customers who were unable to meet their rental obligations with a view to gathering information on their specific business circumstances.

COVID-19 & Stenprop continued

To date we have only offered very limited rent concessions, and in those instances to customers whose businesses have been completely halted by the virus lock down (such as those in leisure).

We have continued discussions on the sale of our German retail shopping centres where demand remains strong.

- Medium term (June 2020 to December 2020)

As the lockdown measures have relaxed we have seen the majority of our customers able to resume business. In Europe most of our properties were open and trading (including the leisure operators albeit on a reduced basis) by the middle of May, and in the UK we have seen significant activity amongst our MLI customers as they resume trading. It is inevitable that different types of business will be impacted in different ways, and so each rent arrears position will need to be assessed on its own merit. We expect to recover most arrears through deferred payment plans or by reaching other compromises such as lease extensions, future fixed uplifts or other revised lease terms.

Where rent concessions are appropriate, we intend to reach settlements swiftly and without delay, so that the focus of the business can return to managing the day-to-day activities of the portfolio and to address inevitable economic challenges that we will face in the post-COVID-19 economy. We also intend to maintain higher levels of capital reserves on the balance sheet whilst uncertainty remains, but we intend to resume MLI acquisitions where opportunities arise which offer the right risk-adjusted returns.

- Long term (January 2021 and beyond)

We believe that the MLI sector in the UK will be impacted by any significant UK recession. However, the supply constraints in the market and relatively low rental levels should mean that rents remain resilient. The high levels of diversification in customer type, size and location across the MLI business should also provide a degree of protection. We believe that MLI property provides businesses with the opportunity to trade in a socially distanced, compliant way, and that demand for urban industrial and logistics property will grow. We intend to continue with our transition into being a 100% focused UK MLI business, with further sales in Germany and Switzerland.

The Long-term Outlook for MLI in the UK

Prior to COVID-19, the drivers behind MLI growth in the UK were two-fold: a limited supply of MLI properties and a growing occupier base. We do not see these fundamentals changing in a post-COVID-19 world, and if anything, believe that the demand for MLI will increase.

Supply

Supply of MLI remains very tight as a result of limited land in and around town centres which are zoned for industrial use. In addition, whilst the cost of building an MLI estate remains materially higher than that of constructing a single large industrial unit (which will also attract more favourable funding options), we expect any new supply of industrial to predominantly comprise larger single-let ‘urban logistics’ properties which do not target the SME sector in general. Finally, we continue to see significant erosion of MLI supply as more secondary properties are redeveloped into residential use due to their densely populated locations and relatively low land values.

“MLI IS THE BACK OFFICE OF ONLINE BUSINESSES, OFFERING AFFORDABLE, FLEXIBLE BUSINESS SPACE CLOSE TO MARKET. WE EXPECT TO SEE THE GROWTH IN DEMAND WE’VE WITNESSED OVER THE LAST DECADE CONTINUING AS THESE E-COMMERCE BUSINESSES ACCELERATE.”

Julian Carey
Executive Property Director

Demand

Whilst a UK recession as a result of COVID-19 will inevitably impact UK SME businesses, we believe that in the long term the impact of the pandemic will be to accelerate the existing trend of more SME businesses moving into MLI accommodation. MLI properties offer occupiers the ability to do a wide range of different activities from a single premises, close to market and at a low cost. For example, the owner of a retail business can move to a MLI unit where they can house their office, storage, online distribution and showroom in a single place, with ample parking outside and all for a rent which is typically 10-50% of what they would be paying in a retail or office property in a similar location.

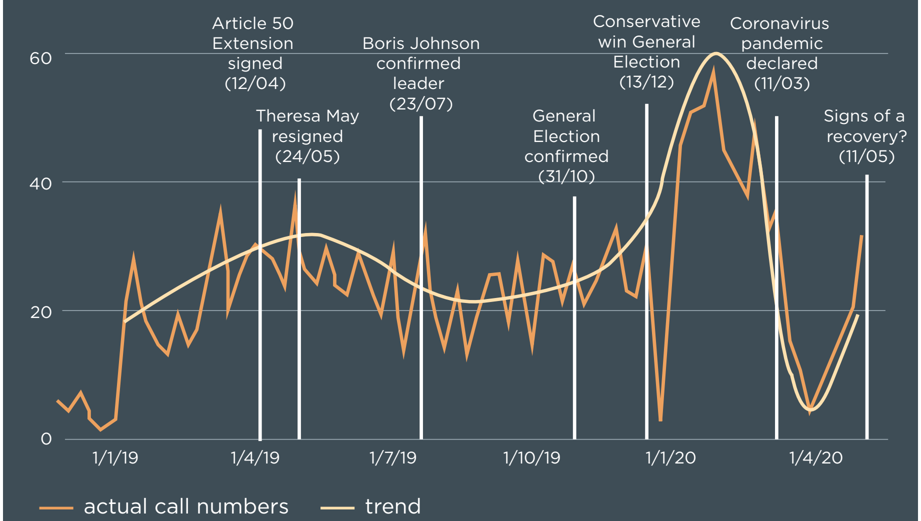
The virus has forced most businesses to accelerate their online offering and has motivated many to explore a greater degree of remote working. MLI properties work well for these kinds of enterprise, which require an accessible location married with flexible space which can easily accommodate a shifting balance between storage, distribution, office and retail uses.

With other trends such as greater onshoring of activities, companies holding more inventory and the Government's push towards greater regionalisation in the UK, we believe that MLI is well placed to capitalise on the accelerated long-term shift in the behaviour of businesses and consumers caused by COVID-19. Supply constraint will remain a structural feature of the market for the foreseeable future, and hence we expect to continue to see sustainable growth in MLI rents in the future.

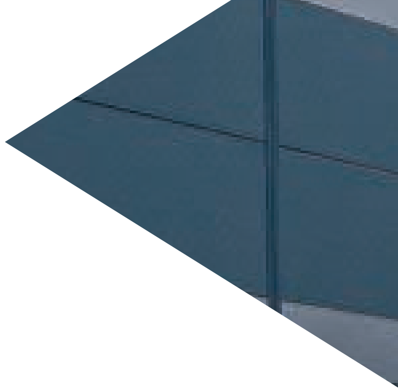
Case study

COVID-19 impact - Call centre enquiries to the end of May

Call centre leasing calls



We constantly measure and observe the number of customer interactions we have across the internet, phone, email and social media. Looking back across 2019 we have been able to track the rise and fall of leasing enquiries against the political backdrop, and more recently against the lock down. We have noted that since the lock down occurred in the UK at the end of March that there has been a steady increase in leasing enquiries, and that a higher degree of these calls result in viewings. The above graph illustrates this and shows promising signs of an increase in business activity in the UK during May, with overall enquiry levels now back on a par with early 2020. We await to see how much of this translates into actual leasing, but the levels of interest are encouraging to see.



Marketplace

Marketplace and macroeconomic environment:

The year ended 31 March 2020 can be split into three distinct parts. Initially we had ongoing Brexit uncertainty with moving deadlines and red lines, which became blurred. This translated into low transaction volumes as investors and vendors awaited clarity.

This changed with the result of the election in December when it seemed we were trending towards a period of increasing stability. Politically, there was a clear direction of travel in the Brexit process and GDP growth was steady at 1.4%. Businesses and investors seemed to be in a position to be able to make longer-term, and better informed decisions, and this translated into increased levels of opportunity in January and February 2020.

This fragile improvement in circumstances was shattered by the COVID-19 pandemic which all but shut down economies globally, and required businesses to alter future strategies and investments. The medium and long term impact of this remains to be seen, but what will be key is how quickly economic output can be increased safely, within the parameters of an acceptable risk.

MLI sector and a competitive landscape:

Investing in MLI remains competitive. Capital from a wide range of sources continues to chase exposure to industrial property as again it was the best performing sector in the 12 months to December 2019. There has been a change in these total returns, with capital growth as a result of yield compression forming a much smaller element of total returns. If this trend continues it may mean that short-term investors with an IRR-driven model, struggle to make a case in this sector and operators with a longer-term strategy have more success in acquiring stock.

As specialist investors in the MLI space we have a deep understanding of the important metrics for each opportunity. This allows us to make decisions swiftly and underwrite opportunities accurately with the experience of management and data generated by our existing portfolio. Stenprop is well capitalised and, as such, is an attractive proposition in a competitive bidding situation.

United Kingdom

Market trends

- Brexit related uncertainty continued throughout 2019 and into 2020. Notwithstanding this, gross domestic product in the UK grew 1.4% in 2019, marginally ahead of forecasts
- CPI remained below the Bank of England 2% Target and this translated into real earnings growth
- Unemployment was stable at historic low levels of 3.9% for the period January-March 2020 according to figures released by The Office of National statistics in May 2020

Read more on our performance on pages 20 to 22

Case study

How is Stenprop innovative within its marketplace?

Stenprop has completed 23 MLI transactions (single estates and portfolios) since the original Industrials MLI portfolio was acquired in 2017. These have been acquired from a wide range of vendors including UK Institutions, listed property companies, private equity Investors and individual investors.

Seven of these acquisitions were from high-net-worth individuals or family-run property companies and a further two were from non-traditional real estate investors. Acquiring from these types of investors does provide challenges. In many instances they have been in the same ownership for a long period of time and have not been run on a traditional basis. In addition, tenant occupation may be documented informally, or in some cases not at all. There is often no formal service charge regime in place and gaining clarity of the true income position can be problematic. What we have found is that often these estates have been maintained to a very high standard. Tenants are highly committed and have been long-term occupiers. These acquisitions often take time to complete as information comes in gradually and bringing the management in line with our wider portfolio can be time consuming. However, there is significant upside opportunity. There is generally an opportunity to drive rental growth from a low base and reduce the net-to-gross leakage by a formal service charge regime or introduction of a fixed maintenance charge. We have also seen initial strong capital growth as tenant occupation is formally documented. In one instance, where 75% of the income was undocumented, we worked with the vendor to agree new leases based on the Smart Lease with 29 tenants, and between exchange and completion 26 of these leases completed, vastly improving the income position of the estate. Our network of CEMs (Customer Engagement Managers) is also invaluable on estates such as these. Tenants are often used to a strong landlord presence and we are now in a position to continue to provide this.

As we grow the portfolio, we will inevitably continue to acquire assets from a range of vendors, but also continuing to identify opportunities as illustrated above through our strong network of regional agents will help drive both capital and income performance across the portfolio.

Business Model

Our business is supported throughout by strong portfolio management. We have an experienced team, a strict governance approach, a focus on sustainable investment, a clear debt management programme and an active approach to using technology to enhance and streamline the process.

Inputs

Financial capital
Ability of our Company to fund its activities at an optimal cost and invest appropriately

Intellectual capital
Our Company's ethos and strategy combined with the experience of the senior team 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 management. Growing occupancy and net rent to increase revenue at each estate

Social and relationship capital
We recognise that our operations can have significant impacts and we hold the organisation to behave as an exemplary corporate citizen and proactively manage relationships with stakeholders and shareholders during the year

Human capital
Strategic planning of Stenprop's future and simultaneous head hunting of key talent to deliver and meet those objectives. To diversify and strengthen the experience, knowledge and skill of our employees and partners to deliver a sustained track record and commitment to our business growth

Natural capital
We incorporate our sustainability agenda into our wider business goals. We have taken a proactive approach to take steps to use both renewable and non-renewable environmental resources responsibly

Our business

Acquire ← Reinvest ← **Sell**

Acquire
Very specific set of requirements to acquire
- Modern purpose-built MLI assets
- Well located within or close to dense urban conurbations
- Asset-specific business plan to grow rents over time

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

industrials

Increasing the presence and position of the Industrials platform through strategic digital marketing and operating practices

F Flexi-lease Model

A Active Asset Management

Our Values

Customer focused

Results oriented

Innovative

Decisive

Output

Value generated

Deleverage

- Reduce gearing in line with strategic goal

Sustainable and growing income for Stenprop

Significant diversification by tenant, geography and scale

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

Enhanced income through implementation of flexi-lease product

Developing technology as the backbone of our operating model and driving 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

Leveraging Industrials.co.uk platform to generate new prospects, principally from our digital, mobile and desktop platforms means there is potential to grow reach and market penetration through the brand's growth. Creating a strong brand that is a powerful and recognisable to tenants and investors alike

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. As we transition to 100% MLI there will be a focus on cost control in order to grow revenue which is determined by earnings growth

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 an experienced, diverse and talented team from a range of disciplines. We are focused on building and investing in our people to maximise performance and return

Natural capital

Using our asset management platform and the service industry model we aim to promote not just our own sustainability agenda but also that of our customers to make a wider impact on the community occupying our estates

S Serviced Industrial

T Technology

Read more about the **value generated** on page 30 to 33

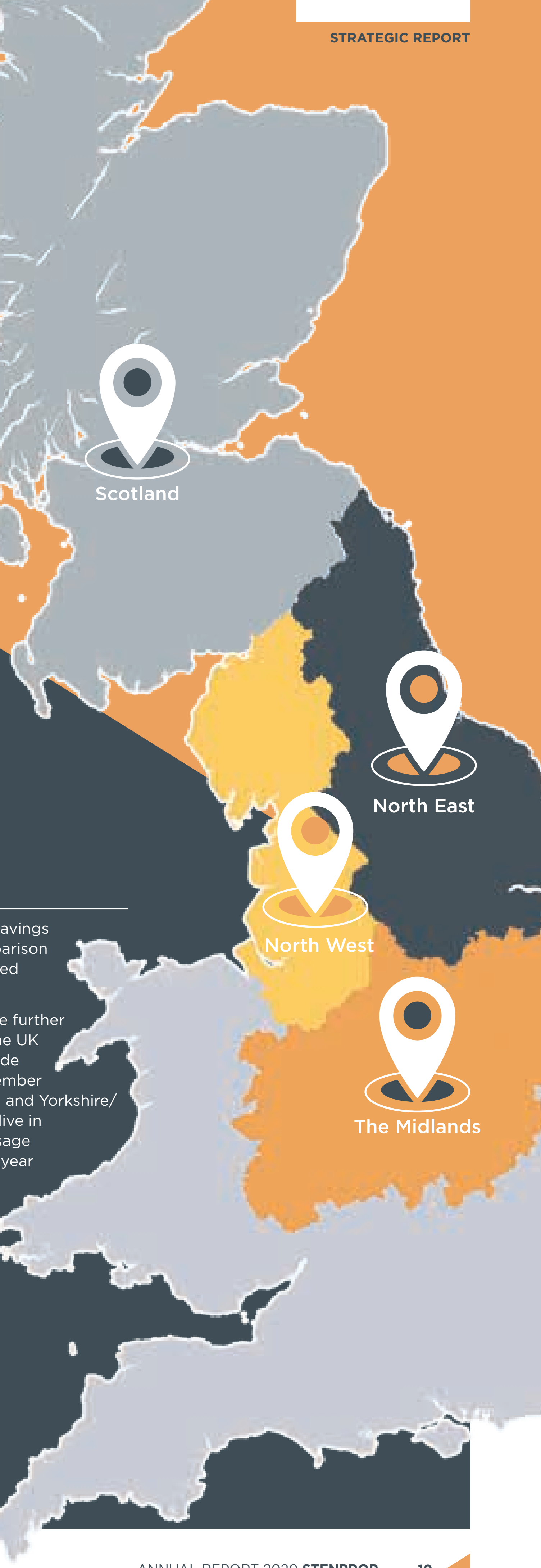
Stakeholder Engagement

Working in partnership with our stakeholders

At Stenprop we have identified and invested in our communication with our stakeholders. We have more than 1,700 shareholders, over 900 customers, 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 active in the growing number of communities where our properties are located.

Our interaction with our key stakeholders is fundamental to the successful implementation of our strategy. Partnerships have always been a key part of our business ethos, and we maintain strong relationships built on our core values of transparency, trust and integrity ensuring value and sustainable growth.

Stakeholder	How we engage	Value generated
Shareholders	▸ The annual general meeting ▸ Annual report and half-year results ▸ Webinar of half-year and year-end results ▸ Investor meetings and presentations ▸ Stenprop website ▸ Regular news and topical blogs ▸ Social Media	▸ Consistent dividend ▸ Delivering on our KPIs ▸ Clearly defined and understood model and business proposition ▸ Regular market updates ▸ Engage directly with shareholders and their concerns
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 network ▸ Branded marketing collateral ▸ Social media ▸ Industrials.co.uk ▸ Telephone, email and live chat	▸ 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 offerings
Employees	▸ Stenprop seeks to promote employee well-being and a culture focused on results and decisiveness, learning and innovation ▸ Ongoing dialogue via team meetings, encouraging open and constructive discussions with all employees ▸ Appointment of a designated director with responsibility for engagement with employees	▸ 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



Case study

Customer Engagement Manager – UK Roll Out

In March 2019, we created a position for our first Customer Engagement Manager (CEM). The CEM role is focused on:

- Implementing standardised marketing and branding across assets;
- Receiving new leads and enquiries;
- Converting new leads to customers;
- Managing and enhancing customer relationships during the lease term.

Implementation of the role has been a resounding success. It has enabled us to interact and transact directly with our customers to help them occupy our space more quickly. The closer relationship empowers us to be more alive to our customers' business requirements and be more proactive to changing needs. Furthermore, delivering transactions directly can unlock additional cost savings per transaction in comparison to a standard out-sourced agency instruction.

We have rolled out three further CEM positions across the UK during the year, to include the Midlands from November 2019 and both Scotland and Yorkshire/ North East which went live in January 2020. We envisage another placement this year to cover the South East and South West.

Strategy

Although our primary focus at present is to manage our business through the COVID-19 period, our overriding medium to longer-term objective remains to deliver sustainable and growing income to our shareholders. Our intention is to become a 100% focused UK MLI business over the next two years.

Priorities for FY21

- Maintain a strong balance sheet through the crisis. Free cash is approximately £60 million (after payment of final dividend of c. £9.6 million)
- Maintain direct and regular communication with all customers across the country through on-the-ground customer engagement managers and asset managers
- Utilise cloud-based customer relationship management tools to log calls and build up comprehensive customer data, to enable us to roll out bespoke and appropriate solutions
- Implement agreed changes to leases and have them executed digitally using our online leasing strategy
- Market more flexible lease offers and accommodate tenants needing short term space
- Monitor cashflows and liquidity needs with a view to balancing holding surplus cash, against judicious deployment into MLI acquisitions
- Maintain ongoing communication with all staff working from home with particular focus on their wellbeing, safety and ability to work effectively and collaboratively within their teams and with other counterparties

Strategic goals set for FY20

- Dispose of £140 million of non-MLI properties
- Acquire £95 million of MLI estates taking total MLI component to more than 60% of our overall portfolio

Performance over the past year

- All targeted disposals achieved. The total sale prices achieved were ahead of total valuations
- A total of £38.8 million was spent on acquisitions resulting in the portfolio being 58% MLI, slightly less than hoped for as a result of Brexit and COVID-19

Priorities for FY21

- Goal to become 100% focused UK MLI business over the next two years
- Accelerate the sale of the German assets of the Group
- Resume the MLI acquisition programme with a targeted £25 million of additional MLI acquisitions per quarter as soon as possible following the end of the COVID-19 lockdown

Despite the immediate uncertainties created by COVID-19, we remain confident that the UK multi-let industrial (MLI) sector will continue to deliver superior rental growth over many years to come. The fundamentals remain positive with the imbalance between supply and demand likely to continue for a number of years. Supply continues to be restricted and demand continues to be fuelled by the move to online business.

Strategic goals set for FY20

- Invest further into evolving our operating platform

Performance over the past year

- Customer engagement strategy rolled out with four regionally-based CEMs employed
- New CRM platform launched to aggregate all online, physical and telephone enquiries
- Smart Lease rolled out on all smaller lettings resulting in significantly shorter vacancy periods and lower costs
- Extensive evolution of our digital marketing platform and direct leasing capabilities

Priorities for FY21

- To become the leading operator of UK purpose-built MLI assets by continuing to invest in a technology-enabled MLI operating platform
- Derive greater efficiencies and create additional revenue streams by offering existing customers a range of additional products and services
- Manage the Company's assets more efficiently and scale up the portfolio with marginal incremental cost

Strategic goals set for FY20

- Utilise proceeds from sales to reduce overall leverage to no more than 40%

Performance over the past year

- Part of proceeds used to reduce leverage to targeted level of 40%
- As a result of Brexit and COVID-19, we held greater cash balances for longer
- Free cash is approximately £60 million (after payment of the final dividend of c. £9.6 million), part of which will be held to manage the Company through the COVID-19 crisis

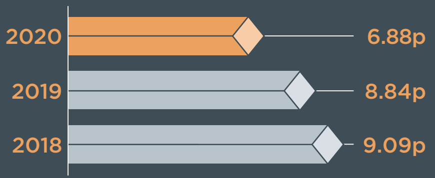
Priorities for FY21

- Maintain adequate cash reserves and manage cashflows through the COVID-19 period
- Maintain gearing at no more than 40% LTV levels excluding unrestricted cash
- Keep in close contact with lenders and monitor covenants continuously
- Be ready to start deploying surplus cash for MLI acquisitions as soon as commercially sensible

KPIs

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)



Calculated in accordance with European Public Real Estate Association ('EPRA') guidelines, after company specific-adjustments, 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).

Read more about **adjusted EPRA earnings per share** in the Financial Review

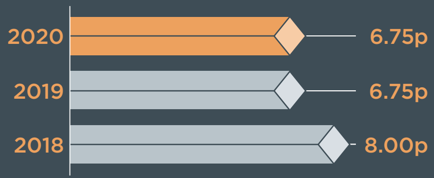
Progress

Diluted adjusted EPRA earnings per share declined in line with expectations primarily due to: (i) Stenprop's previously stated strategy to withdraw from its historic fund management business. In the current year net management fee income was £0.6 million (2019: £5.8 million representing earnings per share of 2.05p); (ii) the decision to reduce leverage which lowers 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; and (iii) holding large cash balances during the year resulting in 'cash drag' insofar as cash returns are less than 0.5% compared with property returns of approximately 7%. The impact of this strategy on earnings in the transition period depends on a number of factors, including the timing and terms of commercial transactions and the implementation of the deleveraging strategy.

Link to strategy
- Recycling of assets
- Deleverage
- Multi-let industrial platform

Link to risk
1 2 3 5 6 7 8 9 10 11

B Distribution per share (pence)



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.

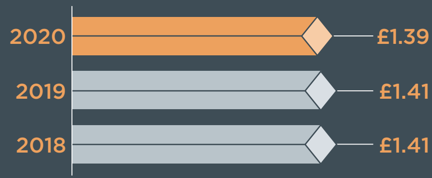
Progress

The 2020 full year dividend is fully covered by earnings.

Link to strategy
- Recycling of assets
- Deleverage

Link to risk
1 2 3 6 7

C Diluted EPRA NAV per share



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).

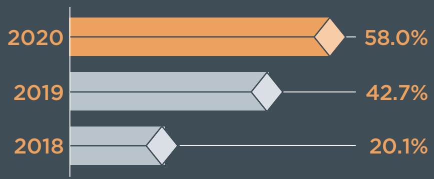
Progress

Stenprop's diluted EPRA NAV per share decreased slightly to £1.39 as at 31 March 2020 (2019: £1.41). This broadly reflects sales costs and the crystallisation of deferred tax liabilities on the disposal of non-MLI property

Link to strategy
- Recycling of assets
- Multi-let industrial platform

Link to risk
1 8 9 10

D MLI Portfolio %



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

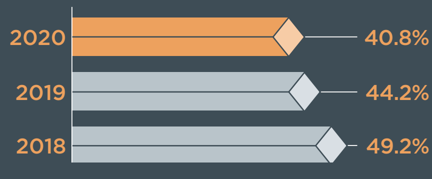
Progress

Stenprop is delivering on its strategy to build its MLI business and has made steady progress through the acquisition of 10 MLI estates during the year ending 31 March 2020. At year end, the MLI portfolio was valued at £309.0 million.

Link to strategy
- Recycling of assets
- Deleverage

Link to risk
1 2 3 5 10

E Group Loan-to-value (LTV) %



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

Progress

In accordance with its strategy to deleverage its portfolio, Stenprop reduced its group LTV to 40.8% at 31 March 2020.

Link to strategy
- Recycling of assets
- Deleverage

Link to risk
1 4 5

"STENPROP IS DELIVERING ON ITS STRATEGY TO BUILD ITS MLI BUSINESS."

Property Report

Julian Carey
Executive
Property Director

United Kingdom

Market environment:

Brexit-related uncertainty continued until the UK General Election in December 2019, which produced a significant Conservative majority and with that, a clear direction of travel in the Brexit process. This culminated in the UK leaving the European Union on 31 January 2020 and entering into the 'Transition Period'.

The gross domestic product in the UK grew 1.4% in 2019 slightly ahead of the forecast rate of 1.2%. The Bank of England base rate was steady at 0.75% until March 2020 when it was cut to the all-time low of 0.1%. The fate of Sterling tracked the Brexit process for the most part, re-bounding against major currencies as more clarity emerged following the election. Since the beginning of March 2020 it had fallen sharply against both the US Dollar and the Euro, albeit with some recovery by the end of the month. Inflation (CPI) fluctuated between 1.4% and 2% in the financial year to March 2020, which is below the Bank of England's 2% target, and contributed to real earnings growth. In the most recent available figures for the three months to January 2020, in real terms annual growth in both total pay and regular pay is estimated to be 1.5%. This is down from a recent peak of 2.0% in the three months to June 2019. Unemployment was stable at the lowest level since 1975 at 3.8% and 3.9% until March 2020. Other available data suggests that this will rise significantly in the next official release of information as the impact of COVID-19 begins to impact businesses and employment. The Government furlough scheme has mitigated this to some extent, but the ONS shows that the claimant count in April rose by 856,000 to 2.1 million, the biggest monthly rise on record.

Total returns by sector:

There continues to be significant capital ready to be deployed in the property market across most sectors. Asset managers raised more than €200 billion (£175 billion) in 2019 to invest in real estate – up 24% on the amount raised in 2018 with €73 billion. Only 60% was invested by the end of the year and due to the hiatus in investment activity since the beginning of the year much of this will still remain undeployed.

When liquidity returns to the investment market this weight of capital may help to support pricing in some sectors that may otherwise have been affected by the ongoing COVID-19 and associated economic crisis.

The UK commercial property market performance has slowed compared to the year ended March 2019. According to CBRE, total returns for all property fell to 2.2% compared to 6.3% for the previous year. Retail again limited this growth with a -6.2% return, whilst all other sectors remained positive.

Industrial was again the best performing sector providing total returns of 7.6% compared to a market average of 2.2% (down from 18.1% at the end of the year in 2019). Total industrial returns were dampened with limited capital value growth of 2.5%, compared to 12.4% a year prior, whilst returns from rental value growth were more consistent at 3.1% vs 4.2%.

Due to the current macroeconomic volatility, making assumptions for the forthcoming year is difficult at this time. We anticipate that the industrial sector is well placed to re-open with more scope for social distancing in the work place due to lower employee volumes and lack of ability to work from home. If investors can get comfortable with the changes in the occupational market, then their ability to underwrite deals with confidence will lead to some increase in transaction volume. What remains to be seen is what the impact on capital values will be and if there will be any distress in the industrial sector to drive this. At present due to a lack of transactions there is no evidence to support a material change in pricing, although some deals are being structured to provide purchaser protection by way of rent cover for rent arrears.

Remaining non-MLI assets:

During the year we sold our last remaining retail property in the UK, 65 Victoria Street, Grimsby. The property was let to New Look which had entered into a CVA in 2019. We engaged with New Look and agreed to re-gear the lease, implementing a new five-year term

"INDUSTRIAL WAS AGAIN THE BEST PERFORMING SECTOR PROVIDING TOTAL RETURNS OF 7.6% COMPARED TO A MARKET AVERAGE OF 2.2%"

Julian Carey
Executive Property Director

from September 2019 to reposition the income profile in advance of the sale of the asset in December 2019.

A number of lease expiries are falling due in the near term on the single-let industrial units. We are in the advanced stages of negotiations with John Menzies PLC to renew their lease on an industrial/distribution facility in Sheffield, and remain in ongoing negotiations with Booker Limited regarding their occupation of two properties in Worcester and Merthyr Tydfill. Two remaining lease expiries are falling due in the medium term in Reading and Ashby-de-la-Zouch and we continue to monitor options available with both tenants.

At Trafalgar Court, Guernsey there is a rent review with our largest tenant later this year, and we are already actively engaged in seeking a settlement.

The remainder of the non-MLI assets held in the UK will be sold over the next two years to facilitate further investment into MLI. Non-MLI assets comprise 20% of our UK portfolio by value. These UK assets are made up of the following:

- £57.5 million – an office block in Guernsey known as Trafalgar Court
- £21.3 million – five single-let industrial units

MLI portfolio acquisitions since April 2019:

Stenprop has concluded the acquisition of ten estates during the financial year for a total figure of £36.2 million and a number of additional units on already owned estates for £2.6 million.

These acquisitions equated to 504,000 sq ft of MLI space across 195 units with a passing rent at acquisition inclusive of guarantees of £2.76 million per annum, equating to an average rent of £5.50 per sq ft. The acquisition price reflected a capital value per sq ft of £76, reflecting an approximate discount of 40% to estimated replacement cost. The individual estates were purchased from a range of vendors: listed entities, property companies and high net-worth individuals. They represent a diverse geographical spread: located in Warrington, Brighouse, Glasgow, Huntingdon, Bridgwater, Edinburgh, Middlesbrough, Deeside and Sheffield. 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. Stenprop curtailed investment activity at the start of March due to the difficulty in underwriting assets during COVID-19 and in order to preserve cash. Stenprop continues to actively monitor the market and the wider economic and social implications and is well positioned to re-enter the market and continue to acquire multi-let industrial in line with our investment criteria and complete the transition to becoming a 100% UK multi-let industrial business.

Investment pipeline:

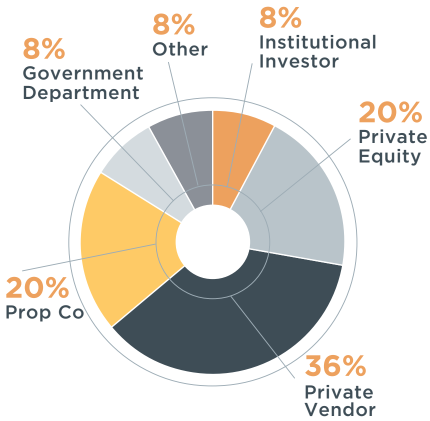
The industrial investment market was quiet during the course of the last financial year, and as a result Stenprop reviewed c. £1.4 billion of potential MLI acquisitions, down from c£2.6 billion in the previous year. We appraised each of these opportunities with reference to our strict investment criteria, and bid on approximately £250 million of potential opportunities. There continues to be a lack of portfolios and lot sizes are smaller than we have seen in previous years. In the first quarter of 2020 (prior to COVID-19) we saw improved deal flow and liquidity in the market. Many of these opportunities were withdrawn from the market as running a sale process became increasingly difficult, and they are likely to become available again when normality returns to the investment market. Across the whole UK investment market in FY2020 Q4 the headline figure showed a reduction in investment volume of only 7% against the five-year average, but this was distorted by the UK's largest-ever property deal, namely the iQ Student portfolio acquired by Blackstone for £4.66 billion. With this stripped out volumes for the quarter were at their lowest level since 2012 and the number of deals was 25% down on the quarterly average, (LSH Research). For this quarter compared with the equivalent in 2019 all industrial deal volumes were down 46% with the sub-sector most equivalent to a UK MLI strategy (Non SE Industrial, excluding distribution warehousing) down 73%.

Our 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 and can source opportunities from a wide range of different sellers. 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 us to achieve value in a competitive market. This network will ensure we are well placed to re-enter the market when we believe it is prudent to do so.

"WE CONTINUE TO ACQUIRE ATTRACTIVE MLI ESTATES AT A SIGNIFICANT DISCOUNT TO REPLACEMENT COST"

Julian Carey
Executive Property Director

Seller types on MLI purchases since July 2017



Investment Criteria

- 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
- acquisition cost below replacement cost

View more online at **stenprop.com/our-space/investment-criteria/**

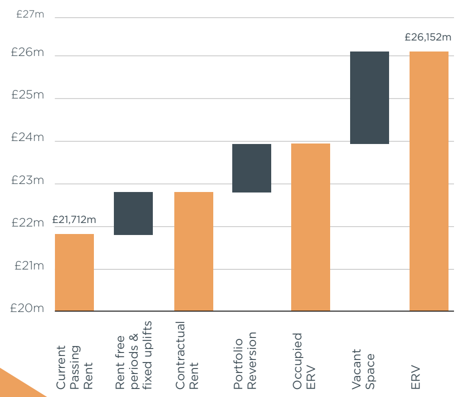
Property Report
continued

We had another strong year of performance from the MLI portfolio, with strong demand and limited market supply resulting in significant uplifts at lease expiry and lettings ahead of ERV. Vacancy across the portfolio reduced over the year as a result of a number of initiatives implemented through our Industrials platform, including Smart Leases, our Customer Engagement Manager programme and more direct to customer marketing.

Income Profile

Passing and contractual rents grew by **5.6%** on a like-for-like basis between 1 April 2019 and 31 March 2020, compared with **4.8%** for the previous period.

The total estimated rental value of the portfolio is **£26.2 million**, reflecting a 20.4% premium to the current passing rent.



Leasing and Rents

19% average uplift in rent across the **197** leasing transactions completed during the year (previous year: **17%** uplift on **126** transactions)

Lettings were on average **10.1%** ahead of April 2020 ERVs over the year

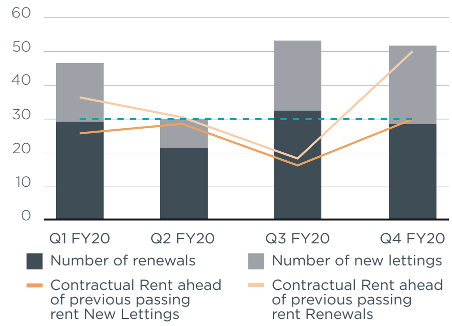
116 new lettings (**£2.2 million** p.a. of contractual rent) at an average premium to ERV of **12.5%** (previous year: **78** lettings at an average **12.6%** premium to March 2018 ERVs)

81 renewals (**£1.8 million** p.a. of contractual rent) at an average premium to ERV of **7.3%** (previous year: **48** renewals at an average **9.0%** premium to March 2018 ERVs)

The average new lease was **4 years** in duration with a **2.5 month** rent free period (previous year: **3.3 years** average lease term and a **1.6 month** rent free period)

Vacancy across the portfolio fell from **10.2%** to **8.9%** on a like-for-like basis between 1 April 2019 and 31 March 2020

As at 31 March 2020 we had **63 units** under offer for rent of **£1.2 million**. Of the under offer space, 60,000 sq ft was on units which were unoccupied (i.e. new lettings rather than renewals), representing 15% of our total vacancy at the time.

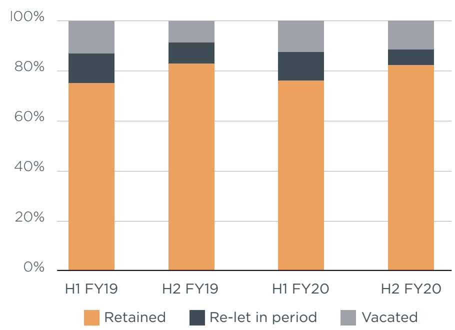


Tenant retention

287 lease events during the year (either lease expiry or break options)

76% of tenants remained in occupation at lease events

Of those units returned to us, we had already re-let **50%** by 31 March 2020



"ON AVERAGE RENTS INCREASED BY 19% AT LEASE EXPIRY OR UPON RE-LETTING"

Julian Carey
Executive Property Director

Case study

The Industrials platform - delivering value at Coningsby Business Park, Peterborough

Our available industrial space is listed on www.industrials.co.uk in addition to a number of market-leading commercial search portals.

Our web listings have been designed to offer an immersive online experience for potential customers to explore our available units to include high-quality professional photography, floor plans, drone footage as well as 360-degree imagery of the inside and outside of our industrial space.

Coningsby Business Park, Peterborough, comprises 186,000 sq ft of newly-refurbished industrial space which completed in January 2020.

A direct lead was received from a US-based retailer which was looking for their first independent UK warehouse and distribution hub. The company, which specialises in online sales of homeware goods and which has sold in excess of 20 million products across 11 countries, started its search online from its US headquarters.

The lead was directed to www.industrials.co.uk via an online commercial property search portal and landed on a bespoke property page for Coningsby Business Park.

The customer's specific search criteria was registered by our dedicated 24/7 online chat support team.

The lead was followed up by our in-house asset management team, who contacted the customer and identified the most suitable space based on their search criteria, which comprised over 18,000 sq ft of modern industrial accommodation.

A virtual viewing was held to share information about the space, configuration and amenities remotely, followed by an onsite viewing, led directly by Industrials. Once terms had been agreed, the transaction completed in mid-December 2019, just seven weeks after receiving the initial lead online.

This transaction is one of a growing number of deals we are sourcing directly online. This letting was secured through our investment in improving our online presence via search engine optimisation (SEO) and by our selected use of best-in-class commercial property search portals. This user's experience was supported by high-quality content and multi-channel interaction at key intervals during its search.

Strong online presence

CAPTURING LEADS WITH INDUSTRIALS.CO.UK

Powerful technology

VIRTUAL VIEWINGS, ONLINE CHAT AND PAPERLESS TRANSACTIONS

More speed, less costs

QUICKER TRANSACTIONS WITH FEWER INTERMEDIARIES

Property Report

continued

£130.5m

THE VALUE OF STENPROP'S HOLDINGS IN GERMANY

£14.3m

THE VALUE OF STENPROP'S HOLDINGS IN SWITZERLAND

Germany

Market environment

Germany has seen slowing economic growth since 2018, with just 0.6% of GDP growth in 2019. This can largely be explained by slowing international trade and Brexit-related uncertainty, which is weighing on export demand and industrial output. In contrast, consumer demand remains strong with record employment and robust wage growth. Demand for Germany's key exports, vehicles and investment goods, continue to struggle. Despite tight labour markets, Euro area inflation has been persistently weak, prompting the European Central Bank (ECB) to lower the deposit rate further into negative territory and reinstate its net asset purchase programme.

Real estate in Germany has once again proved attractive to both foreign and domestic capital. 2019 saw a record €91 billion transacted across the commercial and residential space. Foreign capital is drawn by the relative stability of the German market compared to other European countries and domestic capital due to the relatively attractive yields versus cash and bonds. The office and residential sectors remain dominant, accounting for 64% of transactions, but alternative asset classes such as healthcare and nursing homes are becoming increasingly attractive due to their ability to deliver higher yields. 60% of the transaction volume was focused in the seven largest cities.

Whilst many parts of the retail sector experienced headwinds from expanding online retailers, convenience retail remains robust. At the time of writing, most of western Europe, and indeed the globe, has been locked down as a result of COVID-19. It is difficult to determine the impact at this stage, but the longer the lockdown continues the greater the longer-term impact will be. Germany's proactive approach to tackling the impact of the virus appears at this stage, to be working well.

Investment and asset management

The German assets performed well over the course of the year and high occupancy levels were maintained across the portfolio. As well as the targeted disposal of our largest asset in Hamburg, Bleichenhof, we took the decision to accelerate the sale of the majority of our remaining German assets in 2020 to enable us to focus on building our MLI business in the UK.

Read more on **Creating Value in our Portfolio** on page 30

"DURING THE YEAR WE SUCCESSFULLY SOLD BLEICHENHOF, HAMBURG FOR €160.15 MILLION."

Julian Carey
Executive Property Director

Having appointed CBRE in January 2020 to sell the three Berlin shopping centres, we continue to market these assets targeting completion of the sale this year. Similarly, JLL was appointed to market the Bikemax portfolio, comprising five retail warehouse units across central and southern Germany, and we intend to progress this sale in the second half of 2020.

On the asset management side, we continued to focus on enhancing the income across the portfolio. At Bleichenhof, all but one of the restaurant units were let and occupied at the time of sale, with the remaining unit due to open this summer. We also successfully completed the regear of the principal lease to BOC (Bike & Outdoor Company) across the five assets that comprise the Bikemax portfolio. The BOC income comprises 70% of the total income generated from these assets. The lease term was extended to provide a term certain to BOC of 12 years in return for a small rent-free period and a downward adjustment of the rent to market levels. Finally, we continue to work through a lease regear with the anchor tenant at Hermann shopping centre in Berlin. We believe that this anchor tenant continues to trade very well from the unit and is keen to expand and upgrade its presence at the centre. The lease regears in the Bikemax portfolio and at Hermann will enhance the investor appeal of both assets as we seek to dispose of them, allowing us to maximise liquidity and sale proceeds.

Switzerland

Market environment

JLL has reported that, although large sections of the Swiss economy had got off to a good start in 2020, the COVID-19 pandemic is stifling any optimism. The hospitality industry is highly concerned about the COVID-19 pandemic. Business here was solid at the beginning of the year and remained virtually unchanged throughout January. At the beginning of this year firms were still expecting a small overall increase in overnight stays during the first quarter of 2020. These expectations have become obsolete owing to the outbreak of the COVID-19 pandemic.

This year, the growth contribution made by the retail, transport and hospitality sectors in particular will be negative. Consumer-related services, on the other hand, are clearly in positive territory thanks to the healthcare sector.

It is currently highly uncertain how the pandemic is likely to continue going forward. KOF Swiss Economic Institute has therefore developed various scenarios. KOF's baseline scenario assumes that the pandemic will significantly disrupt economic life over the next 12 months. However, the countermeasures taken should mitigate the economic impact in summer 2020. Over the course of this year the imposed production restrictions will reduce output across sectors. The containment of the virus will enable some of the output lost to be compensated for at the end of this year and next year.

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 in 2018. The repositioning of the Lugano property from a retail centre to a gym and wellness centre was completed with the grand opening of the facility taking place in March 2019. The property is classified as 'held for sale' as, in line with our stated strategy, we will seek to dispose of this property at an opportune time as soon as practicable after pandemic issues have subsided. The centre reopened for trade on 11 May 2020 after being closed due to COVID-19.

Creating Value in our Portfolio

We set ourselves some ambitious goals again for the year ending 31 March 2020 on our journey towards becoming the leading UK MLI business. Those goals included buying £100 million of new MLI estates, selling £140 million of non-MLI assets and bringing down leverage across our portfolio to 40% LTV. The successful implementation of these goals would see MLI become the dominant part of our property portfolio and allow us to manage risk across our loan obligations.

1. Sale of Bleichenhof

One of the pillars of achieving our transition to an MLI business would be the sale of our largest asset, representing 21% of our portfolio as at 30 September 2019, a core mixed-use asset in the centre of Hamburg. The recent ground floor transformation into a vibrant outdoor food court integrated the scheme into the wider Stadhofe development and create a destination.

In the summer of 2019, we appointed BNP Paribas Real Estate alongside Hamburg specialists, Grossman and Berger, to sell this prominent asset. The asset was received well by the market, attracting a number of high-profile potential buyers. Following an extensive and well-run sales process we exchanged contracts in December 2019 with the owner of the neighbouring building, which was keen to consolidate its ownership in this location. The sale subsequently completed in February 2020 following receipt of the necessary consents from the city of Hamburg at a price that was 0.3% ahead of our September 2019 independent valuation when adjusted for further development costs to completion. The sale of this unique asset, which has been owned by Stenprop since inception of the Company, was an important milestone in our transition. It also provided the funds to deleverage our portfolio to 40.8%, together with providing significant capital for reinvestment into more UK MLI estates at the appropriate time.

2. Managing our leverage through the transition

One of our key goals for the financial year ended 31 March 2020 was to reduce leverage at the group level to 40% LTV. We feel this is a comfortable level of leverage at which to operate, given where we are in the market cycle. The current low interest rate environment together with the attractive income yields from MLI provides a significant buffer through which to service the debt. We will continue to review leverage in the business in line with the market environment and our cash position.

We have the ability to draw down on our Investec revolving credit facility to make acquisitions. This enables us to acquire assets quickly as a cash buyer and prior to completing a sale process. It also enables us to transact efficiently during this transition process and compete effectively in the market for new MLI acquisitions.

Our focus continues to be on developing long-term relationships with a few key lending partners. We aim to achieve this on a ring-fenced basis. Over the next 12 months we will be looking to extend our debt maturity profile and consider alternative lenders capable of providing longer-term secured financing in line with our broader business plan.

"WE HAVE A CONSISTENT TRACK RECORD OF SUCCESSFULLY DISPOSING OF OUR NON-MLI ASSETS AT OR AHEAD OF VALUATION."

Julian Carey
Executive Property Director

3. Disciplined use of capital (efficient recycling)

Sale of UK Retail Assets

Over the course of the year, we completed the sales of the remaining UK retail assets located in Walsall, Hemel Hempstead and Grimsby. Sales were completed by a combination of off-market negotiation, open marketing campaigns and auction. The total aggregated sale price was £4.60 million and the previous combined valuation prior to sale was £4.64 million.

UK MLI Acquisitions

The first three quarters of the year saw us investing capital reserves from the sale of Euston House in 2019 and additional cash released from the financing of previous acquisitions. Seven acquisitions were completed before the end of Q4 for an aggregated price of £26.2 million. Due to Brexit uncertainty deal volumes fell together with the average size of opportunities, with no portfolios of scale available in the market that met our investment criteria. We continued to acquire individual estates which were accretive to the wider portfolio both in terms of asset quality and earnings. We completed two acquisitions in Q4 for £9.7 million, one of which had been under offer for more than six months and even in the changing environment represented good value. The other was a completion of a contract from an auction on 11 February 2020. We withdrew from all other assets we had under offer and terminated any ongoing negotiations in order to preserve capital during the COVID-19 crisis.

Creating Value in our Portfolio continued

Case study

Adding value and reducing our cost per transaction Online leasing and DocuSign

Leasing is the lifeblood of our business but each new lease carries its own cost per transaction. This typically includes both an agency and legal fee to negotiate, agree and secure the contract.

We estimate our average cost of transaction to be £2,250. Given the growing volume of leases we complete each year, a primary objective has been to identify new processes that enable us to let our space more quickly at a reduced cost per lease.

In July 2019 we launched our online leasing process. This comprises two key aspects:

Online lease generation

We can create and populate our Smart Leases all online.

We have successfully completed 56 Smart Leases since launce in July 2019, representing 50% of all new lettings on smaller units (sub 5,000 sq ft in England and Wales).

eSignatures

We have utilised DocuSign to enable lease documents to be shared electronically and be signed digitally.

Transacting online has opened up a number of benefits to the business by:

- Increasing efficiency – time taken to populate and share leasing documents has reduced from hours to minutes.
- Increasing accuracy – digital signatures reduce the risk of leases being signed incorrectly.
- Cost saving – in-house drafting reduces external costs and charges.
- Speed of transaction – from agreeing terms to releasing keys, we capitalise on reduced timeframes to let our space and receive rental income more quickly. Smart Leases are typically 2-3 times faster to put in place than a traditional lease.
- Paperless transacting – our Smart Leases can be concluded completely paper free, thus reducing waste and improving our carbon footprint.

56

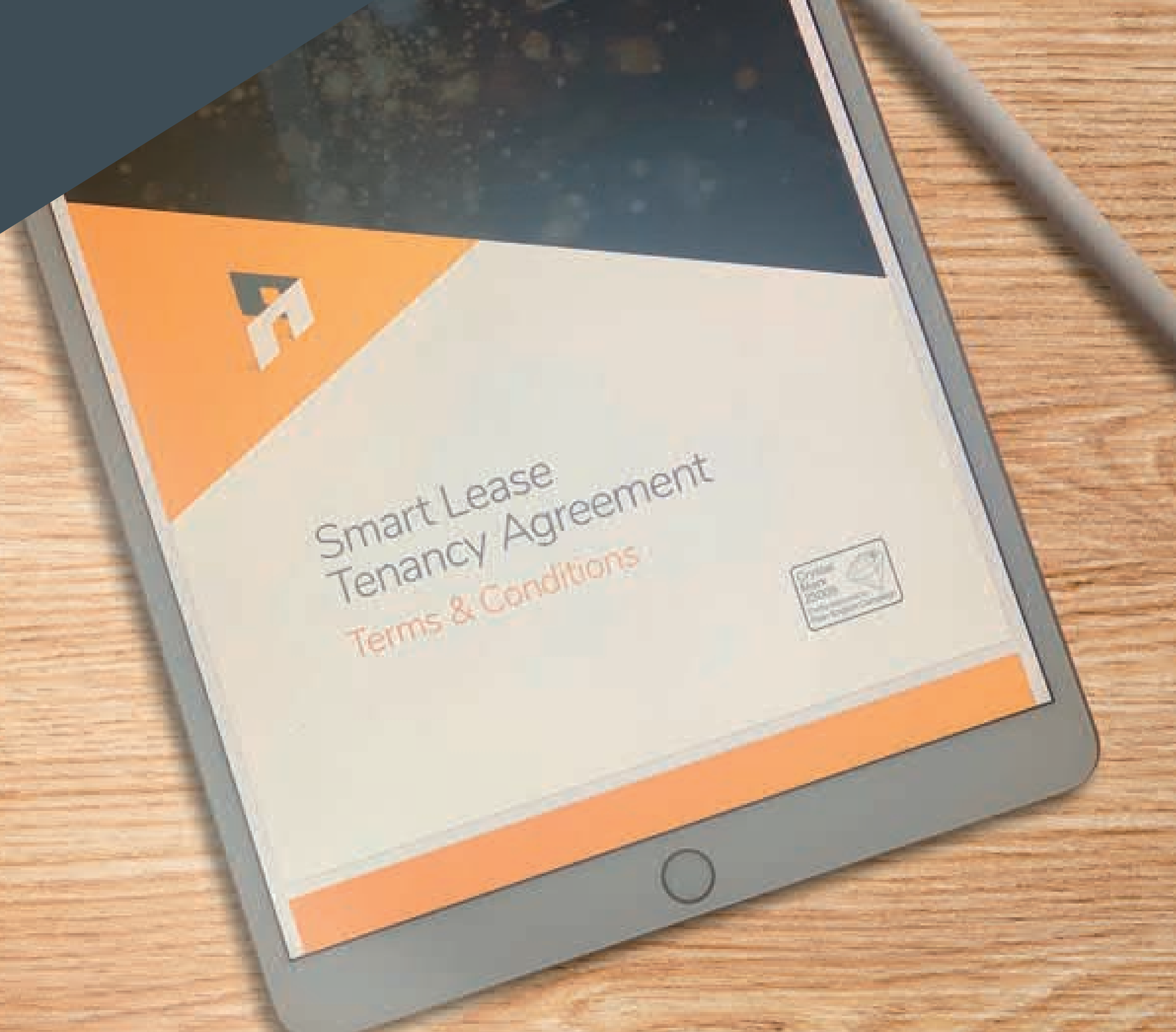
SMART LEASES TRANSACTED IN THE FIRST NINE MONTHS

80%

OF CUSTOMERS ON SMALLER LETTINGS CHOOSE A SMART LEASE

2-3 x

FASTER TO DOCUMENT THAN TRADITIONAL LEASES



MLI Operating Platform Update

Marketing

Industrials is our chosen customer-facing brand. It has become the face of Stenprop in the MLI market. The industrials.co.uk website, along with social media, traditional media and our marketing systems, form the bedrock of our lead generation and customer marketing strategy.

Industrials.co.uk statistics

- Views of unit or property pages up 91.8% Q1 2020 vs Q1 2019, now c. 50,000 per annum, reflecting c. 500 views per available unit per annum. Quality of visits is up 13% over the same period (as measured by bounce rate), and the average user spends 1 minute 45 seconds on each page, illustrating good engagement reflecting the high quality of information available.
- 25% of users who visit the site return at a later date.
- Organic search traffic is up 170% year-on-year for Q1, reflecting the material gains in search engine optimisation and search ranking of industrials.co.uk over the year (on average 35.5% more visible). We have also doubled the amount of paid search results due to extensive use of social media channels to reach new target audiences.
- Of our direct leasing enquiries, we now generate around 70% from the website and onsite advertising, with the remainder coming from portals such as Zoopla and Rightmove. The website is a hugely scalable marketing channel, with potential to deliver increasing numbers of direct leads at marginally lower costs.
- In Q1 2020 we generated on average 392 direct enquiries each month, reflecting a 90% increase in the average number of monthly enquiries generated for the previous 9 months.
- Our lead conversion rate (measured as the number of enquiries for each visitor on our website) was up from 1.25% in March 2019 to 3.5% in March 2020, reflecting the improved quality and targeting of our digital marketing strategy.

CRM – mailing lists, waiting lists, conversation tracking

- All leads are now captured, tracked and managed in our CRM system, ensuring live information on enquiry levels on a unit, asset, customer type or geographic basis and ensuring all leads are properly allocated and followed up by the appropriate in-house customer engagement manager.
- The CRM system holds full information on all leases in our portfolio and associated customer information, allowing our team access to all operational data when onsite.
- The system tracks all correspondence with customers to ensure a cohesive and consistent level of customer service across the portfolio.
- The system allows us to keep up-to-date, accurate and GDPR compliant information on customers, including maintaining waiting lists for currently unavailable units so that targeted leasing activity will commence when they become vacant.
- The system works alongside our existing opportunity management system to provide cradle-to-grave information on our sales pipeline, including leakage, viewing, employee/agent activity and timelines, enabling us to optimise the leasing process.

View more online at **www.industrials.co.uk**

50,000

(UP 91.8%) VIEWS OF UNIT OR PROPERTY PAGES

25%

OF USERS WHO VISIT THE SITE RETURN AT A LATER DATE

170%

INCREASE IN ORGANIC SEARCH TRAFFIC YEAR-ON-YEAR IN Q1 2020

3.5%

CONVERSION RATE IN MARCH 2020, UP FROM 1.25% IN MARCH 2019

56

SMART LETTINGS COMPLETED IN THE 9 MONTHS TO 31 MARCH 2020

13 Days

TO COMPLETE THE AVERAGE SMART LEASE TRANSACTION

2-3 x

FASTER TO COMPLETE THAN A TRADITIONAL LEASE

Leasing

We renew or replace 25% of our leases each year. Improving the efficiency and cutting costs in the leasing process is critical to driving efficiencies in MLI.

What is the Smart Lease and how does it work?

The Smart Lease is our three-page, plain-English leasing solution which cuts out time, cost and complexity from the leasing process. The Smart Lease allows for limited options compared to a fully customisable traditional lease. As a result, the document can be completed more quickly without the need for lawyers, reducing cost and complexity for both landlord and tenant. This is ideal for shorter lettings of one-three years in duration, where transaction expenses can be a significant percentage of the overall lease cost, and where time is of the essence. Our Smart Lease is documented entirely digitally, meaning that we can get customers into units within 24 hours from initial enquiry where necessary.

Smart Lease statistics

The Smart Lease was launched in July 2019 across 80% of our portfolio, namely units in England and Wales of less than 5,000 sq ft (we can't yet offer the Smart Lease in Scotland, but are planning to launch it in 2020). In the nine months to 31 March 2020, we completed 56 smart lettings and smart renewals from a total number of 97 transactions. When renewals are removed from the data, new lettings saw customers choose smart leases 80% of the time, illustrating the strong preference that new customers have for the format when existing leasing documentation is not already in place.

Why Smart Lease is so important?

The average Smart Lease transaction took 13 days to complete from agreeing terms with the customer. This is approximately two-three times faster than the average time of four-six weeks to document and sign a traditional lease. Smart Leases effectively cuts void periods on vacant units by up to one month each time they are re-let. In addition, in most instances the customer and Stenprop incurred no legal fees.

Inclusive leasing

The Smart Lease also provides for inclusive leasing, including the provision of all repairs and maintenance as part of the lease payment. This enables Industrials to offer customers a fixed price lease contract covering all liabilities. We see strong demand from customers for this kind of product, which is rarely offered in the MLI market, and believe it can become an additional profit centre within the serviced industrial offer. The cost of providing such maintenance is built into the lease costing.

Technology

Adopting technology to enhance efficiency and profitability is part of the DNA at Stenprop. In 2020 we will continue to invest significantly into our underlying IT infrastructure, unifying our new and existing systems to create a class leading MLI operating platform which will scale and support the business as it grows.

- Customer Relationship Management – We launched our new CRM system based upon Microsoft Dynamics Customer Engagement at the end of March 2020. This system provides our leasing, marketing and asset management teams with live information on leasing enquiries, customer requests, property and customer information. It helps our staff deal with the high volumes of requests and enquiries we receive, ensuring consistent and high levels of customer service and accountability. It has proved invaluable for capturing detailed information from customer discussions around COVID-19 and will assist us in evaluating and determining bespoke solutions which are appropriate for each customer.
- Finance and Operations – Working alongside our implementation partner, KPMG, our new financial operating system will replace several existing systems which collect rent, report and consolidate accounts across our business. The system will be built on Microsoft Dynamics Finance & Operations and we are targeting a launch in the first half of 2021. Combining our rent collection and financial reporting systems in a single system will deliver significant efficiency and information advantages over having them in disparate systems (as is traditional in real estate), delivering enhanced financial insight into day-to-day operations. The new system also delivers the tooling and infrastructure that Stenprop requires in order to realise revenue growth through its serviced industrial business model.
- Integrated platform – By combining our marketing, sales, finance and operations systems on the Microsoft product stack we can build deep integrations between the systems with relative ease. This rationalisation of products and the corresponding data ensures that the systems will work together, bring financial information to the front office where our operational teams can act upon the information with our customers. The scope of the Microsoft platform will ensure that the system can scale efficiently as Stenprop grows the MLI operating business, further improving efficiencies and capturing economies of scale.

Showcase

Working with Microsoft to deliver a holistic operating platform

Stenprop has chosen to base its operating system around the Microsoft Dynamics and 365 products. Some of the benefits of this are:

1 Scale

Many global businesses are already working on Microsoft operating systems. Microsoft invested $18.6bn in R&D on its product range in the year to 31st March 2020, ensuring that its products remain cutting-edge and offer the benefits of the latest technological developments such as artificial intelligence and process automation. All our implementations are configurations of existing products, meaning that Stenprop is not engaging in any bespoke software development and is sticking to our 'buy not build' methodology.

2 Evergreen

Microsoft offers all its operating systems on an evergreen licenced basis, meaning that software is constantly upgraded to the latest version. This means that significant system upgrades and implementations become a one-off activity, with smaller and more frequent upgrades thereafter, rather than having to replace expensive systems every five-ten years when they become out of date.

3 Streamlining

Microsoft offers leading solutions for most major business processes, including marketing, sales, operations, finance, business intelligence, file storage and business processing. These solutions are deeply integrated out-of-the-box and maintained and developed by Microsoft, meaning that systems work better together, at lower cost and without the need for complex development and ongoing maintenance. Once fully implemented we will be able to maintain the customer journey within a single system and without repetition of data.

Serviced Industrial

The purpose behind our serviced industrial concept is to maximise profits from the space we own by providing a wider range of product and services alongside an enhanced customer experience.

80%

OF OUR UK ASSETS ARE NOW COVERED BY CUSTOMER ENGAGEMENT MANAGERS

4,000

CUSTOMER CALLS ANSWERED PER YEAR

- In the year to 31 March 2020 we employed a further three Customer Engagement Managers (CEMs) in our regional markets. Our CEMs now cover 80% of our UK assets, providing on the ground resource to facilitate lettings, negotiations and direct customer service. Our CEMs handle all our direct leasing enquiries and work alongside our agency partners, where applicable, to deliver leading levels of customer service and enhanced deal terms.
- Alongside our marketing particulars (which include drone footage, 360 degree look around imagery, plans and transparent pricing structures), our CEMs also conducted many accompanied (and more recently virtual) viewings with prospective customers. Recently this has been a vital resource as many of our agency partners have been furloughed during the COVID-19 pandemic and hence have been unavailable.
- Industrials operates a single freephone telephone number for all enquiries (whether prospective or existing customers) which has processed over 4,000 calls during the year. We also offer a live online chat service on industrials.co.uk which has proven popular with prospective customers (and some investors!) over the year, and now accounts for around 15-20% of all enquiries each month.
- As a landlord we are in a unique position to offer a range of non-core business products and services which are linked to their occupation, such as utilities, cleaning or refuse collection. We are currently exploring the best way to offer these services at scale, and it is a significant area of focus for the March 2021 financial year.

Microsoft

4 Visibility

Having our data in the Microsoft Azure database and held within the Microsoft cloud ensures that we can store, catalogue, access and analyse critical business information regardless of where it is created or housed. This makes reporting faster and more advanced and is a critical component in the marriage between financial and operational data which we believe will help us significantly enhance the efficiency of managing MLI property.

5 Familiarity

We already use Microsoft products on a day-to-day basis, and most of our staff have grown up with their operating systems. The common controls and methodology which run through their product range materially speeds up adoption and training, and the seamless integration with existing systems such as Microsoft Teams and Outlook make the systems accessible and understandable.

Over the last few years, Stenprop made significant improvements to our IT infrastructure. Prior to COVID-19 we were already fully cloud-based and active users of video conferencing systems through Teams and digital transaction platforms, such as DocuSign. These systems have delivered significant daily time-savings to the business and have enabled us to continue functioning efficiently since the UK went into lockdown; without the need for any emergency upgrades or amendments to existing business processes.

Financial Review

James Beaumont
Chief Financial Officer

Overview

The onset of COVID-19 occurred in the last two weeks of the financial year and has therefore had virtually no impact at all on our annual financial results for the year ended 31 March 2020. Clearly, there will be a significant impact on our next year results which I have addressed further on in my report. From a financial and operating perspective, I am confident that Stenprop is well positioned to deal with the challenges of COVID-19. I take particular comfort from the strength of the Stenprop balance sheet and the levels of significant unrestricted cash balances.

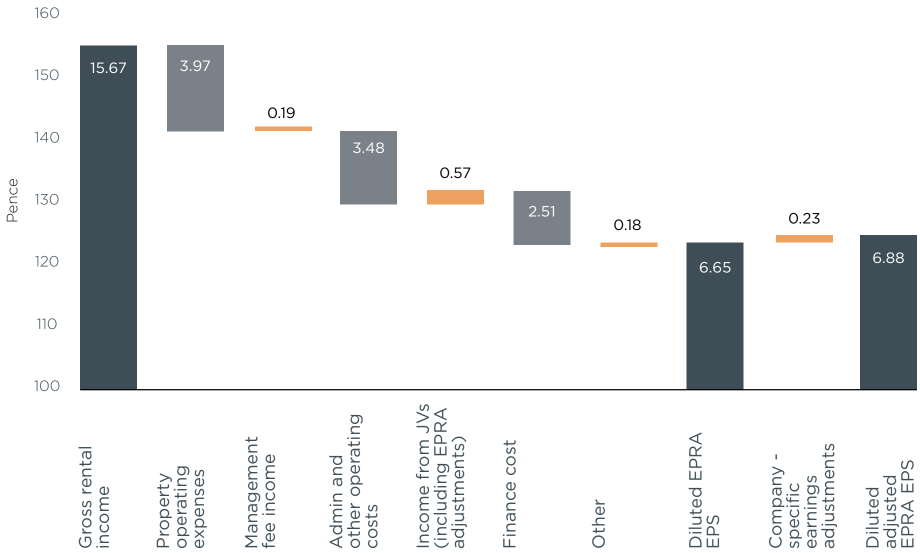
Stenprop's board of directors (the 'Board') have declared a dividend of 3.375 pence per share for the six months ended 31 March 2020, bringing the full year distribution to 6.75 pence per share (2019: 6.75 pence). The dividend is fully covered by diluted adjusted European Public Real Estate Association ('EPRA') earnings per share of 6.88 pence (2019: 8.84 pence) and, as in the past, can be taken as a cash payment or scrip share alternative.

Diluted IFRS earnings per share ('EPS') was 5.44 pence (2019: 8.35 pence), while the diluted adjusted EPRA EPS amounted to 6.88 pence, compared with the prior year of 8.84 pence. The decline in earnings was a direct consequence of the previously communicated strategic decision to withdraw from all historic third-party fund management activity and reflects the impact of one-off performance and disposal fees received in the year ended 31 March 2019.

Stenprop acquired 10 MLI estates and a number of additional units on existing estates during the year for a total purchase price of £38.8 million. Stenprop sold four non-MLI assets all at or above valuation except for one small retail property which sold for £0.4 million below its valuation of £2.1 million. At 31 March 2020, Stenprop's total property portfolio, including share of joint ventures, was valued at £532.6 million of which £309.0 million, or 58.0% (2019: 42.7%) was represented by the MLI portfolio.

As at 31 March 2020 Stenprop had reduced its total borrowings to 40.8% of gross assets (its 'LTV' ratio), from 44.2% one year earlier. When free cash of approximately £70 million is taken into account this measure reduces to 27.7%. The LTV ratio of the MLI portfolio was 39.9% at 31 March 2020.

EPRA earnings per share (pence) Year to 31 March 2020 (refer note 14)



FX rates in period

Average foreign exchange rates in the year: £1.00:€1.1442; £1.00:CHF1.12544 (2019: £1.00:€1.1338; £1.00:CHF1.3002)
Year-end foreign exchange rates: £1.00:€1.1249; £1.00:CHF1.1915 (2019: £1.00:€1.1617; £1.00:CHF1.2970)

"STENPROP'S STRONG BALANCE SHEET MEANS IT IS WELL POSITIONED TO DEAL WITH THE CHALLENGES OF COVID-19."

James Beaumont
Chief Financial Officer

Diluted EPRA net asset value ('NAV') per share decreased by 1.4% to £1.39 (2019: £1.41), and diluted IFRS NAV per share increased 0.7% to £1.37 (2019: £1.36). The decrease in Diluted EPRA NAV broadly reflects sales costs and the crystallisation of deferred tax liabilities on the disposals of non MLI property. On a like-for-like basis, the valuation of the total portfolio increased 2.8% over the prior year. On a like-for-like basis over the same period, the valuation of the MLI portfolio increased by 3.6%.

Presentation of financial information

The consolidated financial statements are prepared in accordance with IFRS. The Group's subsidiaries are consolidated at 100% and its interests in joint ventures are shown as a single line item on the consolidated income statement and balance sheet using the equity method of accounting. In addition to information contained in the Group financial statements, Alternative Performance Measures ('APMs'), being financial measures which are not specified under IFRS, are also used by management to assess the Group's performance. Definitions for APMs are included in the glossary, with further descriptions and the most directly comparable IFRS measure identified on page 157.

In accordance with reporting standards widely adopted across the real estate industry in Europe, the Board feels it is appropriate and useful to also disclose a number of EPRA measures, prepared in accordance with the EPRA Best Practice Recommendations. The Board continues to see adjusted EPRA EPS as a key measure to aid transparency when assessing performance and dividend policy. As disclosed in note 14, this measure utilises EPRA's Best Practices Recommendations, and applies further company-specific adjustments to earnings to exclude items considered not to be in the ordinary course of business or other exceptional items to provide additional information on the Group's underlying operational performance.

Earnings

Basic IFRS earnings attributable to ordinary shareholders for the year ended 31 March 2020 declined 34.5% to £15.6 million (2019: £23.8 million), equating to a diluted IFRS EPS of 5.44 pence (2019: 8.35 pence). The decrease is mainly driven by a reduction in non-recurring net management fee income of £5.3 million.

Net rental income from continuing operations was £33.0 million (2019: £33.9 million). The UK MLI component of net rents contributed £17.9 million to the total at year end, a 47.9% increase over the prior year contribution of £12.1 million.

Net management fee income totalled £0.6 million for the year (2019: £5.8 million). Stenprop has withdrawn from its historic fund management activities and its future management fee income will be insignificant.

Operating expenses for the year were £10.1 million (2019: £11.3 million) including approximately £1.0 million of costs associated with the Enterprise Resource Planning ('ERP') management platform project. The project is being delivered over a number of phases and will see the implementation of a unified customer engagement and finance and operations platform. The solution is due to go live in early 2021 as part of the roll-out of Stenprop's serviced industrial concept. Once complete, the platform will allow Stenprop to scale the business with low marginal incremental cost, realise cost efficiencies by streamlining and automating business processes and enable active management of, and engagement with, our customers. Please refer to the 'MLI operating platform update' section of the Annual Report for more information on the operating platform. Prior year operating expenses included one-off costs of £0.9m associated with Stenprop's REIT conversion and LSE listing, as well as £1.2 million associated with the aborted acquisition of a material MLI portfolio.

Adjusted EPRA earnings attributable to shareholders were £19.7 million (2019: £25.2 million), equating to a diluted adjusted EPRA EPS of 6.88 pence (2019:

5.44p
DILUTED IFRS EARNINGS PER SHARE

6.88p
DILUTED ADJUSTED EPRA EARNINGS PER SHARE

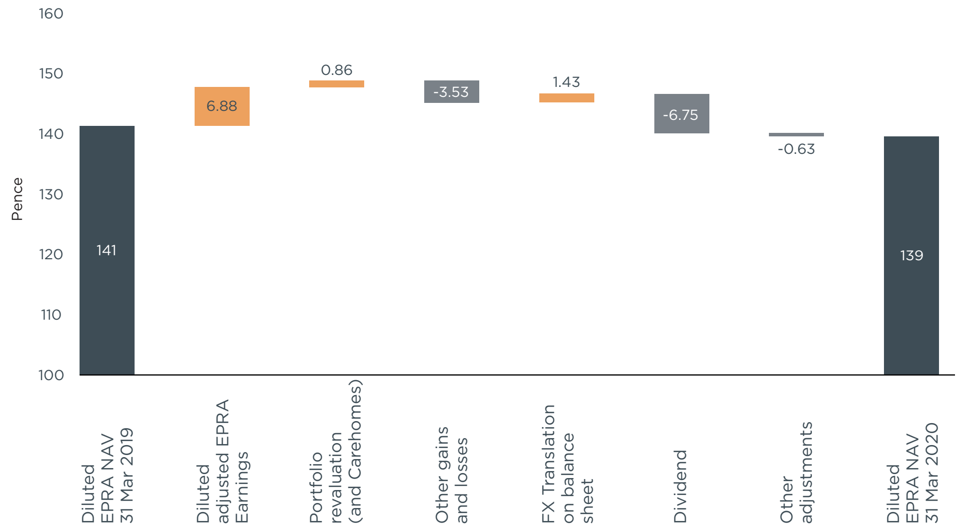
6.75p
FULL YEAR DIVIDEND PER SHARE

£309.0m
MLI PORTFOLIO AT 31 MARCH 2020

Financial Review

continued

Diluted EPRA NAV per share (pence) movement since 31 March 2019



8.84 pence). As mentioned previously, the decrease is due to a reduction in management fee income to £0.6 million (2019: £5.8 million). A reconciliation of IFRS profit to EPRA earnings for the year is shown in Note 14 to the financial statements.

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 2020 was 35.3% (2019: 31.8%).

Dividends

On 11 June 2020, the Board declared a final dividend of 3.375 pence per share (2019: 3.375 pence) which, together with the interim dividend of 3.375 pence per share (2019: 3.375 pence per share) declared on 21 November 2019, results in a total dividend for the year ended 31 March 2020 of 6.75 pence per share (2019: 6.75 pence per share). The total dividend for the year is fully covered by earnings of 6.88 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 6.3% on the share price at 5 June 2020 of £1.07, and a yield of 4.9% on the diluted EPRA NAV per share at 31 March 2020 of £1.39.

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. A further announcement informing shareholders of the salient dates and tax treatment of the dividend will be released in due course.

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.

Future distributions

As Stenprop responds to the disruption caused by COVID-19, the Board will monitor the future dividend position. The Board is focused on liquidity and maintaining a strong balance sheet but also understands the importance of dividends to its shareholders. The Board is also mindful of its REIT obligations. 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, management fee income or capital gains. Notwithstanding this, Stenprop has followed a policy to distribute at least 90% of its UK and non-UK EPRA earnings. In light of the uncertainty caused by the COVID-19 pandemic, Stenprop will continue to carefully evaluate its rent collection rate, recurring earnings and wider responsibilities and keep its dividend policy under review.

Net asset value

The IFRS basic and diluted net asset value per share at 31 March 2020 was £1.38 and £1.37 respectively (2019: basic £1.38; 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 2020 was £1.39 (2019: £1.41).

Including the Company's share of joint ventures, its investment properties were valued at £532.6 million (31 March 2019: £612.9 million), of which £109.1 million were classified as assets held for sale (31 March 2019: £16.2 million). Assets held for sale consist of the three Berlin daily-needs retail centres (anchored by strong food retailers), five German retail warehouses (let to a bike and ski business) and the sole remaining asset in Switzerland (let to a wellness centre/health club). The reduction in the portfolio size follows the sale of Bleichenhof at a sales price of €160.15 million (2019 valuation: €147.4 million). On a like-for-like basis, excluding the impact of additions and disposals in the period, the valuation of the portfolio since 31 March 2019 increased by 2.8% of which 1.1% was from currency movements.

Valuations

The Group's independent external valuer, JLL, have reported their valuation of our portfolio as at 31 March 2020 including reference to a 'material valuation uncertainty' created by the economic consequences of COVID-19. Consequently, less certainty – and a higher degree of caution – should be attached to the valuation than would normally be the case. The inclusion of this 'material valuation uncertainty'

Combined property portfolio at 31 March 2020

Combined Portfolio (including share of joint ventures)	Market value 31 March 2020 (£'000)	Portfolio by market value (%)	Properties (number)	Area (sq m)	Annualised gross rental income (£'000)	Net initial yield (Weighted average) (%)	Voids by area (%)
Investment properties							
UK multi-let industrial	308,951	58.0	70	420,483	22,701	6.47	8.90
UK non-multi-let industrial	78,810	14.8	6	32,399	6,044	7.17	0.05
Sub-total	387,761	72.8	76	452,882	28,745	6.62	8.27
Assets held for sale:							
Germany	94,799	17.8	8	52,122	5,736	5.10	0.82
Switzerland	14,277	2.7	1	5,974	1,038	5.81	–
Total – wholly owned	496,837	93.3	85	510,978	35,519	5.19	7.41
Share of joint ventures	35,737	6.7	4	19,330	2,429	5.94	–
Total	532,574	100	89	530,308	37,948	6.28	7.14

declaration does not mean that the valuation cannot be relied upon and is a disclosure, not a disclaimer.

United Kingdom MLI portfolio

The UK MLI portfolio, comprising 70 industrial estates and approximately 4.5 million square feet of lettable space, was independently valued at £309.0 million at 31 March 2020. On a like-for-like basis, after excluding MLI acquisitions during the year, the valuation of the portfolio increased by £9.3 million, or 3.6%, on the valuation at 31 March 2019. The increase includes the effects of strong lettings and an uplift of £4.1 million at Coningsby Park, Peterborough, where the refurbishment of the estate is now complete.

United Kingdom non-MLI portfolio

The UK non-MLI portfolio was independently valued at £78.8 million. On a like-for-like basis, after excluding the sale of three regional retail properties, the valuation of the UK portfolio decreased marginally by £0.7 million, or 0.9%, on the valuation at 31 March 2019. The office building known as Trafalgar Court in Guernsey is now our largest single asset and was valued at year end at £57.5 million (2019: £57.8 million).

During the year, we sold three small retail properties in the UK at Walsall, Hemel Hempstead and Grimsby for a combined sale price of £4.60 million, in line with the most recent combined valuation of £4.65 million. Stenprop does not have any further retail exposure in the UK.

Germany

The German portfolio (excluding joint ventures) was independently valued at €106.6 million. On a like-for-like basis, excluding the sale of Bleichenhof, the valuation of the German portfolio increased by €1.5 million, up 1.4% on the prior year end valuation. The three central Berlin retail centres experienced a combined uplift of €1.9 million and are now valued at €80.6 million. This increase was partially offset by a decline in the value of the five Bikemax retail warehouse properties. The Bikemax properties are valued at €26.0 million, a decrease of €0.5 million against the prior year.

We are continuing with our disposal plans for the remaining German assets detailed above. These properties have been marketed, and, subsequent to the onset of COVID-19, a number of potential buyers remain interested and are undertaking further due diligence.

Switzerland

The remaining Swiss property situated in Lugano was valued at CHF17.0 million compared with the prior year end valuation of CHF21.0 million. The property is let to a rehabilitation medical facility and health club business and was closed for much of March, April and May by order of local government following the COVID-19 outbreak. The centre opened in mid-May 2020 and we continue to monitor the position closely. This asset was classified as held for sale in the financial statements.

Joint ventures

The Care Homes portfolio in Germany, comprising four care homes, was independently valued at €40.2 million, an increase of 2.0% compared with the 31 March 2019 valuation of €39.4 million.

Debt

In accordance with its strategy to deleverage its portfolio, Stenprop reduced its group LTV to 40.8% from 44.2% at 31 March 2019. It would have been entirely possible to reduce the LTV further from available cash resources but it was considered prudent to retain funds to further boost liquidity in these turbulent and unprecedented times. Further reductions to Group LTV may be considered by the board of directors as the COVID-19 situation unfolds and after taking prevailing market conditions into account.

The value of the property portfolio as at 31 March 2020, including the Group's share of joint venture properties and assets held for sale, was £532.6 million. Senior bank debt at the same date was £217.3 million, resulting in an average loan-to-value ratio of 40.8% (31 March 2019: 44.2%). Cash reserves at 31 March 2020 totalled £85.6 million, including available cash of £70.0 million. When available cash is added to this measure to lower net debt, our overall LTV was 27.7%.

The rolling credit facility provided by Investec Bank Plc to bridge the potential funding gap between property

Financial Review
continued

Annual portfolio valuation movement at 31 March 2020
in functional currencies

↑ 2.8%
↑ 1.1% currency
↑ 1.7% values
TOTAL

↑ 2.8%
UNITED KINGDOM

↑ 1.6%
GERMANY

↓ 18.9%
SWITZERLAND

acquisitions and sales was refinanced in September 2019. The new £30 million facility is for an 18-month period and matures in April 2021. The facility was not utilised during the year and was undrawn as at 31 March 2020. There are no non-utilisation fees payable on the facility.

The weighted average debt maturity stood at 2.7 years at 31 March 2020 compared with 3.0 years at 31 March 2019. Excluding Lugano in Switzerland, which is held for sale, annual amortisation payments are £0.7 million (31 March 2019: £0.7 million). The all-in contracted weighted average cost of debt was 2.62% at year-end, compared with 2.46% at 31 March 2019. This partly reflects a higher weighting to UK debt as we acquire more UK MLI and disposed of more German non-MLI property.

The Group operates an interest rate policy and mitigates interest rate risk using 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. Where properties are held for sale or likely to be disposed of in accordance with our transition strategy to MLI, the Group elects as a strategy not to hedge or extend debt maturity.

Loan covenants
Significant headroom exists for both interest cover and LTV loan covenants. Loan facilities subject to LTV covenants allow for an average 33% reduction in values. Loan facilities subject to debt service cover ratio covenants allow for an average reduction in net rents of 60%.

The Company continues to enjoy an open and supportive relationship with its banks.

Foreign exchange
At 31 March 2020, approximately 22.6% of Stenprop's net asset value and 26.4% of its net rental income were denominated in euros. Consequently, the GBP:EUR exchange rate has an impact on reported GBP earnings and net asset values. At the start of April 2019, the GBP:EUR rate was £1.00:€1.1617 and the euro strengthened over the year by 3.16% to £1.00:€1.1249 as at 31 March 2020. The impact of changes in the GBP:EUR exchange rate will decrease as we execute our German sales strategy.

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.

COVID-19
The COVID-19 pandemic has shifted our immediate focus to managing cash resources and maintaining liquidity in the business. At the same time, we are in even closer communication with our customers to provide support as they respond to the challenges that their own businesses face. We are also in close contact with our banks all of whom are supportive.

The reduction in rent collection will have an impact on future earnings. However, the breadth of sectors in which our customers operate and their geographical spread reduces this risk and so far (and we appreciate it is still early in the crisis) we are encouraged by the relatively strong rent collection figures since the advent of the crisis.

"STENPROP REMAINS COMMITTED TO FURTHER EVOLVING ITS TECHNOLOGY-ENABLED MANAGEMENT PLATFORM"

James Beaumont
Chief Financial Officer

As at 31 May 2020, Stenprop had received 82% of the total portfolio rent invoiced and due for the aggregate of the quarter commencing 25 March 2020 and the months of April and May 2020, broken down as follows:

- 64% of all rent invoiced was for the quarter commencing 25 March and ending 23 June 2020, of which 89% was paid by 31 May 2020
- 17% of all rent invoiced was for the month of April 2020, of which 71% was paid by 31 May 2020
- 19% of all rent invoiced was for the month of May 2020, of which 69% was paid by 31 May 2020
- For the MLI portfolio an aggregate of 79% of total rent invoiced had been paid by 31 May 2020.

The crisis has shown the negative impact of long supply chains and there is now increased support for SMEs to manufacture and supply locally. The current situation is also highlighting the importance of doing business digitally. E-commerce distribution is becoming much more prevalent as more consumers adopt technology to meet their needs. Accordingly, a potential increase in demand for MLI space exists as companies seek to operate in flexible and affordable space close to their customers. Please refer to the 'COVID-19 & Stenprop' section of the Annual Report which expands on the impact of COVID-19 across the sector.

The well-being of our staff is of utmost importance to us and we are pleased to report that the Stenprop team are well and working effectively from their homes. There has been no need to furlough staff.

The Board of Directors are mindful of the negative impact to the business and the wider economy. The Company's balance sheet is strong and Stenprop has a capital structure and operating platform which is well positioned to deal with a prolonged period of uncertainty.

Conclusion

We continue to deliver on our strategy to become a 100% focused UK MLI business and have made strong progress during the year by reducing leverage to 40.8% (2019: 44.2%) and increasing the MLI component of our portfolio to 58.0% (2019: 42.7%) through acquisitions and the sale of non-MLI assets.

This coming year is clearly going to be a challenging one as a result of COVID-19, the lockdown response and the high probability of a significant downturn in the economy. Management has subjected Stenprop's financial model to stress test scenarios associated with a prolonged period of market disruption and concluded that Stenprop is well placed from a balance sheet perspective to cope with this for a significant period of time. The issue for Stenprop is the likely adverse impact on earnings in the coming year. This is likely to arise from two sources. First, in light of the COVID-19 disruption, Stenprop took the prudent decision to retain its significant surplus cash balances for longer thereby earning bank deposit rates rather than the 7% plus returns on equity from acquired MLI property. Secondly, it can reasonably be anticipated that rent collection rates will require provisions, deferments or write-offs in some instances and in a downturn or lockdown voids will increase and rental growth will slow. It is too early to quantify any such impact. However, we believe it will be temporary and the asset class will emerge with even more demand and supply imbalance.

In the meantime, Stenprop remains committed to further evolving its technology-enabled management platform to generate margin efficiencies and the capability to offer a wider range of services and products to our customers. The importance of this endeavour is ever more apparent as digital working practices become more and more necessary. Stenprop has not elected to cut back on the expenditure required for this.

Stenprop is a strong business and has the financial resilience to weather the current disruption. Our liquidity could be further enhanced by the sales of our German properties, which continue to progress. Following the sale of these assets, we anticipate that MLI will increase to approximately 70% of our portfolio and that cash available for acquisitions would increase to over £100 million.

James Beaumont
Chief Financial Officer

11 June 2020

Risk Management

1 Identity

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

Stenprop's board of directors ('the Board') has ultimate responsibility for maintaining sound risk management and internal controls 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, as well as any emerging, risks identified alongside mitigating factors and action plans. The intention is not to eliminate risk entirely, but to manage our risk exposures across the business, whilst making the most of business opportunities that have the potential to create value.

Emerging risks are identified through a variety of means including advice from the Company's professional advisers and the directors' industry knowledge and market changes and events. In addition, the executive directors promote a risk awareness culture in which all employees at all levels of the organization 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.

More information regarding the work of the Board, the Audit and Risk Committee and the executive and senior teams on risk management during the year ended 31 March 2020 can be found in the Audit and Risk Committee report on pages 70 to 72 of this report.

At the Board meeting in June 2020, the Board completed its annual assessment of risks. This followed the audit and risk committee's formal assessment of risks and their review of the effectiveness of internal controls. Whilst we consider there have been no material changes to the nature of the Group's principal risks, not surprisingly, several risks are elevated as a result of the challenging macroeconomic environment linked to the current COVID-19 pandemic, and to a lesser extent other external factors such as Brexit.

The Board has been actively monitoring these elevated risks. Since the start of the lock down period in the UK, the Board has held biweekly meetings during which it receives updates on certain key indicators of future performance such as rent collection levels and voids. These regular meetings have allowed the Board and the executive team to react and adapt quickly to the rapidly evolving situation, assess and mitigate its impact on our long-term strategy, agree short-term policies and implement appropriate measures when required.

The mitigating actions taken since the start of the lock down period include:

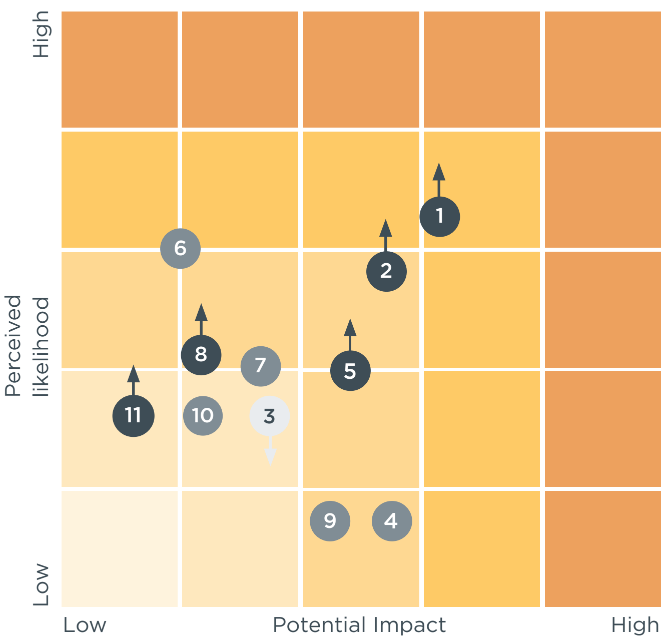
- Actively engaging with our tenants on an individual basis, particularly those who experienced cash flow difficulties as a result of the lockdown measure across Europe, to assess the financial and operating impact of the current crisis on their business and what measures they are able to take (including accessing Government financial support) to ensure that they can manage through the lockdown period and continue to operate successfully when it ends.
- Offers of rent deferral to those customers unable to pay their rent.
- Continuing to invest in technology to support our MLI operating platform (see additional information on pages 34 to 37 of this report).
- Consider the merits of MLI acquisition opportunities on a case by case basis and assess them versus the need to maintain sufficient capital in the business to cope with a prolonged period of uncertainty.

The key risks affecting the Group were identified and are presented on pages 48 to 53, including an assessment of their potential impact and controls and mitigating factors.

The Board also reviewed the Group's risk appetite, taking into account the expectations of the Company's various stakeholders and the current market conditions. The overall risk appetite in the year under review was broadly unchanged from the previous financial year. However, the Company is expected to take a more prudent approach to risk whilst the duration and impact of the current crisis remain uncertain. The potential risks and benefits of proposed actions are being reviewed and assessed with an increased emphasis on their potential impact on all stakeholders – employees, customers, business partners and shareholders – as well the Group and the wider society in the context of the current pandemic and its adverse effect on the global economy. The long-term strategic objectives of the Group, its purpose and vision remain unchanged and the Group's financial model will continue to be used to assess the impact of key decisions on its prospects with appropriate sensitivity analysis and stress testing. This will guide and form the basis of any changes in the Group's risk appetite when evaluating the merits of specific proposals.

More information on the assessment of prospects and viability undertaken by the Directors in accordance with provision 31 of the 2018 UK Code is set out on pages 46 and 47.

Risk heat map



Risk increasing Risk stable Risk decreasing

1. Macroeconomic and political uncertainty, including the impact of the Covid-19 pandemic
2. Complete the transition into 100% focused MLI business
3. MLI platform
4. Bank covenants
5. Debt funding
6. Costs of development of the F&O and CRM systems
7. Asset management
8. IT systems
9. Reliance on service providers
10. People
11. Environmental standards

Risk Management

continued

Viability statement

Assessment of prospects

In accordance with provision 31 of the UK Corporate Governance Code and King IV, the Directors have assessed the prospects of the Group over a longer period than that required in adopting the going concern basis of accounting, choosing five years to 31 March 2025 for the purposes of conducting this review. The Board considers this period to be appropriate as the Group's financial review and business plan forecasts cover a five-year looking forward period.

The Group's five-year plan is supported by a detailed financial model which considers the effects of the Group's business model and strategy on earnings and dividends, taking appropriate account of the Group's principal risks. It is based on prudent assumptions regarding, among others, the timing and quantum of disposals and acquisitions and the speed of the transition into a 100% UK MLI business, gearing levels, rent collection levels, lease periods, vacancies and renewals, rental growth rates, exchange rates and interest rates. It includes budgeted profits and cash flows and also considers capital commitments, dividend cover, financial covenants and REIT compliance metrics. See pages 16 and 17, and pages 20 and 21 for further details on the business model and strategy of the Group.

The model is kept under regular review by management and the Board and is updated on, at least, a quarterly basis against actual performance.

Assessment of viability

Management subjected the model to a stress test scenario to explore the resilience of the Group to the potential impact of the significant risks identified on pages 47 to 53, or a combination of those risks. The Directors paid particular attention to the downturn in economic outlook caused by the current COVID-19 pandemic and its potential impact on property fundamentals, including how it is changing investor and occupier demand, the potential negative impact on valuations, rent collection levels and cash flows and the availability of finance. They also considered the potential microeconomic impact of a disorderly Brexit outcome.

The Group has significant cash resources at the start of the look forward period which is a key factor in assessing viability. At 31 March 2020, it had approximately £70 million of free cash.

The stress test was designed to incorporate highly severe assumptions to test the Group's ability to meet its obligations as they fall due under the most extreme circumstances. These assumptions were applied for the 18-month period to 30 September 2021. The assumption is that after this period, the market will return to some level of normality and that operations will return to the levels anticipated pre COVID-19 (i.e. prudent and plausible rent collection levels, lease periods, vacancies and renewals, rental growth rates, exchange rates and interest rates).

Key highly severe assumptions applied for the 18-month period to September 2021 are detailed below:

- Rental income: Stenprop's primary inflows relate to rental income. Stenprop's tenants are engaged in a wide range of businesses, serving the needs of their customers in their local communities or across the country. It is too early to say with any accuracy what the impact will be for these occupiers, although clearly some sectors are more directly impacted than others. State aid is available and Stenprop has implemented various strategies to assist tenants and avoid vacancies, such as temporary payment plans and making new short-term leases available. Nevertheless, a blanket 75% drop in gross rental income has been included in the model for the period to September 2021 to assess the Company's liquidity and solvency at that level.
- Direct landlord costs have been assumed at four times the current level for the period to September 2021, driven by the market downturn and an increase in vacancies associated with a continued period or periods of lock down.
- The impact that COVID-19 will have on debt refinancing is uncertain. The loans coming up for refinance in the look forward period are all geared at a low level, on a strong asset base. Based on comparative recent refinance activity in the portfolio and in the market, management believe that this debt can be refinanced without difficulty, even if the lending environment were to toughen significantly. Indications are that a harder lending environment is unlikely given that since the COVID-19 crisis, monetary and macro-financial measures have been introduced to reduce the bank rate and incentivise lending to the real economy through the new Term Funding Scheme. On this basis, continued finance at similar levels, and no deleverage payments have been assumed. This is further supported by offers already received for the extension of loans maturing before the end of the 2020 calendar year. It is further worth noting that the loans are not cross-collateralised and accordingly if certain banks do act aggressively, the Group would continue to operate with the remaining portfolio of assets.
- Sensitivities to debt and loan covenants (driven by rental income, subjective yields and market values) were assessed in detail. In these difficult market conditions, lenders have been guided by the Government to take a pragmatic view to evaluate and consider prepayment possibilities and equity cures, and waivers of covenants, as set by the Prudential Regulation Authority (published on the Bank of England Website on 26 March 2020) and breaches with a direct link to the COVID-19 pandemic should not automatically, other things being equal, trigger a default. No breach cures have therefore been assumed in the forecast model. This is supported by the assessment that at the time of publishing this report all loan covenants were met, and headroom exists for both interest cover and Loan to Value loan covenants. The weighted average reduction in the Group's property valuations before default is 33%. Loan facilities subject to debt service cover ratio covenants allow for an average reduction in net rents of 64% before default.

Notwithstanding this assumption, the model illustrates that the Group would have cash resources available, even after considering the highly severe scenario, to be utilised to cure covenant breaches if they crystallise and the lenders take a hard stance against government advice.

- Sales and acquisitions. It remains the Company's mid-term strategy to exit its non-MLI portfolio and reinvest in MLI estates; however, the primary focus at present is to manage the business through the COVID-19 crisis and the consequent economic slowdown, by managing cash resources very carefully and maintaining liquidity in the business. In a stressed environment, the model assumed that no sales will occur before December 2021 and that no acquisitions take place during the 18 months to September 2021. It is assumed that activity return to plausible, pre- COVID-19 levels after this initial extreme period.
- The Company's REIT obligations were also carefully considered. The largest cash outflow for the business relates to the bi-annual dividend. In terms of the UK REIT regime, Stenprop is required to make a distribution of 90% of the Group's aggregate UK property rental business profits as calculated for tax purposes, within 12 months of the accounting period end. After considering the required dividend at the assumed level of rental income, with a 100% cash assumption, quarterly cash flow remains positive over the entire period.

Viability statement

Having considered the forecast cash flows, covenant compliance and the results of the stress test, 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	How we monitor and manage the risk	Movement in the period:	Trend	Linkage to KPIs
Strategy					
1 **Economic outlook and political risk, including the impact of the COVID-19 pandemic and Brexit**	Macroeconomic conditions can impact both the delivery of our strategy and our financial performance. The economic disruption resulting from the Covid-19 pandemic has already affected some of our tenants and impacted our rent collection levels. It could lead to a reduction in rental income, higher vacancy rates, decrease in property values, pressure on cash flows and potential difficulties in meeting bank covenants. Significant political events, including decisions related to Brexit, could further impact the health of the UK and German economies.	The Board considers economic conditions and political uncertainty when setting strategy, as well as when overseeing the implementation of the strategy and setting the Group's risk appetite. The executive and senior management teams are highly experienced and have 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. Specific key actions taken/ mitigating factors in the context of the current pandemic include: ▶ Bi-weekly board meetings ▶ Active engagement with tenants on an individual basis ▶ Continued investment in our MLI operational platform ▶ Consideration of transactions on a case by case basis ▶ Significant cash resources available to the Group See pages 11 and 13 of this report for additional information on our approach to Covid-19.	Whilst the Board believes that the German property market remains strong and that the UK MLI market has the characteristics required to remain robust in the long term, the COVID-19 pandemic will have a strong impact on the global economy. Our focus remains on controlling what we can within our business and positioning the Company for its long-term success.	↑	A B C D E

Principal risk	Potential impact	How we monitor and manage the risk	Movement in the period:	Trend	Linkage to KPIs
2 **Inability to increase the MLI component of our portfolio and complete the transition**	The inability to identify and acquire suitable MLI properties (which deliver returns sufficient to meet the Group's investment return criteria) will impact on the Group's ability to become the leading UK MLI business and the ability to deliver sustainable dividends. The downturn in economic outlook may impact our ability to sell non-MLI assets at attractive prices. It may also lead to the short-term need to maintain capital rather than deploying the proceeds of sales into MLI acquisitions and delay the completion of our transition.	The Company benefits from an experienced asset management team that continuously monitors and researches the multi-let industrial space to identify acquisitions opportunities. The strategic decision to accelerate the sale of all German assets allowed the sale of the Bleichenhof property when transaction volumes and valuations remained strong in Germany and will continue to give the executive team the power to sell when it is the most advantageous for the Company to do so, whilst increasing Stenprop's purchasing power in the UK.	Whilst the sale of the Bleichenhof property in February 2020 significantly increased the purchasing power of the Group, acquisition decisions will have to be considered on a case by case basis and balanced against the need to preserve capital in the context of the current pandemic. See the Property Report on pages 24 to 29 of this report for additional information on the UK MLI market and our expectations for our German assets.	Increase	A B D
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	We have chosen to work with Microsoft and partnered with KPMG as our implementation partner for the Microsoft solutions. The benefits of this approach are described in more detail on pages 36 and 37 of this report. We closely monitor progress and have hired a tech platform manager and a data analyst in-house to support our strategy. We also have a team of experienced and dedicated asset managers with deep expertise in managing MLI properties.	We have made significant progress on developing our MLI operating platform during the year under review. See pages 34 to 37 of this report for additional information and our plans for the current financial year.	Decrease	A B D

Trend Key:

- Increase
- Decrease
- No change

KPI Key:

- A Diluted adjusted EPRA Earnings per share (pence)
- B Distribution per share (pence)
- C Diluted EPRA NAV per share
- D MLI portfolio percentage
- E Group Loan-to-Value (LTV) percentage

Risk Management
continued

Principal risk	Potential impact	How we monitor and manage the risk	Movement in the period:	Trend	Linkage to KPIs
Financial risks					
4 Bank covenants	This may result in the acceleration of the Group's obligations to repay borrowings and the disposal of assets at discounted values	Loan facilities usually 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.	Despite the disruptions in the economy caused by Covid-19, we do not expect this risk to have increased. This is due to strong relationships we maintain with our facility providers and at the time of publishing this report, all loan covenants were met and headroom exists for both interest cover and LTV loan covenants. Read more in our viability statement on page 47 for additional information on sensitivities to bank covenants. Notwithstanding this assumption, the Group would have cash resources available, even after considering the highly severe scenario, to be utilised to cure covenant breaches if they crystallise and the lenders take a hard stance against government advice. It is further worth noting that the loans are not cross-collateralised and accordingly if certain banks do act aggressively, the Group would continue to operate with the remaining portfolio of assets.	↔	E
5 Availability and cost of finance	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 and reduced its gearing to 40.8% as at 31 March 2020. The impact of COVID-19 on debt refinancing and how this is monitored is further detailed in the viability statement on page 47.	We believe that the Group will be able to refinance existing debts at acceptable levels. This is supported by offers already received for the extension of loans maturing before the end of the calender year. However, the impact of COVID-19 on our ability to access new funding at competitive rates should not be discounted and is closely monitored.	↑	A D E

Principal risk	Potential impact	How we monitor and manage the risk	Movement in the period:	Trend	Linkage to KPIs
Operational risks					
6 **Costs of development of the F&O and CE platforms**	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. Our in-house tech platform manager leads the planning, development and implementation of all tech solutions under the active supervision of the Executive Property Director. The executive team keeps the implementation plans under constant review to identify early potential issues, suitable alternatives and solutions and review its budget expectations to the extent required.	This risk remains constant throughout the year and is not expected to increase now that Stenprop has identified Microsoft as the provider of the CE and F&O solutions and is in the advanced stages of design and, with regards to CE, implementation. See pages 36 and 37 for additional information.	No change	A, B
7 **Poor asset management**	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 F&O and CE systems 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 pages 35 to 37 of this report for additional information on our MLI operating platform. See also examples of added value created through excellent asset management on pages 15, 27 and 32.	No change	A, B

Trend Key:

- Increase
- Decrease
- No change

KPI Key:

- A Diluted adjusted EPRA Earnings per share (pence)
- B Distribution per share (pence)
- C Diluted EPRA NAV per share
- D MLI portfolio percentage
- E Group Loan-to-Value (LTV) percentage

Risk Management

continued

Principal risk	Potential impact	How we monitor and manage the risk	Movement in the period:	Trend	Linkage to KPIs
Operational risks – continued					
8 **Disruptions to or breakdown of IT systems including 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 the 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.	This risk is increasing due to the increased reliance of the Group on technology as part of the Group's long-term strategy and as part of its strategy for dealing with the Covid-19 pandemic.	↑	A C
9 **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.	This risk remained constant during the reporting period, but is expected to decrease during the current financial year. This is mainly due to the property manager engaged in relation to the MLI assets of the Group indicating that they will use the Microsoft solutions of the Group when launched rather than their own property management solutions, therefore reducing the risk of reliance.	↔	A C
10 **Employment and retention of key personnel**	The departure of a key individual and the inability to recruit a suitable replacement 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 business. It could impact performance and earnings.	The Company maintains policies and procedure to support and develop all employees. See pages 57 and 58 for additional information on our corporate culture as well as the remuneration committee report on pages 75 to 83 for additional information on the Company's remuneration policy and incentive schemes.	This risk remained constant during the reporting period. The Company is proud of its caring working culture which focuses on the well-being of its employees as well as results. It continues to promote team working, trust and accountability, learning and innovation and offers a supporting and challenging environment in which all employees are able to develop and make a meaningful contribution to the success of the Company.	↔	A C D

Principal risk	Potential impact	How we monitor and manage the risk	Movement in the period:	Trend	Linkage to KPIs
Emerging risks					
11 **Environmental and energy efficiency standards**	The inability to efficiently assess, monitor and report on the impact of the Group's activities on the environment with a view to limit that impact over time is expected to impact investors' and other stakeholders' confidence in the Company and ultimately impact on its ability to deliver on its long-term strategic goals.	The Group is currently reviewing its approach to these emerging risks with the assistance of specialist external advisers. It intends to formulate a strategy and roadmap to implementation during the course of the current financial year.	Additional attention is currently being devoted in this area to ensure the appropriate approach and indicators are applied.	↑	A

Trend Key:

- ↑ Increase
- ↓ Decrease
- ↔ No change

KPI Key:

- A Diluted adjusted EPRA Earnings per share (pence)
- B Distribution per share (pence)
- C Diluted EPRA NAV per share
- D MLI portfolio percentage
- E Group Loan-to-Value (LTV) percentage

Section 172 Statement

Section 172 of the UK Companies Act 2006 ('Section 172') is not directly applicable to Guernsey-registered companies such as Stenprop. However, the Company has elected to voluntarily comply with the 2018 UK Corporate Governance Code (the '2018 Code') which requires that a description be included in this report of how the interests of its key stakeholders and the matters set out in Section 172 (set out in the table overleaf) have been considered in board discussions and decision-making. The Board welcomes this new reporting requirement introduced by the 2018 Code as an opportunity to provide further insights to all its stakeholders as to how it operates.

Section 172 imposes a statutory obligation on each director to act in the way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its stakeholders as a whole having regard to certain factors. The Board understands that this duty applies across the full spectrum of the directors' role, from setting the Group's strategy to monitoring its corporate culture and approving significant business transactions, policies and procedures. The Board also understands that the long-term success of the Company is intrinsically linked to the interests of its stakeholders. A summary of how we engage with our stakeholders is provided on page 18 of this report with examples and additional information disseminated throughout this report. The directors intend to continue to encourage an open dialogue with members, customers, employees and business partners alike to understand the issues they face and consider their interests when setting the short and long-term strategy of Stenprop.

In the table below, we explain how the directors considered the matters set out in Section 172 when discharging their duties to the Company and its stakeholders by reference to some of the key activities and strategic decisions made during the year. Where relevant it includes explanations as to how the directors assessed and mitigated the impact of these decisions on stakeholders.

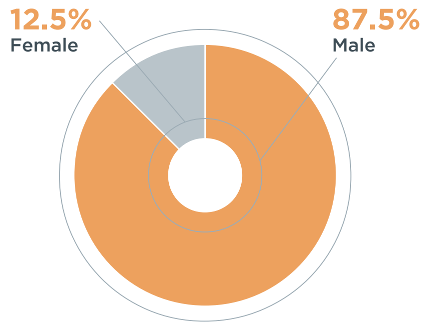
Additional information on the operation of the Board and its key activities during the year are also set out on pages 66 to 69.

Section 172 matter	How these matters were considered in discussions and decision making
Likely consequences of any decisions in the long term	The long-term strategy of the Group remains to deliver sustainable and growing income to shareholders. Every strategic decision is made after considering how it may impact this long-term objective. Additional information can be found in our Business Model section (pages 16 and 17) and Strategy section (pages 20 and 21). **Acceleration of sales** The strategic decision to accelerate the sale of the German assets to capitalise on strong valuations and an active German investment market was made after a detailed assessment of the potential short and long term impact on earnings from holding excess cash if these funds were not soon utilised to acquire further MLI estates. **Dividend declaration** The Board declares a dividend twice a year. When doing so, it considers its REIT compliance obligations and recognises the importance of dividend payments for its shareholders. It also considers the need to leave the company with sufficient resources to support its long terms business – see pages 46 and 47 for additional information on the long term assessment of the viability of the Company.
The interests of the Company's employees	See pages 56 and 58 for additional information of the Company's engagement with its employees, and how it seeks to promote their interests, from the various measure taken to promote their wellbeing, to the periodic and constructive feedback on their performance. The Board is aware that the needs of its workforce may change as Stenprop transitions further into a 100% focused MLI business. It encourages feedback from employees and continues to review and assess its working practices accordingly.

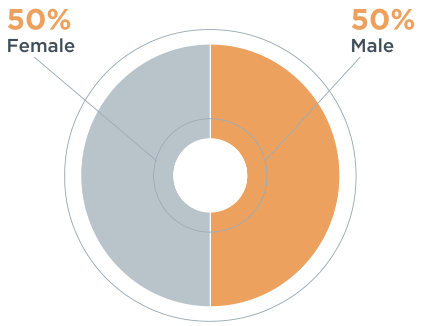
Section 172 matter	How these matters were considered in discussions and decision making
The need to foster the Company's business relationships with suppliers and customers	Delivering our vision to be the UK's leading MLI business requires strong working relationships with suppliers and customers. The Board closely monitors the performance of key suppliers and promotes excellent customer service. See page 19 for an example of how we are set to achieve this. COVID-19 Our response to the challenges presented by the COVID-19 pandemic has been driven by the way it is impacting our customers. As described throughout this report and more particularly on pages 11 to 13 and 45, we have actively engaged with our customers on an individual basis to assess the financial and operating impact of the current crisis on their business. The feedback and knowledge gained by the Group has driven the decisions of the Board on any offers of rent deferrals and concession, and has been the basis for setting the Group's short, medium and long term strategic responses to the crisis.
The impact of the Company's operations on the community and the environment	The Board recognises that the Group's activities have an impact on the community and the environment. The Board made the decision to engage with a sustainability partner during the current financial year to help the Company develop a formal sustainability strategy and roadmap to delivery. For additional information on sustainability as well as on the Company's engagement with charities, see pages 56 to 59 of this report.
Maintaining high standards of business conduct	The Board continuously promotes the core values of the business – customer-focused, results-oriented, innovative and decisive – via the monitoring of the Group's culture as set out on pages 57 and 58 and page 68 of this report. Specific examples include the review of its Modern Slavery Statement and Policy and of its whistleblowing policy.
The need to act fairly as between members of the Company	See pages 18 and 69 for additional information on the way the Board engages with its shareholders.

Responsible Business

Female/Male at executive and senior management level



Female/Male over all employees' population



Responsible Business

Our purpose is to revolutionise the MLI sector and our vision is to be the leading UK MLI business. We are committed to achieving this in a responsible, sustainable and ethical manner, generating long-term value not just for Stenprop but for all its stakeholders – employees, customers, business partners, shareholders and lenders – as well as the wider society.

We believe that a culture defined by values and behaviours aligned to these goals is essential to our success. During the year under review we have again looked at how we can improve our impact on the environment, how our corporate culture promotes our workforce and strategic goals, and how we can support the communities around us.

Sustainability – the changing environment

With over seven billion people residing on our planet, how we co-habit and use resources in a long-term sustainable fashion has been brought into sharp focus over the last 18 months. At Stenprop we recognise we have our part to play. Over the last 12 months we have been actively looking to incorporate sustainability into our business activities, as further described below.

We continue to evolve our thinking in this space and work towards putting in place a more robust sustainability framework. Over the course of the coming financial year we will be developing a new formal sustainability strategy and roadmap for delivery to ensure sustainability is embedded into our day-to-day business activities and aligned to our business goals.

Progress on 2020 targets:

- The most visible action we took is the installation of solar panels across three of our estates. We also acquired two new estates with solar panels already in place. We continue to look at the viability of installing solar panels on other estates, particularly where we are already sourcing energy for our customers. This alongside a focus on buying green energy will allow us to deliver a potential cleaner solution to our customers.
- We continue to assess and upgrade our units to enhance their EPC ratings. In particular replacing lighting on our MLI estates when they need replacing with LED lighting.

During the year ended 31 March 2020, we focused our efforts on improving the quality of existing data and the implementation of new F&O and CE systems designed to increase our capabilities in terms of collecting, monitoring, and using data. We believe that these systems will better enable us to assess and monitor energy data from our MLI estates.

We intend to review our energy targets and KPIs during the current financial year as we develop our new strategy and roadmap for sustainability.

Sustainability touches all aspects of our business from the way we operate our buildings through to the decisions and actions of our employees. In 2019 we appointed four customer engagement managers as a direct liaison with our customers, creating a regional presence and enhancing the customer experience. This served to reduce our carbon footprint by placing our employees closer to our estates, thus reducing travel.

We will be looking to incorporate sustainability in our drive to develop operational efficiencies across our business. We have recently adopted DocuSign for our Smart Lease roll out allowing us to reduce paper usage. We are also actively working with a number of our business partners to roll this out across other contracts where possible. The recent countrywide lockdown has enabled us to promote this more quickly across some business areas.

As further explained below, employee well-being is high up on our agenda, with many keen fitness enthusiasts within Stenprop. A large group choose to avoid public transport where possible, either running or cycling to work. In order to encourage this, we started the calendar year with a new challenge to all employees in 2020 to target cycling 10,000 miles across the course of the year. This may be difficult to achieve considering that most of our employees continue to work from home, but we aim at getting as close as possible to our initial target!

People and culture

Our culture is evolving in line with our strategy. We have identified four key themes of workplace culture which support our business model and values.

Well-being

We maintain a caring environment, with the well-being of our employees being a key focus. We wish to support, develop and protect our employees, encourage team working and communication. Stenprop subscribes to an employee assistance programme so employees can seek free confidential advice at times when they may require additional support. We promote well-being through a number of additional benefits including private medical insurance and travel insurance for all employees and a cycle to work scheme.

With the challenges of the current COVID-19 pandemic, it is increasingly important to ensure that all our employees remain connected, supported and are able to work in a safe and comfortable environment. We have the technology to work flexibly and we are incredibly proud of the way each individual at Stenprop has adapted to these difficult and unprecedented circumstances. This financial year, we intend to continue to look after the well-being and mental health of our staff and assist them balance their personal and professional lives.

Results

We focus on delivering results and excellent customer service through collaborative working, detailed planning and priority setting. We evaluate training needs in line with business objectives and encouraged our employees to attend training to improve performance and engagement.

The setting of individual objectives, periodic employee reviews and remuneration are all important elements of culture. Individual objectives are designed to reflect and reinforce both the Group's corporate KPIs and the role of each individual in achieving these KPIs taking into account the Group's values and desired behaviours. Performance reviews provide employees with constructive and honest feedback and the remuneration policy is intended to recognise and reward both individual efforts and corporate success.

We installed real-time dashboards in the office which display key performance indicators and we continue to communicate regularly on progress against targets.

Responsible Business continued

Decisive

Our success is largely driven by our ability to make timely, practical and cost-efficient decisions based on available data and previous experience. With that in mind, we have invested in technology solutions with the quality and accuracy of data as key elements of our strategy (see page 34 to 37 for additional information).

Learning and Innovation

As part of the renovation of our London office in 2018, we created different types of workspace to promote collaborative working and innovation.

We have a dynamic and diverse team of people at Stenprop that create a vibrant and inclusive culture.

We believe the ability to draw on this diversity and breadth of skills provides a healthy and creative environment for growth. We encourage learning and the exploration of new ideas but we also recognise when a particular process is not working.

Stenprop is committed to promoting equal opportunities in employment. All employees and any job applicants receive equal treatment regardless of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation.

Community

Our charitable initiatives policy continues to focus on our employees' personal causes and experiences. We support all employees who wish to engage in fundraising activities with our Matched Giving Scheme and we offer paid time off to those who wish to spend their time and apply their knowledge to charitable causes.

During the year ended 31 March 2019, we raised a fantastic £12,200 for our chosen Stenprop Charity of the Year, Bokamoso Education Trust. We are pleased to report that last year was another great success.

We set ourselves the target to raise a minimum of £10,000 for the 2020 Stenprop Charity of the Year, Demelza Hospice Care for Children, which would support an incredible 900 hours of care by a Demelza Care Assistant for those children who need it.

Throughout the year, we have been working closely with our Corporate Partnerships Manager at Demelza who continuously provided us with information about upcoming events taking place with the charity as well as unique and simple ways to raise money. In June 2019, seven Stenprop employees completed the Source-2-Sea challenge raising an impressive £19,000 for Demelza (including £6,000 donated by Stenprop through our Matched Giving Scheme). Stenprop also took a table at the Demelza Anniversary Ball where employees participated in the charity auction and made successful bids raising approximately £3,500. More recently Stenprop donated £8,000 for the acquisition of four UV lamps which keep water systems disinfected at the source and stop the spread of Legionella across children hospices operated by Demelza in Sittingbourne and Eltham. We have also made small donations through book sales and collection pots.

As we sadly end our partnership with Demelza, we welcome our new partner for the current financial year. Once again, we asked all our employees to nominate charities close to their heart, and we are excited to announce that Brain Tumour Research was nominated by several members of staff and chosen by Stenprop. Despite the challenging start to the year, we set the ambitious target of raising at least £20,000 to support continuous and sustainable scientific research into brain tumours.

Source-2-Sea challenge in aid of Demelza

June 2019 saw seven employees from Stenprop take on the lung-busting Source-2-Sea challenge, involving 31 hours of non-stop running. Setting off from the source of the River Thames near Cirencester, the seven experienced the typically inconsistent English weather – wind, rain, sunshine and mist - but it was the requirement to outrun some slightly agitated cattle that kept them on their toes. Injuries were only minor and, thankfully, no one ended up in the river as they navigated their way along the Thames path day and night. We are incredibly proud of the seven as they managed to raise £19,000 for Demelza Hospice Care for Children.

Brain Tumour Research

As we enter into another financial year here at Stenprop we also welcome our new and exciting charity partner, Brain Tumour Research.

Brain tumours are indiscriminate; they can affect anyone at any age. What's more, they kill more children and adults under the age of 40 than any other cancer... yet historically just 1% of the national spend on cancer research has been allocated to this devastating disease.

Brain Tumour Research is determined to change this.

The charity is building a network of experts in sustainable research at dedicated Centres of Excellence whilst influencing the UK Governments and larger cancer charities to invest more nationally.

The impact of COVID-19 is now seriously threatening the income streams they rely on to support their vital research and campaigning. Brain Tumour Research has spent the last decade developing 'discovery science' in order to get closer to a cure. They get no Government funding and rely totally on the generosity of supporters and partners to help them progress.

Professor Silvia Marino, the lead scientist at their Queen Mary University of London Centre said: "A break in funding for research into brain tumours now would have a devastating impact for years and years."

The charity is looking for help to minimise this risk and partnerships with local businesses and organisations offer advantages to both sides. Here at Stenprop we intend to take on virtual challenges to enhance team rapport and company loyalty during social distancing, whilst helping raise funds for this vital cause.

Despite COVID-19 having a major impact on life as we know it, we are determined at Stenprop to get creative and start thinking of ways we can work with Brain Tumour Research to start our fundraising for the financial year ending 31 March 2021.

Brain Tumour Research

Together we will find a cure

Governance


9
SCREWFIX
9
OPEN 7 DAYS

Chairman's Statement

Richard Grant
Independent Non-executive Chairman

When I sat down to write my Chairman's statement at this time last year, I was reasonably confident that Stenprop would be able to achieve the major milestones identified for 2019-2020 in our transition plan. I was conscious of the scale of the challenge necessary to achieve the business transition, requiring as it did a wholesale change in both the geography and sectors in which Stenprop is invested, but I could see that we were making good progress and the prospects for being able to deliver on our further transition milestones looked most promising.

The key elements of our transition were the progressive sale of our entire existing property portfolio, the acquisition of a market-leading portfolio of purpose-built MLI estates in the UK, a reduction in our balance sheet leverage to approximately 40% and the transition to a UK listing and largely UK shareholder base.

A key part of this process is the sale of our non-MLI properties in the UK, Germany and Switzerland. During last year, we felt confident that we would be able to successfully sell our largest single property asset in Germany, the Bleichenhof building, a mixed-use property in the centre of Hamburg. We were also successfully acquiring more MLI estates in the UK both through portfolio transactions and through the acquisition of individual estates where these could be purchased in line with our acquisition criteria.

Shortly before Christmas 2019 we announced the sale of the Bleichenhof building. We then announced completion of the transaction in March 2020. We were approaching our interim target for the MLI proportion of our property assets to be 60%. We were also confident of achieving our target to reduce balance sheet leverage to 40% by the end of the financial year.

At the beginning of 2020, I and many others in the property industry, were feeling a sense of optimism regarding the current business outlook, boosted by a decisive election outcome and a greater degree of clarity over Brexit progress. Achievement of the milestone targets in our transition strategy for the financial year to 31 March 2020 looked well within our sights.

However, none of us could have envisaged the extent of the change to every aspect of our life since the onset of the COVID-19 pandemic. In this utterly changed world, the immediate priority for all businesses has been to focus on the pandemic and its impact on staff, customers and suppliers. Obviously, this is the immediate focus for the Stenprop team and I have been pleased to see the speed and initiative with which they have adapted to these unprecedented circumstances.

As the potential impact of the COVID-19 pandemic became clearer, we undertook a rapid reassessment of immediate strategic priorities and quickly recognised the need to conserve cash, to maximise balance sheet strength and to manage the challenges of collecting rents from tenants all suffering from the effects of the pandemic in different ways. We also needed to look carefully at our existing borrowings and ensure that through the excellent relationships which we have with our lenders we keep them informed on a regular basis and ensure that we continue to have their full support.

Overall, I am confident that we have sufficient financial strength and flexibility to survive the impact of COVID-19 and, once the most immediate restrictions on activity are lifted, to be in a strong position to continue delivering on our remaining transition milestones through to the completion of our transition strategy.

One of the major priorities for the business this last year has been the development and implementation of a technologically advanced operating platform based around Microsoft's Dynamics software. This has been a major project both for the in-house Stenprop team, and for the external suppliers and consultants who are assisting us. It is a very considerable achievement that the first major phase has been developed and successfully implemented with only a marginal delay from the original schedule. The

implementation of this platform was always regarded as a key part of the transition to a wholly MLI focused-business but the huge and unexpected challenges presented by the COVID-19 pandemic have quickly confirmed many of the benefits to be derived from having such a platform.

As noted elsewhere in the Annual Report, the inception of the COVID-19 lockdown occurred in the final few weeks of March and as such had a minimal impact on earnings for the financial year. Whilst the Board is only too aware of the potential challenges that lie ahead, our strong balance sheet and significant free cash balances have allowed us to declare a final dividend of 3.375p per share. This takes the full year dividend to 6.75p per share, a distribution level which is fully covered by earnings. We continue to monitor the current events and will keep our future dividend policy under review.

As reported in more detail on pages 73 and 74 we have undertaken an external Board evaluation exercise this year for the first time. Board evaluations have been undertaken previously, but only on an internal basis. The report prepared by our external advisers identified the need to increase the independent element in the composition of the Group Board. The Board were aware of this issue in advance of the external evaluation and are committed to rectifying the situation over the next 18 months or so. I am pleased to be able to report that, apart from this, the overall conclusion of the evaluation exercise was that the board functions well and is providing appropriate strategic leadership and guidance to assist in the successful management of the business.

It was announced on 10 June 2020 that Warren Lawlor would be stepping down from the Stenprop Board with effect from the 2020 annual general meeting. Warren has been an outstanding contributor to the Board since he was appointed in April 2017. He has provided a vital sounding board to the management team on a variety of issues. He has also assisted in liaising with our South African investors.

It is the Board's intention to appoint a new independent non-executive director in the near future to replace Warren and a structured process to identify and attract an individual with the appropriate expertise and background will start in the near future. This will be an important step in the process to increase the extent of independent contributions to the Group Board's deliberations.

I should like to take this opportunity to say a huge thank you to my fellow Board Directors, to all the Stenprop staff and all those with whom we work in our supply chain and consultants for all their hard work during the year and, of course, in particular for the extra efforts which had to be made in recent months to manage our way through the unprecedented difficulties which we are facing as a result of the current pandemic crisis.

Although COVID-19 presents many significant challenges in the short and medium term I am confident that Stenprop can overcome these challenges, and more importantly, I remain confident that the fundamental attractions of the multi-let industrial sector in the UK are largely unchanged, and in a number of ways, may actually benefit from the undoubted changes which the business world will see as the impact and lessons from COVID-19 are absorbed.

Richard Grant
Independent Non-executive Chairman

11 June 2020

Our Board of Directors

Paul Arenson
Chief Executive Officer

Paul has been Chief Executive Officer of Stenprop since October 2014.

Skills and expertise
Paul founded Stenham Property Limited, a property fund management business, for the Stenham Group in 1995 and was its managing director from inception until October 2014. In October 2014, the Stenham Property business and a substantial part of the assets under management were transferred to a listed entity now known as Stenprop. Paul was appointed as its CEO. Stenprop was subsequently listed on the LSE in June 2018. Prior to joining the Stenham Group in 1995, Paul practiced as a UK corporate solicitor.

James Beaumont
Chief Financial Officer

James was appointed Chief Financial Officer in June 2019. He was previously Stenprop Head of Finance since June 2015, with responsibility for all aspects of finance, financial control, tax, accounting and reporting for the Stenprop group and funds managed by Stenprop.

Skills and expertise
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 and was appointed Executive Property Director in May 2018.

Skills and expertise
Julian established C2 Capital Limited, a real estate fund management business, in 2009 in 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 2007-2009, 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.

Richard Grant
Independent Non-executive Chairman

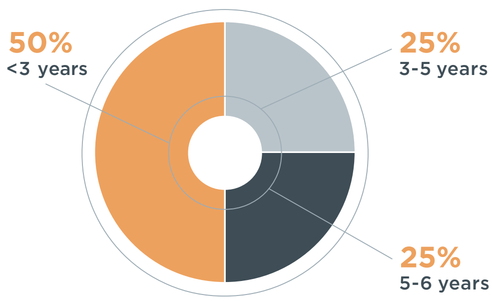
R AR SE N

Richard was appointed Chairman of the Board and chair of the nomination committee in May 2018.

Skills and expertise
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.

Additional roles held
Richard is currently the non-executive chairman of Helical plc, a UK property investment and development company listed on the London Stock Exchange. He is also the chairman of Helical's nominations committee. In addition, he is non-executive chairman of Wittington Property Investments Limited, a private property investment business.

Tenure of non-executive directors



Paul Miller

Independent
Non-executive Director

R AR N

Paul was appointed to the Board in September 2016. He is the senior independent director and chairs the remuneration committee.

Skills and expertise

Paul is a solicitor with over 25 years' experience in cross border mergers and acquisitions, joint ventures, international offerings, listed and unlisted funds and governance and securities laws issues, with a particularly focus on the real estate sector. Paul graduated from the University of Cape Town with Bachelor degrees in Commerce and Law. He built his career at Berwin Leighton Paisner LLP (now Bryan Cave Leighton Paisner LLP), where he was a senior partner and led the capital markets team for a number of years. He is now a director of Everglen Capital Partners LLP and remains a part-time consultant to Bryan Cave Leighton Paisner LLP.

Additional roles held

Paul is also an alternate director of Transaction Capital Limited, a company listed on the Johannesburg Stock Exchange.

Philip Holland

Independent
Non-executive Director

R AR SE N

Philip was appointed to the Board in May 2018. He chairs the audit and risk committee and the social and ethics committee.

Skills and expertise

Philip is a chartered accountant with more than 21 years' experience in board-level finance roles in the property sector. Between 2011 and 2017, 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 and prior to that with Natixis Capital Partners Limited, Atlas Estates Limited, Teesland plc and Estates & General plc. 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.

Additional roles held

Philip is also 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 became a non-executive director on 5 June 2019. Prior to that she was Chief Financial Officer of Stenprop between October 2014 and June 2019, having joined Stenham Property Limited in May 2007 as Finance Director.

Skills and expertise

Patsy holds Bachelor degrees in Commerce and Accountancy from the University of Witwatersrand in South Africa 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, Patsy spent three years as Finance Director of a division of Regus before leaving to join Stenham Property Limited.

Warren Lawlor

Non-executive Director

R

Warren was appointed to the Board in April 2017.

Skills and expertise

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.

Key

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

Executive

Non-executive

Corporate Governance Overview

Stenprop is a UK REIT registered under the Companies (Guernsey) Law, 2008 (as amended) ('Guernsey Law'). While it is not required to do so, the Board decided that the Company would comply with the 2018 UK Corporate Governance Code ('2018 Code') wherever possible. Any areas of non-compliance are disclosed and fully explained in this report. They include the balance of independent and non-independent directors on the Board (see 'composition of the Board' overleaf), the Chairman of the Board being a member of the Audit and Risk committee (see 'Committee composition and governance' on page 72 and the composition of the Remuneration Committee (see 'Operation of the Remuneration Committee' on page 76. The Company remains committed to achieving full compliance with the 2018 Code in due course.

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 report, the Company has applied the recommendations of King IV in all material respects. A report setting out how King IV principles and recommended practices were applied during the year ended 31 March 2020 is available on the Company's website.

Our governance and leadership structure

BOARD OF DIRECTORS

Chairman: Richard Grant

Composition: Chairman, 3 Executive Directors, 4 Non-executive Directors

Responsible for the Group's purpose, values and strategy and the promotion of its long-term sustainable success. It develops and reviews the Group's strategy and ensures that adequate internal controls and risk management processes are in place. It is also responsible for ensuring effective communication with all stakeholders.

Certain matters are reserved for the Board's approval, with other matters delegated to the committees of the Board or the Executive Directors as appropriate.

Audit and Risk Committee

Chair: Philip Holland

Composition: 3 Non-executive Directors

Oversees the external audit process, financial reporting, internal controls and risk management framework and assesses the need for an internal audit function

See full report of the committee on pages 70 to 72

Nomination Committee

Chair: Richard Grant

Composition: 4 Non-executive Directors

Reviews the Board composition and recommends changes, reviews the independence of directors, responsible for succession planning and annual board evaluation

See full report of the committee on pages 73 to 74

Remuneration Committee

Chair: Paul Miller

Composition: 4 Non-executive Directors

Determines the remuneration policy, sets the Executive Directors and senior management remuneration and approves annual and long term performan73 to 74ce objectives and awards

See full report of the committee on pages 75 to 83

Social and Ethics Committee

Chair: Philip Holland

Composition: 2 Non-executive Directors and senior management

Responsible for sustainable, social and economic development, responsible corporate citizenship and labour and employment relationships

See full report of the committee on page 84

Chief Executive and Executive Directors

Responsibility for the day-to-day management of the business. The Chief Executive is responsible and accountable for the implementation of the approved strategy with specific areas of the business managed by the other Executive Directors.

Operations Committee

An executive committee comprising of all executive directors and members of senior management. It focuses on the operational aspects of the effective management of the MLI portfolio of the Group, including financial reporting.

Composition of 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. James was confirmed in the role of Chief Financial Officer on 20 November 2019.

As at 31 March 2020, the Board comprised three independent Non-executive Directors including the Chairman, two non-independent Non-executive directors and three Executive Directors. The Board is aware that it does not comply with the requirements of the 2018 Code in terms of the balance of independent and non-independent directors and is committed to implement changes to achieve full compliance in due course. Warren Lawlor, who is not independent, has confirmed his intention to resign with effect from the 2020 Annual General Meeting, and the Board intends to recruit a new independent non-executive director during the course of the financial year.

The Board continues to have a strong mix of experienced individuals with a diverse range of skills and a wealth of business experience in property, including the MLI sector, finance and governance. They provide strong and effective leadership.

More information on the composition of the Board can be found in the Nomination Committee report on pages 73 to 74 of this Annual Report.

On the recommendation of the Nomination Committee, all the directors with the exception of Warren Lawlor will offer themselves for re-election at the 2020 annual general meeting.

Role of the Board and division of responsibilities

The Board ensures compliance with the Guernsey Law. It also ensures compliance with the articles of incorporation of the Company, which have been prepared in accordance with the Guernsey Law.

The Board has adopted a charter that sets out the practices and processes it follows to discharge its responsibilities. Certain key decisions and matters are reserved for the Board's approval, including setting the Group's strategy and overseeing its delivery, but also any changes to the Group's capital or corporate structure, significant transactions, budgets and the regular review of the financial position of the Group. The Board is also responsible for ensuring that the Group's culture is aligned to its purpose, values and strategy.

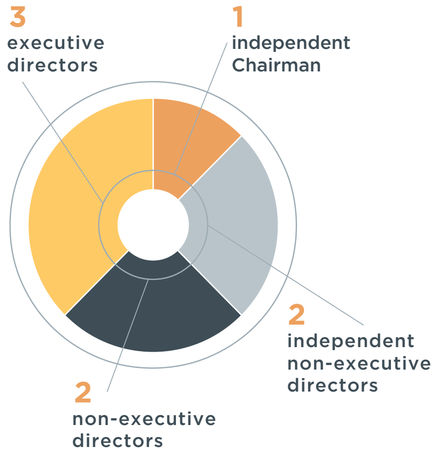
The directors believe that there is a clear balance of power and authority at Board level, such that no one individual or block of individuals can dominate the Board's processes and decisions. The Non-executive Directors constructively challenge the Executives and scrutinise the performance of management in meeting their agreed goals and objectives. This is key to the successful delivery of the Company's purpose to become the leading MLI business in the UK. During board meetings, a collaborative atmosphere allowing coherent discussions is maintained, with all Directors given the opportunity to contribute to the debate. Informal meetings and events are also arranged throughout the year to help build constructive relationships between the Directors and the senior management team.

There is a clear division of responsibilities between the Chairman, responsible for the leadership and effectiveness of the Board, and the Chief Executive, responsible for the day-to day management of the business.

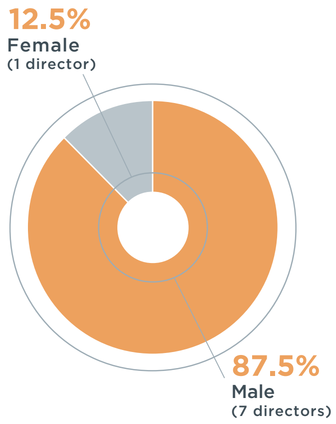
The Board has established four committees, the audit and risk committee, the nomination committee, the remuneration committee and the social and ethics committee to which certain powers have been delegated as detailed in the governance and leadership structure overview on page 66. The reports of these four committees, their key areas of responsibilities and their activities in the year ended 31 March 2020 are set out on pages 70 to 84 of this report.

During the reporting period, an operations committee was also established composed of all the executive directors and of members of senior management. Its key role and objectives are to improve efficiencies in the management of the MLI portfolio and financial reporting.

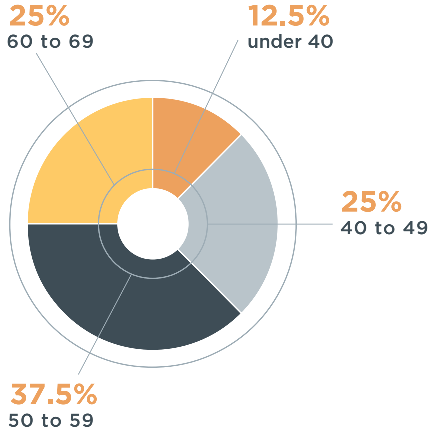
Board structure



Board gender split



Board member age



Corporate Governance Overview continued

Board meetings

Quarterly board meetings are scheduled during the financial year with additional meetings convened as necessary for exceptional business. The quarterly meetings follow a formal agenda which includes a business review and update on key operational matters, discussions on strategic matters, updates and reviews of the activities of the committees of the Board, any major transactions and legal and governance matters. A corporate board report with peer group comparisons, share price and volume analysis and share register analysis is also discussed at each quarterly meeting. 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 business to be considered.

Directors	Scheduled meetings	Ad hoc meetings	Total
Non-executives			
Richard Grant (Chairman)	4/4	3/3	7/7
Paul Miller	4/4	3/3	7/7
Philip Holland	4/4	2/3	6/7
Patsy Watson	4/4	3/3	7/7
Warren Lawlor	4/4	3/3	7/7
Executives			
Paul Arenson	4/4	3/3	7/7
James Beaumont	3/3	3/3	6/6
Julian Carey	4/4	3/3	7/7

Key activities of the Board during the reporting period

Topic	Activity
Strategy - General	Review of strategic objectives
Strategy - Recycling of assets	Strategic review and discussion on the timings of sales and acquisitions during the transition period leading to the strategic decision to accelerate the sale of the German assets Consideration and approval of the sale of the Bleichenhof property, including circular and notice of general meeting
Strategy - Multi-let industrial platform	Engagement with KPMG as Stenprop's implementation partner for the new CRM and F&O systems, review and approval of the scope of the project, followed by regular quarterly review of progress against initial plans Strategy discussions on Stenprop's operational business model
Strategy - Capital management	Extension of the Investec rolling credit facility to bridge the potential funding gap between property acquisitions and sales Strategic review of debt maturity profile and of refinancing alternatives with insurers rather than banks
Financial	Approval of a final dividend of 3.375p per share for the six months ended 31 March 2020 Approval of the interim dividend of 3.375p per share for the six months ended 30 September 2019 Review of 2020/21 annual budget
Governance	Approval of 2019 Annual Report and notice of 2019 AGM, consideration of results and shareholders' engagement on the composition of the Board Appointment of James Beaumont as Chief Financial Officer Review of changes introduced by the 2018 Corporate Governance Code and update to committees' terms of reference Approval of anti-slavery and human trafficking statement
Risk management	Consideration and management of key risks

Culture

The Board is confident that the four key themes of workplace culture identified by the Company and explained on pages 57 and 58 of this report – wellbeing, results, decisiveness and learning - promote the Company's purpose, values and strategy. The remuneration committee plays a key role in implementing a results driven culture focused on excellent customer service whilst promoting team working and communication via the setting of the Company's KPIs and of the remuneration policy. It oversees its implementation for all employees and monitors performance against objectives. Additional information is set out in the remuneration committee report on pages 75 and 83. The social and ethics committee encourages the continuous review and update of employment practices and policies, to ensure that they evolve and adapt together with the business. It promotes the wellbeing of all employees, as well as diversity, innovation and equal opportunities. The Board as a whole remains responsible for assessing and monitoring workplace culture and it receives regular updates from all its committees on their discussions and activities. The Board works in an open and transparent manner with constructive discussions, challenges and promotes this open and approachable culture throughout the business.

Conflicts of interest

All the Directors are required to avoid situations in which they may have potential conflicts of interest. Any potential, actual or perceived conflicts must be notified to the Chairman and the Company Secretary as well as all new outside interests that may affect them in their role as directors of the Company. Directors' interests and conflicts are recorded and reviewed by the Board at each meeting.

Board evaluation

This year Stenprop appointed Board Alpha Limited ('BoardAlpha') to undertake an externally facilitated Board evaluation.

Board Alpha made a number of detailed recommendations to improve the board's processes and also to improve independence and diversity in the board composition. The recommendations are being evaluated and it is anticipated that the majority will be implemented during the course of the coming year. We will report on progress in the 2021 Annual Report. Further information on the process of the board evaluation is set out in the nomination committee report on pages 73 and 74.

Risk management and internal controls

The Board determines the extent and nature of the risks it is prepared to take in order to achieve the Company's strategic objectives. It carries out a robust assessment of the principal and any emerging 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 pages 44 to 53.

The Directors also 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.

Property accounting for the non-MLI portfolio as well as the consolidation of the Group's financial information remain outsourced. However, during the reporting period, the financial management and accounting for the MLI portfolio was brought in-house and the Company hired a Head of Financial Operations who, together with the CFO, assumes overall responsibility for the accuracy of financial reporting. The Group employs a team of qualified finance managers who work in close collaboration with asset managers and property managers to ensure the appropriate level of oversight and analysis is provided to the financial reporting process.

The Operation Committee, composed of all the Executive Directors and certain members of senior management including the Head of Financial Operations and the Head of Asset Management, plays a key role in ensuring adequate and effective control procedures. The importance of accurate financial reporting is emphasised at all levels of the organisation and flows through to external property managers and other service providers who are monitored and reviewed with regards to the accuracy of their output on a monthly basis.

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

- Monthly management accounts are prepared and presented to the Operations Committee for review and discussion.
- Quarterly management accounts including variances to prior periods, budget and adequate narrative are presented and explained in detail to the Board.
- Financial reporting standards are considered for all transactions and where necessary, the Group's auditors are consulted. Memos are produced for the benefit of the audit committee and the Board for material transactions and accounting policy decisions.

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. During the reporting period the Board has engaged with KPMG to perform some additional audit assurance work. Further information on the scope of the work undertaken can be found in the audit and risk committee report on page 72 of this report. 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.

Company secretary

The Board has direct access to the advice and services of the Company Secretary, Sarah Bellilchi, who is also General Counsel to the Company and a member of the senior management team. The Company Secretary provides guidance to the Board and individual directors on corporate governance matters. She is responsible for ensuring that the Board and committees' procedures are followed and that the Company meets its statutory obligations.

The Board confirms that it has considered and satisfied itself on the competence, qualifications and experience of the Company Secretary.

Shareholder engagement

The Chief Executive Officer, Chief Financial Officer and Executive Property Director regularly attend analyst meetings and are available to meet or talk to investors if requested. Individual meetings and conversations with shareholders also took place throughout the year. The feedback received and the outcome of these meetings and conversations were communicated to the Board.

All significant events and transactions as well as the Group's financial performance are announced on a timely basis. 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.

Employee engagement

The Board recognise the importance of engaging with all the employees of the Group, provide a clear explanation of the Company's strategy and objectives as well as a channel for feedback and raising concerns.

This year the Company held again strategic sessions with executive directors and all members of senior management with the goal of setting and clearly articulating the Group's strategic objectives for the short and long term. The conclusions reached were then presented to all staff, encouraging questions and discussions to ensure buy-in from all employees to the Group's vision and values.

Patsy Watson was appointed as the designated non-executive director with responsibility for engagement with employees. Her role is to ensure that all employees have a forum in which to air their views and that these views are fed back to the Board.

All employees were encouraged to approach her with any queries, areas of concern, or just to discuss any matter of importance to them. We will report in due course on the outcome of any such discussions.

Audit and Risk Committee Report

Philip Holland
Independent
Non-executive
Director

Dear Shareholders

I am pleased to present the report of the Audit and Risk Committee for the year ended 31 March 2020.

ROLE AND RESPONSIBILITIES

The principal responsibilities of the committee are:

Oversight of external audit –

- 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;
- Review the work of the external auditor;
- Monitor the external auditor's independence and objectivity, review their performance and effectiveness and set the policy for non-audit services provided by the external auditor.

Integrity of reporting – review and challenge key judgements made by management, review and monitor the integrity of the full and half year financial statements, reports to shareholders and any other announcements regarding the Company's results or other financial information to be made public, including statements 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 stakeholders to assess the Company's position, performance, business model and strategy.

Internal controls and risks - 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.

Internal Audit – consider annually whether there is a need for an internal audit function and make recommendations accordingly to the Board.

Key areas of focus for the year under review

- The sale of the Group's largest non-MLI property, (known as 'Bleichenhof') approved at a general meeting on 19 February 2020, and the completion of a reporting accountants' assurance report on the proforma financial information contained in the circular issued to shareholders in accordance with the JSE Listings Requirements.
- Reviewed and recommended for approval the interim and annual financial statements and 2019 annual report. Considered the appropriateness of accounting treatment and areas of significant judgement.
- Further to the confirmation that the FRC's ethical standards in respect of the provision of non-audit services are extended to Guernsey incorporated companies under changes to the Crown Dependency Audit Rules and guidance (applicable for periods commencing on or after 15 March 2020), the committee reviewed and considered the audit services versus the non-audit services provided by Deloitte to the Group, including the work performed by the Deloitte tax advisory team. Following internal discussions and debate, and supported by the Company's full board of directors, it was decided to retain the Deloitte tax team due to its strategic importance in light of the significant changes to the tax structure of the Group during the last 18 to 24 months, including the conversion to a UK REIT in May 2018. The committee has therefore begun the tender process for the appointment of a new audit firm for the financial year ending 31 March 2021.
- Further information and a recommendation to shareholders for the appointment of new auditors at the 2020 annual general meeting will follow in due course.
- Assessed on an ongoing basis the risk matrix and its approach to considering the levels of risk tolerance, monitoring and mitigation
- Monitored on an ongoing basis the Risk Management Plan and the communication of issues to the Board.
- Considered and confirmed that it was satisfied as to the expertise and experience of the Chief Financial Officer.
- During the reporting period, significant efforts were put towards the design and phased implementation of a new unified ERP system which will align finance, operations and customer relationship management systems of the Group. The committee considered the suitability of these systems and the controls and governance around them. The committee also considered the Group's accounting treatment of the costs of this project.

Financial reporting and significant areas of judgement

The Audit and Risk Committee continues to monitor the integrity of the Company's results. It considers accounting policies and procedures adopted by the Group, reviews the content and messaging of the preliminary results, annual report and half year results, and the key judgements made by management in preparing the financial results.

The committee was satisfied that the processes and assumptions used by management 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.

The committee has satisfied itself that the controls over the accuracy and consistency of the information presented in the annual report are robust. It is also satisfied that appropriate financial reporting procedures exist, are working effectively and include consideration of all Group entities. The committee therefore confirmed to the Board that it believes that the 2020 Annual Report was fair, balanced and understandable and that it provided the necessary information to stakeholders to assess the Group's position, performance, business model and strategy.

Significant issues	Description
Going concern The appropriateness of 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 appraised management's assessment of going concern, the assumptions made including the highly severe scenario assumptions given the current market conditions and negative economic outlook, and the report of the external auditor in recommending that adoption of the going concern basis is valid. Further details can be found in note 2 of the financial statements and the viability statement on pages 46 and 47.
Viability statement Review of the assessment of the Group's long term viability and confirmation that the period of time used was appropriate	The committee reviewed and confirmed the appropriateness of the analysis prepared to support the Board's longer term viability statement (please see pages 46 and 47).
Investment property valuation The Group's investment properties are stated at estimated fair value, determined by directors, based on an independent external appraisal	Reviewed the independent valuation of the Group's investment properties and confirmed that judgements relating to assumptions and estimations underlying the valuations were appropriate, including the approach taken by the external independent valuers, JLL who have reported their valuation of our portfolio as at 31 March 2020 including reference to a 'material valuation uncertainty' created by the economic consequences of COVID-19 (see note 2 of the financial statements).
Assets held for sale	In executing the transition to become a 100% UK MLI business, a number of assets have been identified as held for sale in accordance with the criteria defined in IFRS 5: Assets held for sale and discontinued operations (see note 4 of the financial statements). The classification has been considered in the financial statements.

External audit

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

During the year, Deloitte continued to provide certain non-audit recurring work, mainly tax advisory work. The following fees were recognised by the Group during the financial year:

	Year ended 31 March 2020	Year ended 31 March 2019
Audit fees	**226**	244
Non audit fees		
Interim review fees	**30**	30
Tax compliance and advisory services	**236**	357
Total	**492**	631

The committee has reviewed the effectiveness of the auditor during the year. It considered the quality and scope of the audit plan and reporting. It also sought the views of the CFO, the Head of Financial Operations and directors on the audit process. Their feedback confirmed that Deloitte continued to perform well and produced a appropriate level of challenge to management. The committee concluded that it was satisfied with the audit process and Deloitte LLP's effectiveness and independence as an auditor.

As mentioned above, despite the Committee being of the opinion that the auditors remain independent, due to FRC's ethical standards in respect of the provision of non-audit services now being applicable to the Company, the Committee recommended to the Board that a competitive tender process be conducted for a new audit firm to be appointed for the financial year ending 31 March 2021. I would like to thank the Deloitte audit partner and staff for their hard work and diligence on the Stenprop audit engagement.

The audit tender process is nearing its final stages and a resolution recommending the appointment of the new audit firm will be included in the notice of Annual General meeting to be held in September 2020.

Risk management and internal controls

The risk management policy and process of the Group is detailed on pages 45 and 46 of this report. At every quarterly meeting, the committee reviews the Group's principal risks, including any new, emerging or project-specific risks and the actions taken by management to manage and mitigate them. Their potential effect on the Group's short and long-term results and goals are considered and discussed. Additional information on internal controls is provided on page 69.

During the year under review the committee paid particular attention to the risks associated with the design and implementation of the new ERP system as well as other risks linked to the strategic decision to become an operating business and the leading UK MLI specialist. It also carefully considered the strategic decision to accelerate the sale of non-MLI assets in light of the long-term business interests of the Company and its shareholders.

Audit and Risk Committee Report continued

Following the year end, the committee reviewed the Group's risk appetite and the Group's risk matrix and considered in particular the effect and potential impact of the current COVID-19 pandemic on the Group and its stakeholders. Whilst we consider there have been no material changes to the nature of the Group's principal risks, not surprisingly, several risks are elevated as a result of the challenging macroeconomic environment linked to the pandemic. Additional information on the nature of these risks and the actions taken to monitor and manage them is set out on pages 47 to 53 of this report.

The overall risk appetite of the Group was broadly unchanged during the year ended 31 March 2020 compared to the previous financial year. However, the Company is expected to take a more prudent approach to risk whilst the duration and impact of the current crisis remain uncertain. We intend to assess proposals and recommendations on a case by case basis balancing the need to maintain adequate capital to cope with a prolonged period of uncertainty against the long-term strategic objectives of the Group.

Taking into account the principal and emerging risks provided on pages 47 to 53 and the ongoing work of the committee in monitoring the risk management and internal control systems, the Audit and Risk Committee is satisfied that the directors have 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.

The Audit and Risk Committee has also reviewed the effectiveness of the risk management and control systems, including the design and implementation of internal financial controls, and it has not identified any failing or weakness deemed significant or material for the business of the Group.

Extended assurance

The Company does not have a formal internal audit function but does periodically make use of external service providers to perform extended assurance work. The need for the appointment of an internal auditor is reviewed by the committee and the Board at least once a year. The committee remains of the view that the appointment of an internal auditor is not justified considering the size of the Company.

During the financial year, KPMG were engaged to undertake extended assurance work on the risk and control matrices that are to be delivered as part of the system implementation of the Microsoft Dynamics unified operating platform. The objective of the review was to assess the risk and controls for key processes and report on the suitability of controls and to identify potential enhancements. KPMG worked closely with management and a report was agreed confirming that an appropriate level of control existed.

Committee composition and governance

There have been no changes to the membership of the Committee during the reporting period. The Committee is comprised of three members, all of whom are independent non-executive directors. We recognise that Richard Grant is the Chairman of the Company and should not be a member of the committee under the 2018 Code and the King IV Report. However, Richard was independent on appointment. He remains an independent director and provides significant input into committee meetings. Whilst we are committed to work towards full compliance with the provisions of the 2018 Code, we still considered it beneficial to have Richard as a member of the Committee. Richard Grant and I both meet the requirement of having appropriate recent and relevant financial experience and are joined by Paul Miller who has been a valued member of the separate committees since 14 September 2016.

Member biographies are set out on pages 64 and 65.

Members' attendance at committee meetings is set out below:

Member	Meetings attended
Philip Holland	4/4
Richard Grant	4/4
Paul Miller	4/4

All meetings are attended by the CFO and the Company secretary. In addition, representatives of the external auditors are invited to attend part of specific committee meetings. These attendees do not attend as members and as such have no voting rights.

As committee chairman, I also hold separate regular meetings with representatives of the external auditors and I meet privately with the Chief Financial Officer to obtain a good understanding of key issues affecting the Group.

Committee effectiveness

This year an externally facilitated Board evaluation was conducted. It included a review of the effectiveness of the audit and risk committee, which concluded that the committee continues to operate effectively.

Philip Holland
Chairman, Audit and Risk Committee

Nomination Committee Report

Richard Grant
Chairman of the Nomination Committee

Dear Shareholders

I am pleased to present the nomination committee report for the year ended 31 March 2020.

ROLE AND RESPONSIBILITIES

The principal responsibilities of the committee are:

Board composition – keeping the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and its committees under review and recommending changes to the Board

Succession planning – considering succession planning for the Board and the senior management team

Independence and time commitment – reviewing the independence and time commitment requirements of the Non-executive directors

Board evaluation – lead the annual evaluation of the Board, its committee and individual directors and make recommendations to the Board accordingly

Committee composition and governance

The members of the committee are Philip Holland, Paul Miller, Patsy Watson and myself. Patsy Watson was appointed as a member of the committee with effect from 5 June 2019. The committee is composed of a majority of independent directors, as required by the 2018 Code and King IV.

The committee's terms of reference were reviewed and updated following the publication of the 2018 Code. They can be found on the Company's website at stenprop.com/our-business/governance. The committee met three times during the year:

Members	Meetings attended during the relevant member's tenure
Richard Grant (Chair)	3/3
Philip Holland	3/3
Paul Miller	3/3
Patsy Watson	2/2

Appointment of new Chief Financial Officer

In our 2019 annual report we reported on the process undertaken to find a suitable candidate for the role of Chief Financial Officer in preparation for Patsy Watson's retirement. We explained that an external search consultant with no connection to the Group had been engaged to assist with the process and that a number of external candidates had been identified and interviewed. We also explained that we had considered and interviewed James Beaumont, then Head of Finance, reporting to Patsy Watson, as a candidate for the role. Following a detailed assessment of all the candidates, and taking into account James' experience and knowledge, we had decided to recommend to the Board the appointment of James Beaumont as Interim Chief Financial Officer.

The committee conducted a detailed review of James' performance in his new role and we were pleased to report in November 2019 that his appointment as Chief Financial Officer was confirmed.

Board evaluation

This year, we appointed Board Alpha Limited, an advisory firm which specialises in external board evaluations, to undertake an independent and externally facilitated evaluation of the effectiveness of the Board and its committees. Board Alpha has no connection with Stenprop.

The evaluation process was as follows:

Step 1
December 2019

Board Alpha met with the Chairman and the CEO to discuss and agree the scope and focus of the evaluation.

Step 2
December 2019 to February 2020

Board Alpha conducted a detailed review of all Board and committees papers as well as of all the minutes of meetings of the Board and its committees since March 2019.

Board Alpha held individual interviews with each director, the company secretary, and the sponsor.

Step 3
March 2020

Board Alpha attended Board and committee meetings.

Step 4
May 2020

Draft report discussed with the Chairman prior to finalisation and presentation to the whole Board.

Nomination Committee Report continued

In addition to the formal Board evaluation, a skills matrix was prepared and reviewed by the Board and will be used by the committee when considering future appointments to further assess the skills required of any new director joining.

Outcomes

I am pleased to report that the overall conclusion of the evaluation exercise was that the Board appears to be strong and to be effective at guiding the Company. It also recognises that the Board has been instrumental in developing the strategic goal for Stenprop of becoming the leading multi-let industrial business in the UK.

Board Alpha made a number of detailed recommendations to improve the Board's processes and also to improve independence and diversity in the Board composition. The recommendations are being evaluated and it is anticipated that the majority of the recommendations will be implemented during the course of the coming year. We will provide additional information on these recommendations and report on progress in the 2021 Annual Report.

Independence and re-election

Warren Lawlor who does not satisfy the criteria for independence has confirmed that he does not intend to stand for re-election at the 2020 annual general meeting and that he will resign with effect from that date.

The committee has assessed the time commitment required of all other Non-executive Directors and whether their re-appointment would be in the best interests of the Company, taking into account their individual contributions to the Board and its committees, their qualification and experience. The committee is of the opinion that each Non-executive Director continues to demonstrate commitment to his or her role and discharges their duties effectively.

The committee has also assessed the continued independence of all Non-executive Directors. We take feedback received from shareholders seriously and we paid particular attention to concerns raised in September 2019 in relation to the determination of independence of Paul Miller due to his continued involvement with Bryan Cave Leighton Paisner LLP, corporate legal advisers to the Company. However, the committee and the Board remain of the opinion that Paul Miller's independence is not impaired. The committee and the Board were able to reach that conclusion mainly based on the following factors:

- Paul Miller ceased to be an equity partner more than three years prior to his appointment to the Board and remains engaged with Bryan Cave Leighton Paisner LLP as a part time consultant with primary responsibility for matters relating to international business development, for which he receives a fixed fee;
- he is not involved in any work carried out by Bryan Cave Leighton Paisner LLP for the Company and his remuneration from them is not contingent on any such work; and
- the scope of day to day work carried out by Bryan Cave Leighton Paisner LLP for the Company remains relatively limited and the total fees paid to them by the Company in the reporting period are not deemed significant.

The committee and the Board also reviewed and confirmed my independence and the independence of Philip Holland. Although Patsy Watson is not considered independent due to her previous role as Chief Financial Officer of the Company, she continues to make a valuable contribution to the leadership of the Company for the benefit of all stakeholders.

The committee recommends that resolutions to re-elect each of the Non-executive Directors (except Warren Lawlor) be proposed at the 2020 annual general meeting alongside resolutions to re-elect the Executive Directors.

Accordingly, in accordance with the recommendations of the committee and in accordance with the 2018 UK Corporate Governance Code, each of the directors in role at the date of this report with the exception of Warren Lawlor will offer themselves for re-election at the 2020 Annual General Meeting. Biographies for each director can be found on pages 64 and 65 of this report.

Succession planning and diversity

Succession planning for Non-executive and Executive Directors as well as members of senior management remains an area of focus for the committee. It is the intention of the Board to appoint a new non-executive director to take office during the course of the current financial year and the committee will have a key role to play overseeing a structured process and identifying the right candidate, based on experience, knowledge and commitment, but also having regards to diversity, including age, gender, core expertise and social diversity.

At present, there is one female director on the Board, Patsy Watson. We did not achieve our target of having female directors constituting at least 20% of the total number of directors by 31 March 2020. However, we recognise the benefits of diversity, including gender diversity, and we remain committed to achieving this target. We will continue to pay full regards to diversity when searching for candidates for all Board appointments, as well as when considering succession planning for the senior management team. At present, only one member of the senior management team is female (representing 20% of the senior management team). 65% of the total number of employees below senior management level are females.

Committee effectiveness

The externally facilitated Board evaluation conducted by BoardAlpha included a review of the effectiveness of the nomination committee, which concluded that the committee continues to operate effectively.

Focus for the coming year

The committee will be focusing on two areas in particular in the coming year. Firstly, the committee is aware of the need to improve the independent element in the composition of the Board and to this end will be seeking to recruit a further independent non-executive director in the near future. In due course the intention will be to work towards achieving full compliance with the 2018 Code in terms of the balance of independent and non-independent directors on the Board. Secondly the committee will be considering the various detailed recommendations from the Board Alpha external board evaluation report and will be seeking to implement the majority of the recommendations.

Richard Grant
Chairman of the Nomination Committee

11 June 2020

Remuneration Committee Report

Letter from Chair

Paul Miller
Chairman of the remuneration committee

Dear Shareholder

On behalf of the Board, I am pleased to present our Remuneration Committee Report for the year ended 31 March 2020 which includes our remuneration policy and our remuneration implementation report.

Our remuneration policy (set out on pages 77 to 80) and our remuneration implementation report (set out on pages 81 to 83) are subject to separate non-binding advisory votes at the annual general meeting. 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 will engage with dissenting shareholders and address all reasonable concerns or objections.

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 Remuneration 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 continues to support the changes introduced by the 2018 UK Corporate Governance Code (the 2018 Code). The changes included 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.

Similar to last year, this report is divided into the following three sections:

- this letter, setting out some background to our policies and the work of the Remuneration 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 2020 and how it will operate in the year ending 31 March 2021.

The year under review

The business has continued to make good strategic and operational progress over the year under review against an uncertain economic and political backdrop. Very significant progress with respect to the strategic milestones established two years ago (targeting to become 60% MLI, a 40% LTV, conversion to UK REIT status, listing on the LSE, moving out of third party fund management and building a leading tech enabled MLI management platform) has been made. This could not have happened without a strong culture of teamwork and the willingness of all staff to embrace significant change.

The Remuneration Committee was aware that many of these objectives would, if successfully achieved, have the effect of dampening earnings in the short term. Examples of this are the strategy to reduce leverage and the decision to withdraw from third party fund management. As such, the Remuneration Committee decided to set a range of KPIs, only some of which were earnings related, to ensure that management were focused on all strategic objectives as a composite whole and also continued to maintain a cohesive team culture.

In the period under review no credit towards bonuses under the Stenprop's annual bonus plan was earned in respect of KPIs relating to sustainable EPRA EPS or for the percentage of MLI assets comprised in the Group's total portfolio as at 31 March 2020. The Group LTV at 31 March 2020 had been reduced to 40.8%, versus a target of 40% or less. It would have been entirely possible for a deleverage payment to be made to bring the Group LTV down to 40% given the available cash at year end. However, given the disruption caused by the onset of the COVID-19 pandemic, it was decided to instead retain cash to strengthen the Group's liquidity. In the circumstances, the Remuneration Committee applied its discretion and concluded that the KPI relating to the Group LTV would be deemed achieved.

In light of the above, each of Paul Arenson and Julian Carey received 47.57% of the maximum available award under the annual bonus scheme (2019: 79.51%). This included recognition for achievement of personal objectives. The Remuneration Committee and the Board believe that this outcome demonstrates that the Company's remuneration policy is working well and is aligned to the culture and performance of the Group.

Review of Stenprop's remuneration policy

In light of COVID-19 the Remuneration Committee and the Board consider it appropriate to make some changes to the remuneration policy to take account of the uncertain business environment that is likely to prevail for a large part of this financial year. The main change has been to introduce a larger weighting to personal goals in the KPIs compared to corporate goals so that when determining annual bonuses for the year ending 31 March 2021 for both executive directors and members of senior management, a 50% weighting will be allocated to corporate KPIs and a 50% weighting will be allocated to personal objectives. Further details are set out on page 80 of the remuneration policy section. The Remuneration Committee has also made it clear that it will retain an overriding discretion at the end of the financial year to modify the amounts payable under the scheme to ensure that all awards are appropriate having regard to the overall financial performance of the Company and/or to the budget. In addition, the Remuneration 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.

The Company also intends to make certain changes to take into account the net revenue generated on the MLI portfolio when determining annual bonuses for Stenprop's asset managers with the aim to further incentivise asset managers to achieve greater efficiencies in the management of the MLI portfolio.

Apart from the above, the remuneration policy remains unchanged this year.

The Remuneration Committee believes that its policy remains fair, appropriate and market-related, and that it complies with the five additional tests of simplicity, clarity, risk, predictability and proportionality introduced by the 2018 Code. The strategic goals of the

Remuneration Report continued

Letter from Chair

Group, both long term and for the current financial year, are clearly set out to all employees and shareholders, with the Remuneration Committee and the Board agreeing clear metrics against which performance is measured. The remuneration policy provides that a significant proportion of the remuneration of the senior team is linked to corporate and individual performance. The policy is designed to promote the long-term success of the Company, via a fixed element, made up of a market-related salary with reasonable benefits, and a variable element, broken into short and long-term incentives, with KPIs and vesting conditions reflecting the Company's strategic goals.

When reviewing the remuneration policy, the Remuneration Committee took into account views expressed by shareholders.

We also took into account the pay and benefits of all the employees of the Group, noting the general increase in salary proposed for all employees and levels of incentive payments and performance, before setting the remuneration of the executive directors and members of senior management. The Remuneration Committee did not consult with the Company's employees when drawing up the executive directors' remuneration policy.

James Beaumont's appointment to the role of Chief Financial Officer

The Remuneration Committee reviewed the Chief Financial Officer's employment contract following his appointment on 5 June 2019 to his current role. Following the recommendation of the Remuneration Committee, James Beaumont agreed to amend his terms of employment to increase his termination notice period to six months, in line with the termination provisions of the Chief Executive Officer and Executive Property Director. Over the course of the year, James's salary has also increased by 13.8% in recognition of his promotion.

Operation of the Remuneration Committee

During the year, the Remuneration Committee reviewed its terms of reference to ensure that they adequately reflected its role and areas of responsibility. A number of minor changes were made and the Remuneration Committee was pleased to note that in practice most of the latest requirements of the 2018 Code were already followed by it and the Group as a whole.

In line with the 2018 Code, the Remuneration Committee's remit now also includes formally approving the pay arrangements for members of senior management. The Remuneration Committee continues to have oversight of the Group's remuneration policy for the wider employee group to ensure alignment of incentives and rewards with culture.

The terms of reference of the Remuneration Committee are available on the Company's website. They are reviewed annually by the committee and the Board.

During the reporting period, the Remuneration Committee comprised three independent non-executive directors, including the chairman of the Board, and one non-independent non-executive director. I chaired the committee and the other members were Philip Holland, Richard Grant and Warren Lawlor. We note that Warren Lawlor, who is not an independent director, intends to resign with effect from the Company's 2020 annual general meeting. Although Warren's presence on the Committee does not comply with the independence requirement of the 2018 Code, his contribution to the deliberations of the committee during the transition to a focused UK MLI business has been particularly valued.

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

Committee member	Meetings attended
Paul Miller	4/4
Philip Holland	4/4
Richard Grant	4/4
Warren Lawlor	4/4

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

Paul Miller
Chairman of the remuneration committee

11 June 2020

Remuneration Report

Policy

STENPROP' REMUNERATION POLICY

Stenprop's remuneration policy as set out in the 2019 annual report was subject to a non-binding advisory vote at the 2019 annual general meeting and was approved by 86.14% of shareholders who voted. It will be subject again to a non-binding advisory vote at the 2020 annual general meeting.

Executive directors' remuneration policy

The table below sets out the elements of the executive directors' remuneration and how they operate.

Fixed remuneration		
Purpose and operation	**Maximum opportunity**	**Performance targets**
Basic salary To attract, motivate and retain high calibre executives.		
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.	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.	Individual performance is a factor when considering and reviewing salaries.
Benefits To provide market appropriate benefits as part of the total remuneration package		
Executive directors currently receive private medical insurance, life assurance and permanent health insurance. Other benefits such as car allowance may be provided where appropriate.	Whilst there is no maximum level of benefits for executive directors, it is at the same level as the wider employee population.	N/A
Pension or pension allowance To provide appropriate retirement benefits (or cash allowance equivalent)		
Pension benefits are provided via the Stenprop pension scheme, although employees including the executive directors, are entitled to receive a contribution towards their personal pension plan or a cash allowance instead of contributions to the Stenprop scheme.	Paul Arenson and Julian Carey: up to 10% of base salary. James Beaumont: up to 7% of base salary. For all new appointments, the maximum pension contribution will be at the level of the wider employee population (currently up to 7%).	N/A

Remuneration Report continued

Policy

Variable remuneration		
Purpose and operation	**Maximum opportunity**	**Performance targets**
Annual bonus To encourage executive behaviour that improves Company performance, limits loss and promotes an ethical culture and responsible corporate citizenship.		
Awards based on performance are granted following the financial year end when actual performance over that year is measured. A portion of the annual bonus is paid in cash with the balance (if any) 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 leaver/bad leaver provisions (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 misconducts. ▸ Reduction for malus provisions. ▸ Dividend equivalent payments in shares may be made.	The maximum level of annual bonus which may be granted is equivalent to 150% of basic salary.	Performance targets are determined each year by the Board following the committee's recommendation normally at the beginning of the financial year. They typically consist of a mixture of corporate performance targets and individual performance. Metrics and weightings may vary from year to year according to strategy and the market. See details on page 83 for the KPIs agreed by the Board for FY2021 and their weighting.

Variable remuneration

Purpose and operation	Maximum opportunity	Performance targets
Long term incentive plan To align executive directors' interests with the Company's long term strategic goal and the interests of the shareholders.		
Executive directors are eligible to receive annual awards under the terms of Stenprop's Long Term Incentive Plan (Stenprop LTIP). Awards under the LTIP may be: ▸ nil-cost options, granted in respect of the three-year period starting at the beginning of the current financial year; or ▸ market value options with an exercise price equal to the weighted average share price for the 10-day period prior to grant, which are granted in respect of the previous financial year. Executive directors are entitled to receive nil-cost options OR market-value options (but not both). 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 determined whether the vesting conditions have been met). The number of nil-cost options vesting depends on the predetermined vesting conditions being met. All options not vesting on the vesting date 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 made. Market value options: ▸ 1/3 vest on the first anniversary of year end; 1/3 vest on second anniversary of year end; and 1/3 vest on third anniversary of year end. No vesting conditions other than participant still being employed. Standard good/bad leavers 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 Stenprop DSBP). ▸ Reduction for malus provisions. ▸ Dividend equivalent payments in shares may be made.	Nil-cost options: Nil-cost options with a value equivalent to 200% of base salary (at the time of the grant, i.e. taking into account any salary increase decided in June the same year) to be granted automatically (but vesting subject to vesting conditions (performance targets). Market value options: Market value options with a value equivalent of up to 100% of basic salary (at the end of the financial year to which the KPIs relate, i.e. without taking into account salary increases for the new financial year), based on KPIs similar to the KPIs set for the annual bonus.	Vesting conditions for nil-cost options are typically determined by the Board following the committee's recommendation when awards are made. The committee and the Board retain full 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 page 83 for the vesting conditions agreed by the Board for the period to 31 March 2023. KPIs for market value options are determined each year by the Board following the committee's recommendation normally at the beginning of the financial year to which they relate. They are typically identical to the performance targets agreed with respect to the annual bonus and relate to the same period.

Remuneration Report continued

Policy

Non-executive directors' remuneration policy

The remuneration policy for the Chairman and non-executive directors should attract and retain individuals with the appropriate level of expertise and experience, taking into account the time commitment and responsibilities of each role.

Purpose and operation	Maximum opportunity	Performance targets
Fees		
The Chairman's fee is set by the remuneration committee. Remuneration of the non-executive directors is a matter for the executive directors and the Chairman. Fees are reviewed annually. Fees are paid quarterly in cash. The Chairman and non-executive directors do not participate in any incentive, share schemes, benefits in kind or pension arrangements.	No maximum or minimum fee increase is operated although any increase will be guided by the average increase awarded to executive directors and other employees and/or general movements in the market.	N/A
Other arrangements		
The Company may reimburse expenses reasonably incurred in fulfilment of the Company's business. The Company also provides the Chairman and non-executive directors with Directors' and Officers' Liability Insurance.	The maximum reimbursement is expenses reasonably incurred.	N/A

Remuneration policy for other employees

Salary reviews across the Group are carried out on the same basis as salary reviews for executive directors. All employees are entitled to substantially the same benefits as executive directors and are entitled to a pension contribution of up to 7% of their basic salary.

The remuneration package of members of senior management also includes a fixed and variable component. The annual bonus plan provides for a maximum level of award to be set by the remuneration committee from time to time (not to exceed 150% of basic salary) and the performance targets for the annual bonus are the same as those set for the executive directors, except that personal goals typically have a heavier weighting than would be the case for the executive directors. Members of senior management are also entitled to participate in the Stenprop LTIP, although they typically receive awards of market value options under the Stenprop LTIP with a value equivalent of up to 100% of basic salary rather than nil-cost options. KPIs are generally the same as the performance targets set for the annual bonus plan.

All other employees are also entitled to an annual cash bonus based on individual performance. To further align the policy to the Group's strategic goals and to its corporate culture, the Company intends to take into account the net revenue generated on the MLI portfolio when determining annual bonuses for individual asset managers.

Principles followed by the committee when making recommendations for KPIs, vesting conditions and eligibility for each scheme for the year ending 31 March 2021.

In setting vesting conditions and eligibility for awards of nil cost options under the Stenprop LTIP the committee applied the following principles:

- The Remuneration Committee concluded that awards of nil cost options under the Stenprop LTIP should continue to be made only to Paul Arenson and Julian Carey. All other executives and senior management should be incentivised through awards of market value options under the Stenprop LTIP.
- In setting vesting conditions for nil cost options awarded under the Stenprop LTIP, achieving the top end of the performance range for any given 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.
- Vesting conditions for nil-cost options under the Stenprop LTIP should comprise corporate goals only.

In setting KPIs for the annual bonus element of the remuneration package of executive directors and members of senior management, the Remuneration Committee applies the following principles:

- all KPIs 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;
- recognising the need to drive and reward individual performance, KPIs for the annual bonus element should comprise a combination of corporate and personal goals;
- as explained above, the Remuneration Committee has determined to apply a weighting of 50% for corporate goals and 50% for personal goals for the year ending 31 March 2021. The committee has also made all participants aware of the discretion it has retained to adjust awards to ensure they are appropriate in all the circumstances. The reduced weighting to corporate goals recognises the uncertainty caused by COVID-19. Ordinarily corporate goals would represent a more objective measure more demonstrably aligned to shareholders' interests. COVID-19 has however precipitated a need for a more flexible and adaptive corporate strategy as the impact and circumstances of the pandemic unfold. For example, at times it may be appropriate to conserve cash and not buy additional MLI whilst at other times it may be appropriate to accelerate purchases. Accordingly, the Remuneration Committee felt it important to be able to drive these changes through rewarding personal targets as events unfolded and for bonuses to be geared to a greater extent to regularly reviewed individual objectives.

Remuneration Report

Implementation

REMUNERATION IMPLEMENTATION REPORT

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

Table of executive directors' remuneration for year ended 31 March 2020:

	Basic salary £'000	Pension £'000	Other benefits £'000	Cash bonus £'000	Vested share options £'000	Total remuneration 31 March 2020 £'000
Executive directors						
Paul Arenson	275	14	13	161	148	610
James Beaumont*	146	11	2	31	19	209
Patsy Watson*	44	4	–	155	142	346
Julian Carey	264	18	8	155	132	577
	729	47	23	502	441	1,742

* *Remuneration covers the period of directorship.*

The comparative for the year ended 31 March 2019 and further detail regarding the vested share options as well as the table of non-exective directors' remuneration are included in Note 8 of the financial statements.

Salary increases

For the year ended 31 March 2020, the Board approved increases of 2.5% to the base salary of Paul Arenson and Julian Carey, in line with inflation. This was the same increase as awarded to other employees across the Group, other than where the role, scope or responsibility of an employee changed. James Beaumont's base salary increase was higher than inflation rate, to reflect his appointment and increased responsibilities in the role of Chief Financial Officer.

Annual bonuses and awards under the Stenprop STIP

Paul Arenson and Julian Carey were each entitled to an annual bonus of up to 150% of their basic salary, determined by considering performance against the four KPIs set out in the table below. James Beaumont's entitlement to an annual bonus was capped at up to 50% of his basic salary.

KPI	Targeted KPI	Actual as at 31 March 2020	% of bonus element achieved
Sustainable EPRA EPS for FY2020	Range between 7.00p and 7.20p	6.69p	nil
Percentage of UK MLI assets comprised in the Group's total portfolio as at 31 March 2020	Range between 58% and 65%	58.0%	nil
Group loan-to-value ratio as at 31 March 2020	40% or less	40.8%	100%*
Personal goals	Personal goals specific to each individual	Individual performance against personal goals	Average 90%

* *Due to the onset of the Covid-19 pandemic, the decision was made in March 2020 to retain unrestricted cash rather than make a deleverage payment which would have brought the Group LTV to 40%. Given the exceptional circumstances and the amount of unrestricted cash available at year end, the Clommittee applied its discretion and determined that this KPI was achieved in full.*

On 10 June 2020, the Board approved bonuses for the executive directors and members of senior management in line with the recommendations of the committee. Each of Paul Arenson and Julian Carey received a bonus equal to 71.35% of their basic salary, or 47.57% of the maximum annual bonus they could have received under the scheme. James Beaumont received a bonus equal to 30.86% of his basic salary, or 61.71% of the maximum annual bonus he could have received under the scheme.

Remuneration Report continued

Implementation

Awards under Stenprop LTIP

During the financial year, conditional awards of nil-cost options with a value equivalent to 200% of their basic salary were made to each of Paul Arenson and Julian Carey for the three-year period ending 31 March 2022. Vesting of these nil-cost options is subject to achievement of the following vesting conditions over the three-year period, each having a 25% weighting:

- Growing sustainable EPRA earning 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 then 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 then budgeted net income from the MLI business) and this will increase proportionally to 100% at the top of the range.

James Beaumont received market value options under the Stenprop LTIP equivalent to 61.71% of his FY2020 salary in respect of the year ended 31 March 2020. 1/3 of these market value options will vest on 31 March 2021, with 1/3 vesting on 31 March 2022 and 1/3 vesting on 31 March 2023.

Vesting of nil-cost options under the LTIP

31 March 2020 marked the end of the first three-year performance period since the adoption of Stenprop LTIP. On 10 June 2020, the Board, on the recommendation of the remuneration committee, determined that 20.5% of the first awards of nil-cost options under the Stenprop LTIP in respect of the three-year period ended 31 March 2020 had vested.

The table below shows the number of nil-cost options that vested for each of Paul Arenson, Julian Carey and Patsy Watson as a result:

Original awards	% vested	No. of nil-cost options fully vested
Paul Arenson	20.5%	119,093
Julian Carey	20.5%	114,470
Patsy Watson	17.1%^	95,353

^ In relation to Patsy Watson, the committee and the Board determined that she would be entitled to 83.3% of the award vesting over the period, to reflect her contribution to the strategy and success of the Group until 5 June 2019, when she retired from her role as Chief Financial Officer.

Nil-cost options which did not vest as per the above lapsed and will not be capable of exercise.

The table below shows how the Company performed over the three-year performance period against each of the objectives initially set as vesting conditions:

	% achieved
Growth in diluted EPRA EPS and dividend per share	0%
Growth of the MLI portfolio	36.6%
Total shareholder return	25.0%

Application of the remuneration policy for the year to 31 March 2021

We have set out below how the committee intends to implement the remuneration policy for the year ended 31 March 2021, including the KPIs which the committee intends to use to measure the performance of the executive directors and senior management team over the period, as well as the vesting conditions which have been set for options awarded under the long term incentive plan in June 2020 for the period to 31 March 2023.

We note that the committee intends to apply discretion when determining the final outcomes under the annual bonus scheme and LTIP awards. The committee will make any necessary adjustments to ensure that the level of payout is fair and appropriate and to avoid any windfall gains, in particular any that could arise as a result of the COVID-19 pandemic.

Salary increases

The Board approved increases of 2.5% to the base salary of the executive directors, in line with inflation.

KPIs for annual bonuses and awards under the Stenprop STIP for the year ending 31 March 2021

The following KPIs have been set and will be used to measure the performance of the executive directors and members of senior management over the current financial year for the purposes of calculating annual bonuses and awards under the Stenprop STIP:

KPI	Weighting
Growing sustainable EPRA earnings per share in a range around the budget plan forecast	20%
Completing £40 million to £60 million of MLI acquisitions	20%
Notarising the sale of the German assets of the Group.	10%
Personal goals specific to each individual	50%

The above KPIs will also be used to determine any awards of market value options under Stenprop LTIP for the period ending 31 March 2021.

Conditional awards under Stenprop LTIP

On 10 June 2020, conditional awards of nil-cost options equivalent to 200% of their basic salary were made to each of Paul Arenson and Julian Carey for the three-year period ending 31 March 2023. Vesting will be subject to the conditions set out in the table below

Vesting condition	Weighting
Growing sustainable EPRA earnings per share in a range around the budget plan forecast	1/3
Growing the net operating income from the MLI business in a range around the budget plan forecast	1/3
Achieving a total shareholder return that results in the total shareholder return of the Company being between 48th and 75th percentile of the total shareholder return of the European EPRA index.	1/3

Social and Ethics Committee Report

Philip Holland
Chairman of the Social and Ethics Committee

Dear Shareholders

I am pleased to present the Social and Ethics Committee report for the year ended 31 March 2020. This committee was established in accordance with the requirements of the King IV Report. Although it is not a requirement of the 2018 Code to have this committee, the Board empowered the committee to review and make recommendations to the Board on how the Company does business specifically having regards to ethical standards, sustainability and social responsibility, all important principles under the 2018 Code.

ROLE AND RESPONSIBILITIES

The principal responsibilities of the committee include monitoring the Group's activity with regards to matters relating to:

Social and economic development and good corporate citizenship – including the promotion of equality and the contribution to the development of local communities.

Sustainable development – the environment, health and public safety including the impact of the Group's activities

Employment relationships – including the Group's contribution towards the development of its employees, working conditions, the safeguarding of human rights and the right to be free from slavery and servitude

Committee composition and governance

The members of the committee are Richard Grant, Sarah Bellilchi and myself. The committee is composed of a majority of independent directors, as required by the King IV Report.

The committee's terms of reference can be found on the Company's website at stenprop.com/our-business/governance. The committee met three times during the year:

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

Sustainability

Information on the Group's efforts towards incorporating sustainability within its day-to-day business activities is set out on page 56. I am pleased to note the positive progress made with the installation of solar panels on our MLI estates, which was an area of focus for the committee during the reporting period, as well as the implementation of our new LED replacement lighting policy.

Over the course of the current financial year, we intend to formulate a new formal sustainability strategy and roadmap for delivery. We have retained the services of a sustainability partner to help us achieve this. Our 2020 targets will be reviewed and incorporated within this wider and more comprehensive strategy.

People and communities

We continue to promote diversity. The committee reviewed and updated Stenprop's Equal Opportunities Policy, confirming Stenprop's commitment to promoting equal opportunities in employment. All employees and any job applicants receive equal treatment regardless of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation. We believe that our dynamic and diverse team of individuals contribute to the success of the business.

As Stenprop progressed further through its transition to a fully MLI business, its workforce grew and adapted to new challenges. The committee supports them through the continuous review, and update to the extent required, of existing working practices and policies. During the year under review we oversaw in particular a risk assessment undertaken in relation to the work carried out by our new customer engagement managers.

The committee is also proud of the support that all Stenprop's employees have given to Demelza Hospice Care for Children throughout the year ended 31 March 2020. It was truly a team effort, from the seven who took up the Source-2-Sea challenge, to all those who supported them and helped fundraising. We are excited to partner with Brain Tumour Research for the year ending 31 March 2021 and see if the Stenprop team can beat its target.

Focus for the current year

With the difficulties and many challenges caused by the current COVID-19 pandemic, the committee aims to focus on ensuring that Stenprop provides a safe working environment to all its employees and continues to look after their wellbeing and mental health.

The development of a formal sustainability strategy and roadmap for delivery to ensure sustainability is embedded into Stenprop's day to day business activities and aligned to its long-term strategic goals will also be a key objective for the current year.

Philip Holland
Chairman of the Social and Ethics Committee

11 June 2020

Directors' Report

The directors present their report and the audited consolidated financial statements for the year ended 31 March 2020.

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 11 June 2020 of 3.375 pence per share, which, together with the interim dividend declared on 21 November 2019 of 3.375 pence per share, results in a total dividend for the year ended 31 March 2020 of 6.75 pence per share (2019: 6.75 pence per share).

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.

Capital structure

Details of the authorised and issued share capital are shown in Note 12 of 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 have reviewed the Group's cash flow forecasts for the 18 months to 30 September 2021 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 the foreseeable future, and specifically the 12 months subsequent to the signing 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

- Paul Arenson
- Julian Carey
- Patsy Watson (retired 5 June 2019)
- James Beaumont (appointed 5 June 2019)

Non-executive Directors

- Richard Grant (Chairman)
- Paul Miller
- Warren Lawlor
- Philip Holland
- Patsy Watson (appointed 5 June 2019)

Independent auditor

Following the conclusion of the ongoing audit tender process, a resolution to appoint the new 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, and provides the information necessary for shareholders to access the Company's position, performance, business model and strategy.

Statement as to disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information of which the Group's auditors are 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 auditors are 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 11 June 2020 and are signed on their behalf by:

Paul Arenson
Chief Executive Officer

James Beaumont
Chief Financial Officer

Financial Statements


43
Warning

Independent Auditor's Report

To the members of Stenprop Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

1. Opinion

In our opinion the financial statements of Stenprop Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's affairs as at 31 March 2020 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);
- have been properly 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;
- the related notes 1 to 31.

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

2. 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.

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: ▸ *Valuation of the property portfolio*
Materiality	The materiality that we used for the group financial statements was £7.8m which was determined on the basis of 2% of the net assets of the group.
Scoping	We performed a full scope audit to respond to the risks of material misstatement for the group and performed an audit 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	There have been no significant changes in our audit approach, other than to consider the impact of the Covid-19 pandemic which is discussed in more detail in the key audit matter and our approach to controls.

4. Conclusions relating to going concern, principal risks and viability statement

4.1 Going concern

We have reviewed the directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of the Covid-19 pandemic and Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2 Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Parent Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 44 to 53 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 69 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 46 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Independent Auditor's Report continued

To the members of Stenprop Limited

5. 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.

5.1 Valuation of the property portfolio

Key audit matter description	The group's investment property portfolio, as disclosed in note 16, is valued at £387.8 million as at 31 March 2020 (2019: £562.8 million). In addition, the group's share of investment property held by joint ventures is valued at £35.9 million (2019: £33.9 million) and property assets classified as held for sale are valued at £109.1 million (2019: £16.2 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 , 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. As detailed in note 16, in applying the Royal Institution of Chartered Surveyors (RICS) Valuation Global Standards 2020 ('Red Book'), the valuer has declared a 'material valuation uncertainty' in their valuation report. This is on the basis that market activity is being impacted in many sectors such that as at the valuation date they consider that they can attach less weight to previous market evidence for comparison purposes to inform opinions of value, and that a higher degree of caution should be attached to their valuation. In addition to this, and consistent with the market conditions observed in the prior year, we note there continued to be a higher level of judgement associated with certain asset valuations, notably those with a significant leisure or retail elements. Covid-19 further increased judgement in relation to assumptions around: ▶ occupier demand and solvency; ▶ asset liquidity; and ▶ the relative impact on the different sectors including leisure and retail units within the portfolio. 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 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: ▶ Obtained and documented an understanding of relevant controls in relation to the valuation process; ▶ Selected a sample of properties which we considered to be of most audit interest and with the assistance of our Real Estate Valuations specialists to audit 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 and Covid-19 considerations; ▶ Assessed whether the valuers are independent of the Group and considered the reliability and competency of the valuers; ▶ Assessed the accuracy of the tenancy schedules and reconciled the rental values used in the valuations to the tenancy schedules including tracing a sample back to underlying lease agreements; ▶ Assessed whether the disclosures in the financial statements are appropriate and in accordance with IFRS 13 Fair Value Measurement; and ▶ Assessed whether 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 property portfolio were appropriate, and that the resulting valuations were within a reasonable range. While we note the increased estimation uncertainty in relation to the property valuation as a result of Covid-19, and as disclosed in note 16, we considered the assumptions applied in arriving at the fair value of the Group's property portfolio to be appropriate.

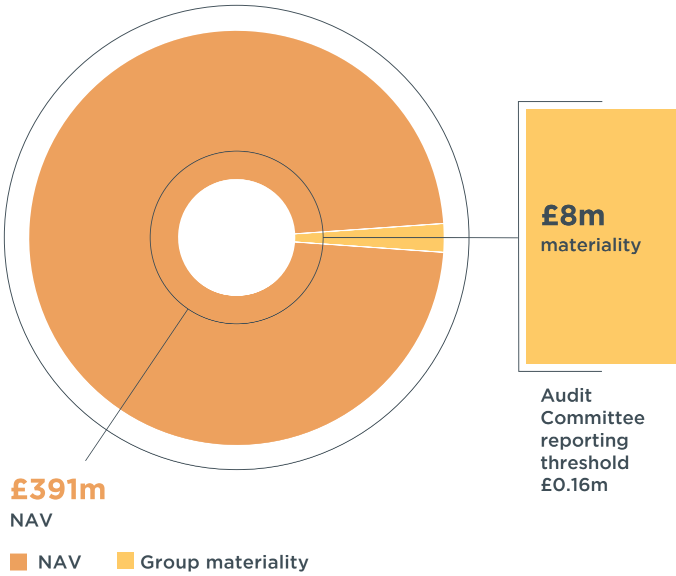
6. Our application of materiality

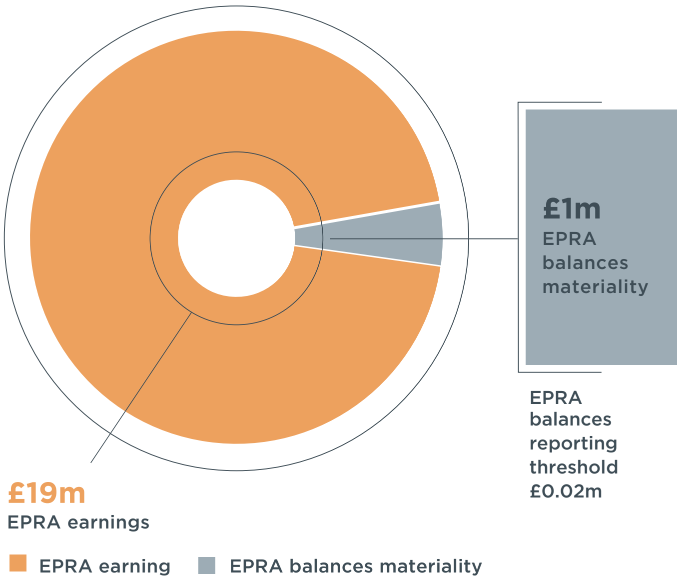
6.1 Materiality

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:

	Group financial statements
Materiality	£7.8m (2019: £8.0m) and a lower materiality of £0.95m (2019: £1.2m) for balances affecting EPRA earnings.
Basis for determining materiality	2% (2019: 2%) of the group's net asset value. The lower materiality used for balances impacting EPRA earnings was determined based on approximately 5% (2019: 5%) of EPRA earnings.
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 focussed 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.





Independent Auditor's Report continued

To the members of Stenprop Limited

6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

- our risk assessment, including our assessment of the Group's overall control environment; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.16m (2019: £0.16m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the group and its environment, including internal control, 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 in the consolidated financial statements and the joint venture entities. Together these elements account for 100% (2019: 100%) of the group's net assets and 100% (2019: 100%) of group's profit before tax. Audit work was executed at levels of Group or EPRA earnings materiality applicable to each account balance and our response to the risks of material misstatement was performed directly by the audit engagement team.

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.

8. 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.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable –** the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

We have nothing to report in respect of these matters.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

10. 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

11. Matters on which we are required to report by exception

11.1 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 this matter.

12. 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
11 June 2020

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 consolidated statement of financial position as at 31 March 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated 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 Stenprop Limited and its subsidiaries as at 31 March 2020, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. 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
Valuation of the property portfolio	
The Group's investment property portfolio, as disclosed in note 16, is valued at £387.8 million as at 31 March 2020 (2019: £562.8 million). In addition, the Group's share of investment property held by joint ventures is valued at £35.9 million (2019: £33.9 million) and property assets classified as held for sale are valued at £109.1 million (2019: £16.2 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, 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. As detailed in note 16, in applying the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards 2020 ('Red Book'), the valuer has declared a 'material valuation uncertainty' in their valuation report. This is on the basis that market activity is being impacted in many sectors such that as at the valuation date they consider that they can attach less weight to previous market evidence for comparison purposes to inform opinions of value, and that a higher degree of caution should be attached to their valuation. In addition to this, and consistent with the market conditions observed in the prior year, we note there continued to be a higher level of judgement associated with certain asset valuations, notably those with significant leisure or retail elements. Covid-19 further increased judgement in relation to assumptions around: ▶ occupier demand and solvency; ▶ asset liquidity; and ▶ the relative impact on the different sectors including leisure and retail units within the portfolio. 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 Committee Report.	To respond to the key audit matter, we have performed the following audit procedures: ▶ Obtained and documented an understanding of relevant controls in relation to the valuation process; ▶ Selected a sample of properties which we considered to be of most audit interest and with the assistance of our Real Estate Valuations specialists to audit 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 and Covid-19 considerations; ▶ Assessed whether the valuers are independent of the Group and considered the reliability and competency of the valuers; ▶ Assessed the accuracy of the tenancy schedules and reconciled the rental values used in the valuations to the tenancy schedules including tracing a sample back to underlying lease agreements; ▶ Assessed whether the disclosures in the financial statements are appropriate and in accordance with IFRS 13 Fair Value Measurement; and ▶ Assessed whether 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 property portfolio were appropriate, and that the resulting valuations were within a reasonable range. While we note the increased estimation uncertainty in relation to the property valuation as a result of Covid-19, and as disclosed in note 16, we considered the assumptions applied in arriving at the fair value of the Group's property portfolio to be appropriate.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report. other than the consolidated 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 and will 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 obtained prior to the date of this auditor's report, 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 and the company'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 6 years.

Deloitte & Touche
Registered Auditor
5 Magwa Crescent
Waterfall City
South Africa
2090

Per: Leon Taljaard
Partner
11 June 2020

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2020

	Note	31 March 2020 £'000	31 March 2019 £'000
Continued operations			
Revenue		**44,098**	44,502
Property expenses		**(11,049)**	(10,597)
Net rental income	6	**33,049**	33,905
Management fee income		**558**	9,541
Adjustment to deferred consideration		**–**	(3,695)
Net management fee income	5	**558**	5,846
Operating costs	7	**(10,053)**	(11,258)
Net operating income		**23,554**	28,493
Fair value gain/(loss) on investment properties		**4,938**	(3,404)
(Loss)/gain on disposal of property		**(2,779)**	17
Income from joint ventures	18	**2,115**	1,607
Income from associates		**–**	101
Profit on disposal of subsidiaries	26	**–**	11,126
Net foreign exchange gain/(loss)		**3**	(102)
Profit from operations[1]		**27,831**	37,838
Net loss from fair value of derivative financial instruments		**(2,410)**	(1,092)
Interest income		**432**	355
Finance costs	9	**(9,719)**	(8,251)
Other losses		**–**	(60)
Profit for the year before taxation		**16,134**	28,790
Current tax	10	**(5,874)**	(1,963)
Movement in deferred tax	27	**7,096**	(480)
Tax credit/(expense)	10	**1,222**	(2,443)
Profit for the year from continuing operations		**17,356**	26,347
Discontinued operations			
Loss for the year from discontinued operations	19	**(2,197)**	(2,323)
Profit for the year		**15,159**	24,024
Profit attributable to:			
Equity holders		**15,565**	23,828
Non-controlling interest derived from continuing operations		**(406)**	196
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation reserve		**4,104**	(1,272)
Total comprehensive income for the year		**19,263**	22,752
Total comprehensive income attributable to:			
Equity holders		**19,669**	22,556
Non-controlling interest		**(406)**	196
Earnings per share		**Pence**	Pence
From continuing operations			
IFRS EPS	14	**6.28**	9.26
Diluted IFRS EPS	14	**6.20**	9.16
From continuing and discontinued operations			
IFRS EPS	14	**5.50**	8.43
Diluted IFRS EPS	14	**5.44**	8.35

1. *Profit from operations now includes the gain/(loss) on disposal of property as well as net foreign exchange gain/(loss). These two line items were previously disclosed below profit from operations.*

Consolidated Statement of Financial Position

As at 31 March 2020

	Note	31 March 2020 £'000	31 March 2019 £'000
ASSETS			
Non-current assets			
Investment properties	16	**387,761**	562,815
Investment in joint ventures	18	**781**	465
Investment in joint venture bond[1]	18	**15,336**	14,077
Other debtors	20	**13,523**	13,365
Right-of-use asset		**465**	–
		417,866	590,722
Current assets			
Cash and cash equivalents	21	**84,453**	57,425
Trade and other receivables	20	**8,249**	6,699
Right-of-use asset		**26**	–
Assets classified as held for sale	19	**111,857**	21,423
		204,585	85,547
Total assets		**622,451**	676,269
LIABILITIES			
Current liabilities			
Bank loans	23	**–**	29,805
Taxes payable		**7,241**	1,625
Derivative financial instruments	25	**–**	176
Accounts payable and accruals	22	**16,689**	16,862
Provisions		**3,179**	–
Lease liability		**302**	–
Liabilities directly associated with assets classified as held for sale	19	**47,310**	9,326
		74,721	57,794
Non-current liabilities			
Bank loans	23	**154,171**	215,285
Derivative financial instruments	25	**2,001**	554
Lease liability		**222**	–
Deferred tax	27	**–**	10,416
		156,394	226,255
Total liabilities		**231,115**	284,049
Net assets		**391,336**	392,220
EQUITY			
Capital and reserves			
Share capital and share premium	12	**322,993**	322,993
Equity reserve	12	**(14,360)**	(15,708)
Retained earnings		**57,490**	60,952
Foreign currency translation reserve		**25,118**	21,014
Total equity attributable to equity shareholders		**391,241**	389,251
Non-controlling interest		**95**	2,969
Total equity		**391,336**	392,220
		£	£
IFRS net asset value per share	15	**1.38**	1.38
Diluted IFRS net asset value per share	15	**1.37**	1.36

The consolidated financial statements were approved by the board of directors on 11 June 2020 and signed on its behalf by

James Beaumont
Chief Financial Officer

1. *Amounts attributable to loans to joint ventures previously classified within investment in joint ventures has been moved to a separate line, investment in joint venture bond. Following the change in presentation, at 31 March 2020 £15.34 million has been separately classified as investment in joint venture bond. At 31 March 2019, investment in joint ventures has decreased by £14.08 million, and investment in joint ventures has increased by the same amount.*

Consolidated Statement of Changes in Equity

For the year ended 31 March 2020

	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 2019		**322,993**	**(15,708)**	**60,952**	**21,014**	**389,251**	**2,969**	**392,220**
Profit for the year		**–**	**–**	**15,565**	**–**	**15,565**	**(322)**	**15,243**
Total other comprehensive income for the period		**–**	**–**	**–**	**4,104**	**4,104**	**–**	**4,104**
Credit to equity for equity-settled share-based payments	13	**–**	**1,079**	**–**	**–**	**1,079**	**–**	**1,079**
Repurchase of own shares		**–**	**(4,828)**	**–**	**–**	**(4,828)**	**–**	**(4,828)**
Other changes in non-controlling interest		**–**	**–**	**–**	**–**	**–**	**(513)**	**(513)**
Ordinary dividends	11	**–**	**5,097**	**(19,027)**	**–**	**(13,930)**	**(2,039)**	**(15,969)**
Balance at 31 March 2020		**322,993**	**(14,360)**	**57,490**	**25,118**	**391,241**	**95**	**391,336**
Balance at 1 April 2018		315,551	(8,453)	57,947	22,286	387,331	2,939	390,270
Profit for the year		–	–	23,828	–	23,828	30	23,858
Total other comprehensive income for the period		–	–	–	(1,272)	(1,272)	–	(1,272)
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)
Ordinary dividends	11	7,377	–	(20,823)	–	(13,446)	–	(13,446)
Balance at 31 March 2019		322,993	(15,708)	60,952	21,014	389,251	2,969	392,220

Consolidated Statement of Cash Flows

For the year ended 31 March 2020

	Note	31 March 2020 £'000	31 March 2019 £'000
Operating activities			
Profit from operations from continuing operations		**27,831**	37,838
Loss from discontinued operations	19	**(2,967)**	(3,034)
		24,864	34,804
Income from associates		**–**	(101)
Depreciation and amortisation		**239**	–
(Increase)/decrease in fair value of investment property		**(1,741)**	5,259
Loss/(gain) on disposal of property		**2,779**	(17)
Income from joint ventures		**(2,115)**	(1,607)
Dividends received from associates		**–**	18
Dividends received from joint ventures		**56**	1,367
Profit on disposal of subsidiaries		**–**	(8,890)
Exchange rate gain/(loss)		**(3)**	102
Decrease/(increase) in trade and other receivables		**631**	(1,226)
Increase in trade and other payables		**3,782**	3,818
Cash generated by operations		**28,492**	33,527
Interest paid		**(9,224)**	(7,850)
Interest received		**1,296**	1,149
Net tax paid		**(2,738)**	(2,383)
Net cash from operating activities		**17,826**	24,443
Contributed by: Continuing operations		**20,707**	25,382
Discontinued operations		**(2,881)**	(939)
Investing activities			
Purchase of investment property	16	**(40,829)**	(110,188)
Capital expenditure	16	**(13,303)**	(9,996)
Proceeds on disposal of investment property		**144,628**	82,590
Proceeds on disposal of investment in associate		**–**	391
Proceeds on disposal of joint venture	18	**–**	22,726
Repayment of third party loans		**244**	–
Disposal of subsidiary	26	**–**	74,094
Net cash disposed of in subsidiary	26	**–**	(2,132)
Net cash from investing activities		**90,740**	57,485
Financing activities			
New bank loans raised		**24,668**	37,051
New third party loans raised	24	**–**	48,086
Dividends paid		**(13,930)**	(13,446)
Withholding tax on dividends paid		**342**	295
Repayment of borrowings		**(82,318)**	(61,208)
Repayment of third party loans	24	**–**	(48,086)
Principal elements of lease payments		**(375)**	–
Repurchase of shares		**(4,828)**	(7,920)
Financing fees paid		**(1,062)**	(1,054)
Net cash used in financing activities		**(77,503)**	(46,282)
Net increase in cash and cash equivalents		**31,063**	35,646
Effect of foreign exchange losses		**(4,695)**	(1,713)
Cash and cash equivalents at beginning of the period		**59,220**	25,287
Cash and cash equivalents at end of the period		**85,588**	59,220
Contributed by: Continuing operations	21	**84,453**	57,425
Discontinued operations and assets held for sale	21	**1,135**	1,795

Notes to the Consolidated Financial Statements

1 General Information

Stenprop Limited (the 'Company' and together with its subsidiaries the 'Group') is registered in Guernsey (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, and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the Companies Act, 71 of 2008 ('Companies Act') applicable to companies reporting under IFRS and 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 flows and positive net assets. Management have carefully assessed the impact of the market uncertainties arising from both Brexit and the outbreak of the COVID-19 pandemic, on the entity's net assets, liquidity and ability to continue as a going concern for the foreseeable future. Given the current market conditions and negative economic outlook, management subjected the Group's cash flow forecast to a stress test scenario for the 18 months to 30 September 2021 by applying highly severe scenario assumptions, including a 75% deterioration in rental income cash receipts, and direct landlord costs of four times the current level, driven by an increase in vacancies. These assumptions were applied over the entire 18 month period of assessment and do not include cash flows for the sale or purchase of properties. The test concluded that even in these scenarios the Group would have positive liquid assets and be able to meet its obligations as they fell due.

Debt refinancing and sensitivities to loan covenants were assessed in detail, as well as the Company's REIT obligations. Despite the disruption in the economy caused by COVID-19, we do not expect the risk of default to have increased. Lenders have been guided by the Government to take a pragmatic view and consider prepayment possibilities, equity cures and waivers of covenants so that breaches with a direct link to the pandemic should not automatically trigger defaults. In addition, we maintain strong relationships with our facility providers and currently have significant headroom for both interest cover and LTV loan covenants. Notwithstanding this assumption, the Group would have cash resources available, even after considering the highly severe scenario, to be utilised to cure covenant breaches if they crystallise and the lenders take a hard stance against government advice. It is further worth noting that the loans are not cross-collateralised and accordingly if certain banks do act aggressively, the Group would continue to operate with the remaining portfolio of assets if any foreclosure events were to arise.

In light of this review and the significant liquid assets, management are satisfied that the Group has access to adequate resources to 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 28 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:

- IFRS 16 — Leases

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 10 and IAS 28 (amendments) — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IFRS 3 — Definition of a business
- Amendments to IAS 1 and IAS 18 — Definition of material
- Conceptual Framework — Amendments to References to the Conceptual Framework in IFRS Standards

Impact assessment of adopting new accounting standards

The directors 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 16: Leases. In the current year, the Group has applied IFRS 16 Leases (as issued by the IASB in January 2016) which is effective for annual periods that begin on or after 1 January 2019. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 3. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

Notes to the Consolidated Financial Statements continued

2 Basis of preparation continued

The date of initial application of IFRS 16 for the Group is 1 April 2019.

The Group has applied IFRS 16 using the cumulative catch-up approach which:

- requires the Group to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

Impact on Lessee Accounting

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases, the Group:

- recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii);
- recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

Stenpop's weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 April 2019 is 3.46%.

The effect of adopting IFRS 16 in the current financial year is summarised below:

	Right of use asset £'000	Lease liability £'000
IFRS 16 leases entered into since 1 April 2019	730	(877)
Leases paid	–	375
Depreciation (operating costs)	(239)	–
Interest on leases (finance costs)	–	(22)
At 31 March 2020	491	(524)

In applying IFRS 16 for the first time, the Group have used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application.
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has elected not to reassess whether contracts entered into before the transition date were leases, or contained leases, at the date of initial application and instead has relied on their initial assessment made when applying IAS 17 and IFRIC 4 'Determining whether an Arrangement Contains a Lease'.

Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

New standards in issue but not yet effective

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

Amendments to IFRS 3 Definition of a business. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Additional guidance is provided that helps to determine whether a substantive process has been acquired. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

2 Basis of preparation continued

Amendments to IAS 1 and IAS 8 Definition of material. The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

Amendments to References to the Conceptual Framework in IFRS Standards. Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework. The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

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 separate legal entities, which may be legally structured as joint ventures. In assessing whether a particular legal entity 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 legal entity, 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 legal entity as a joint venture or subsidiary undertaking. In applying this policy and as detailed in note 18, the Group's investment in Elysion S.A. is classified as a joint venture as a result of the share of beneficial ownership and management of the portfolio being conducted by the joint venture partner.

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

Loans to joint ventures are separately presented from equity interests in the Group's consolidated statement of financial position. The Group eliminates upstream and downstream transactions with its joint ventures, including interest and any other costs, to the extent of the Group's interest in the relevant joint venture. The classification and measurement of loans to joint ventures is determined in accordance with the Group's accounting policies for financial assets.

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 statement of comprehensive income.

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies continued

The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, the following criteria are considered:

- The number of items of land and buildings owned by the subsidiary;
- The extent to which significant processes are acquired and in particular the extent of ancillary services provided by the subsidiary; and
- Whether the subsidiary has allocated its own staff to manage the property and/or to deploy any processes, including provision of all relevant administration and information to the entity's owners.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities.

There were no business combinations acquired during the 12 months to 31 March 2020.

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.

Rental income and lease incentives are recognised in accordance with IFRS 16 Leases. Rental income from investment property is recognised as revenue on a straight-line basis over the lease term. Lease incentives and costs associated with entering into tenant leases are amortised over the lease term, or if the probability that a break option will be exercised is considered high, over the period to the first break option. Rent reviews are recognised when such reviews have been agreed with tenants.

Service charge income, property fee income and joint venture and associate management fees are recognised in accordance with IFRS 15 Revenue from contracts with customers, which prescribes the use of a five-step model for the recognition of revenue. These income streams are recognised as revenue in the period in which they are earned.

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 statement of comprehensive income 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).

3 Significant accounting policies continued

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.

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 valuation techniques used are consistent with IFRS 13 fair value measurement.

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 in the fair value gain/(loss) on investment properties account.

Cash and cash equivalents

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

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies continued

Expenditure

Expenses are accounted for on an accrual basis. Property expenses include the costs of professional fees on lettings and other non-recoverable costs. Operating costs include all professional fees incurred in operating the business in the best interests of the shareholders.

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 classifies its financial assets based on both the Group's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets.

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. These assets meet the condition of being held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows and the terms of which give rise, on specified dates, to cash flows that are solely payments of principal and interest.

Financial assets, including those relating to the purchase of Stenprop shares (note 20), 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 classifies its financial assets at fair value through profit or loss where it has determined that the business model for managing the financial assets and the related contractual cash flow characteristics are not consistent with the policy for classification at amortised cost or fair value through other comprehensive income (OCI). The Group has determined that the bond investment in the Elysion S.A. joint venture meet this criteria as disclosed in note 4.

There are no financial assets measured at fair value through OCI, which would be classified as such where they are held within a business model whose objective which is achieved by both collecting contractual cash flows and selling the financial assets; and cash flows relate solely to payments of principal and interest.

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.

3 Significant accounting policies continued

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 28. They have been valued by an independent valuer in line with internationally accepted practice.

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.

Net asset value per share

Net asset value per share is calculated on the number of shares in issue (excluding treasury shares) at the end of the current period and is based on the total equity attributable to equity 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 and are required to waive all rights to compensation for any loss in relation to the plan. No further awards will be made under the Share Purchase Plan.

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies continued

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.

Key sources of estimation uncertainty

Valuation of the property portfolio

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. This has been particularly relevant in light of the market uncertainty due to both Brexit and the COVID-19 crisis, both of which have been carefully considered. 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. Due to the current economic uncertainty in the market due to COVID-19, the valuers have issued their valuation reports with a material valuation uncertainty clause attached to their valuations. They have advised there is less certainty attached to their valuations in comparison to the prior year, but that does not mean the valuations cannot be relied upon. 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 as well as the key sensitivity variables, can be found in note 16.

The Group currently has a number of continental European investment properties as assets held for sale. Due to the same reasons mentioned above that the COVID-19 crisis has caused, the assets held for sale valuations are also subject to a degree of valuation uncertainty and as such a key source of estimation uncertainty. Further information on assets held for sale can be found in note 19.

Critical judgements

Assets held for sale and discontinued operations

The directors have disclosed nine (2019: one) properties which meet the criteria defined in IFRS 5: Assets held for sale and discontinued operations. Stenprop is committed to the disposal of these assets in line with its strategy to exit the Swiss market, dispose of its German assets and acquire multi-let industrial properties in the United Kingdom. The directors have classified the Swiss property as a discontinued operation as this is the only property that remains in the Swiss market. Stenprop is committed to exit the Swiss market and as such have classified the Swiss segment as a discontinued operation. The remaining eight properties classified as held for sale are located in Germany, but they are not classified as a discontinued operation as Stenprop still has a material interest in the German market due to its holdings in the care homes joint venture, which is currently not held for sale. In respect of the 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. The circumstances were that the sole tenant of the property queried the validity of some of the conditions of the lease, particularly the requirement to pay the running costs of the building i.e. utilities. 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 insofar as a new lease, remedying the deficiencies of the existing lease, was entered into with the tenant with effect from 1 January 2020;
ii. the property was still being marketed at a price that is reasonable, given the change in circumstances;
iii. all other criteria in paragraphs 7 and 8 of IFRS 5 are met; and
iv. the sale will now complete within one year.

If the judgement that the Swiss property had not continued to be held for sale, this would have resulted in a restatement of the comparative period and presentation of the Swiss operating segment in continuing operations. This would not have had any impact on net assets or total comprehensive income as the fair value of the investment property has been determined by the directors, based on an independent external appraisal.

Classification of investment in joint venture bond

Classification and measurement of financial assets under IFRS 9 are driven by the entity's business model for managing financial assets and the contractual cash flow characteristics of those financial assets. The directors have determined that the contractual cash flow characteristics for bond investments into Elysion S.A. (a joint venture) are not solely payments of principal and interest. The Group instead receives the return for each underlying loan net of additional fees and expenses in Elysion S.A. ('JV') and so it is not considered to be a basic lending arrangement under the standard. Further details on the structure are included in note 18. As such, these bond investments are required to be measured at fair value through profit or loss. In making this judgement, the Directors have considered the power the Group has to influence the investment decisions of the JV housing the underlying loans,

4 Critical accounting judgements and key sources of estimation uncertainty continued

which are managed at the discretion of the JV partner, and were the Group to hold the majority interest it has been determined that the contractual cash flow characteristics for a basic lending arrangement would have been met and therefore accounted for at amortised cost.

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	
	UK Multi-let Industrial £'000	UK Non Multi-let Industrial £'000	Germany £'000	Switzerland £'000	Total £'000
For the year ended 31 March 2020					
Net rental income	17,932	6,343	8,708	–	32,983
Fair value movement on investment properties	3,828	(395)	1,505	–	4,938
Net (loss)/gain from fair value of financial liabilities	(1,573)	152	34	–	(1,387)
Loss on disposal of property	–	(114)	(3,688)	–	(3,802)
Income from joint ventures	–	–	2,114	–	2,114
Net finance costs	(3,759)	(1,464)	(4,103)	–	(9,326)
Operating costs	(397)	29	(790)	–	(1,158)
Net foreign exchange loss	–	–	(60)	–	(60)
Loss from discontinued operations (see note 19)	–	–	–	(2,197)	(2,197)
Tax (expense)/credit	(16)	(198)	1,327	–	1,113
Total profit/(loss) per reportable segment	16,015	4,353	5,047	(2,197)	23,218
As at 31 March 2020					
Investment properties	308,951	78,810	–	–	387,761
Investment in joint ventures	–	–	16,116	–	16,116
Cash and cash equivalents	13,585	3,078	11,815	–	28,478
Other	5,855	792	14,305	–	20,952
Assets classified as held for sale	–	–	96,605	15,252	111,857
Total assets	328,391	82,680	138,841	15,252	565,164
Borrowings – bank loans	121,841	32,330	–	–	154,171
Other	12,946	2,801	9,600	–	25,347
Liabilities directly associated with assets classified as held for sale	–	–	41,039	6,271	47,310
Total liabilities	134,787	35,131	50,639	6,271	226,828

Notes to the Consolidated Financial Statements continued

5 Operating segments continued

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

5 Operating segments continued

ii) Reconciliation of reportable segment profit or loss

	31 March 2020 £'000	31 March 2019 £'000
Rental income		
Net rental income for reported segments	**32,983**	33,730
Profit or loss		
Fair value movement of investment properties	**4,938**	(3,403)
Net loss from fair value of financial liabilities	**(1,387)**	(1,092)
Loss on disposal of property	**(3,802)**	–
Income from associates	**–**	101
Income from joint ventures	**2,114**	1,275
Profit on disposal of subsidiaries	**–**	11,126
Finance costs	**(9,326)**	(7,912)
Operating costs	**(1,158)**	(1,641)
Net foreign exchange (loss)/gain	**(60)**	46
Other gains	**–**	7
Loss for the year from discontinued operations (see note 19)	**(2,197)**	(2,323)
Tax credit/(expense)	**1,113**	(2,717)
Total profit per reportable segments	**23,218**	27,197
Other profit or loss – unallocated amounts		
Net management fee income	**558**	5,846
Other income	**66**	75
Income from joint ventures	**1**	331
Interest received	**–**	17
Finance costs	**41**	–
Tax, legal and professional fees	**(952)**	(2,740)
Audit fees	**(266)**	(261)
Administration fees	**(200)**	(226)
Non-executive directors' costs	**(233)**	(203)
Staff remuneration costs	**(4,576)**	(4,275)
Other operating costs	**(2,670)**	(1,862)
Net foreign exchange gain/(loss)	**63**	(148)
Tax credit	**109**	273
Consolidated profit after taxation	**15,159**	24,024

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

Notes to the Consolidated Financial Statements continued

5 Operating segments continued

iii) Reconciliation of reportable segment financial position

	31 March 2020 £'000	31 March 2019 £'000
ASSETS		
Investment properties	**387,761**	562,814
Investment in joint venture	**16,116**	14,485
Cash and cash equivalents	**28,478**	55,837
Other	**20,952**	19,680
Assets classified as held for sale	**111,857**	21,423
Total assets per reportable segments	**565,164**	674,239
Other assets – unallocated amounts		
Investment in joint ventures	**1**	57
Cash and cash equivalents	**55,976**	1,588
Other	**1,310**	385
Total assets per consolidated statement of financial position	**622,451**	676,269
LIABILITIES		
Borrowings – bank loans	**154,171**	245,090
Other	**25,347**	27,941
Liabilities directly associated with assets classified as held for sale	**47,310**	9,326
Total liabilities per reportable segments	**226,828**	282,357
Other liabilities – unallocated amounts		
Other	**4,287**	1,692
Total liabilities per consolidated statement of financial position	**231,115**	284,049

6 Net rental income

	31 March 2020 £'000	31 March 2019 £'000
Rental income	**38,220**	38,428
Tenant recharges	**5,836**	7,064
Other income	**806**	1,078
Discontinued operations adjustment (note 19)	**(764)**	(2,068)
Revenue	**44,098**	44,502
Direct property costs	**(11,378)**	(11,383)
Discontinued operations adjustment (note 19)	**329**	786
Property expenses	**(11,049)**	(10,597)
Total net rental income	**33,049**	33,905

7 Operating costs

	31 March 2020 £'000	31 March 2019 £'000
Tax, legal and professional fees	1,778	3,986
Audit fees	238	263
Interim review fees	30	30
Administration fees	495	531
Investment advisory fees	273	319
Non-executive directors costs	233	203
Staff remuneration costs	3,509	3,545
Share-based payments	1,079	730
ERP project expenses	974	–
Depreciation	239	–
Corporate costs	700	892
IT costs	389	556
Other operating costs	330	428
Discontinued Operations Adjustment (note 19)	(214)	(225)
	10,053	11,258

In the prior year the increase in tax, legal and professional fees was 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 £1,079,000 (2019: £730,000) relate to the equity-settled incentive schemes operated by the Group. As at 31 March 2020 the Group's equity reserve held £2.7 million (2019: £1.8 million) in relation to the schemes after the exercise of options at fair value of £220,000 (2019: £65,000) during the period.

8 Employees' and directors' emoluments

The Group had 28 employees at 31 March 2020 (2019: 23). The aggregate remuneration paid to employees during the period, including that to executive directors, was:

	31 March 2020 £'000	31 March 2019 £'000
Wages and salaries (including key management)	2,949	3,158
Social security costs	419	218
Pension costs	141	169
Share-based payments	1,079	730
	4,588	4,275

As at 31 March 2020, the Group had eight directors (2019: seven). 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
Paul Miller	14/9/2016	
Warren Lawlor	5/4/2017	
Richard Grant (chairman)	1/5/2018	
Patsy Watson	5/6/2019	
Philip Holland	1/5/2018	

Executive directors	Appointed	Change in appointment
Paul Arenson (CEO)	2/10/2014	
James Beaumont (CFO)	5/6/2019	
Patsy Watson (retired as CFO and became a non-executive director)	2/10/2014	5/6/2019
Julian Carey	1/5/2018	

Notes to the Consolidated Financial Statements continued

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 2020 £'000
Executive directors						
Paul Arenson	275	14	13	161	148	611
James Beaumont*	146	11	2	31	19	209
Patsy Watson*	44	4	–	155	142	345
Julian Carey	264	18	8	155	132	577
	729	47	23	502	441	1,742

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

^ *Other benefits relates to pension cash alternatives and the provision of private medical insurance.*

* *Remuneration covers the period of directorship.*

	31 March 2020 £'000	31 March 2019 £'000
Non-executive directors		
Stephen Ball – paid to Sphere Management Limited	–	4
Patsy Watson*	29	–
Richard Grant	58	53
Philip Holland	43	39
Paul Miller	40	40
Warren Lawlor – paid to Ferryman Capital Partners (Pty) Limited	40	39
	210	175

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 the equity-based share options at grant date and accounts for the cost over the vesting period in the statement of comprehensive income, 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.

* *Remuneration covers the period of directorship.*

8 Employees' and directors' emoluments continued

On 10 June 2020, the board of directors, on the recommendation of the remuneration committee, approved the following:

	Bonuses in respect of the year ended 31 March 2020				
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)
Paul Arenson	165	31	29,700	563	536,200
Julian Carey	158	30	28,500	541	515,200
James Beaumont*^	36	9	8,100	90	85,700
	359	70	66,300	1,194	1,137,100

* *Remuneration covers the period of directorship.*

^ *Market value LTIP*

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)
Paul Arenson	161	159	140,500	549	486,000
Patsy Watson	155	153	135,100	–	–
Julian Carey*	142	140	123,800	528	467,100
	458	452	399,400	1,077	953,100

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

As at 31 March 2020:

	Direct number of shares	% of shares in issue	Indirect number of shares	% of shares in issue	Number of share options held	% of diluted shares in issue
Paul Arenson (CEO)	–	–	14,102,005	4.72%	2,307,327	0.77%
Patsy Watson	–	–	4,674,929	1.56%	1,691,482	0.57%
Julian Carey	3,363,103	1.13%	15,751	0.01%	1,524,951	0.51%
Warren Lawlor	–	–	1,208,669	0.40%	2,000,000	0.67%
James Beaumont	50,320	0.02%	–	–	238,049	0.08%
Paul Miller	21,898	0.01%	–	–	–	–
Richard Grant (chairman)	–	–	100,000	0.03%	–	–
Philip Holland	24,999	0.01%	–	–	–	–

On 31 March 2020 James Beaumont exercised 7,569 nil cost options under the Deferred Share Bonus Plan. The Company utilised treasury shares to settle the exercise. The share transfer occurred on 14 April 2020 and is therefore not included in the above.

There were no further changes in the above directors' interests from 31 March 2020 to the date of the signing of these financial statements.

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

Notes to the Consolidated Financial Statements continued

9 Finance costs

	31 March 2020 £'000	31 March 2019 £'000
Bank interest	**(9,000)**	(7,898)
Amortisation of facility costs	**(789)**	(609)
Discontinued Operations Adjustment (note 19)	**70**	256
Net finance costs	**(9,719)**	(8,251)

Included in the 31 March 2020 bank interest amount of £9 million is £2.6 million (2019: nil) of bank interest costs in relation to the early repayment of the Bleichenhof bank loan upon sale of the property.

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 2020 £'000	31 March 2019 £'000
Current tax – UK		
On net income for the year	**(93)**	458
Current tax – Foreign		
On net income for the year	**5,769**	3,194
Discontinued Operations Adjustment (see note 19)	**198**	429
Total current tax	**5,874**	3,652
Deferred tax (see note 27)	**(7,096)**	(1,638)
Total tax (credit)/expense	**(1,222)**	2,443

No tax was recognised on other comprehensive income during the period (2019: Nil). Tax rates applicable in the jurisdictions which the Company operates in are:

- Germany: 15.825%
- United Kingdom: 19%
- Switzerland: 20%.

(ii) Reconciliation of tax charge for the year

	31 March 2020 £'000	31 March 2019 £'000
Profit before taxation on continuing operations	**16,134**	28,790
Expected tax charge on ordinary activities at the standard rate of taxation of 19% (2019: 19%)	**3,065**	5,470
Revaluation (gain)/loss not taxable	**(410)**	854
Gains on disposal of subsidiary not taxable	**–**	(2,114)
Income not taxable	**(58)**	(946)
UK REIT tax exemption	**(1,977)**	(2,621)
Expenditure not allowed for income tax purposes	**217**	165
Tax losses	**–**	723
Income from joint ventures	**402**	305
Effect of tax rates in other jurisdictions	**(643)**	(452)
Foreign withholding tax provision (release)/charge	**(1,880)**	1,742
Other	**62**	(683)
Total income tax (credit)/expense	**(1,222)**	2,443

11 Dividends

	For the year ended 31 March 2020	
	Pence per share	£'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 March 2019 paid on 16 August 2019	3.375	9,478
Interim dividend for the year ended 31 March 2020 paid on 14 February 2020	3.375	9,549
Total dividends distributed	**6.750**	**19,027**
Scrip dividends issued during the period:		
Final scrip dividend for the year ended 31 March 2019 issued on 16 August 2019	3.375	2,819
Interim scrip dividend for the year ended 31 March 2020 issued on 14 February 2020	3.375	2,278
Total scrip dividends issued	**6.750**	**5,097**
Dividends paid as reported in the consolidated statement of cash flows		**13,930**

	For the year ended 31 March 2019	
	Pence per share	£'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 March 2018 paid on 17 August 2018	4.000	11,281
Interim dividend for the year ended 31 March 2019 paid on 8 February 2019	3.375	9,542
Total dividends distributed	7.375	20,823
Scrip dividends issued during the period:		
Final scrip dividend for the year ended 31 March 2018 issued on 17 August 2018	4.000	2,987
Interim scrip dividend for the year ended 31 March 2019 issued on 8 February 2019	3.375	4,390
Total scrip dividends issued	7.375	7,377
Dividends paid as reported in the consolidated statement of cash flows		13,446

In the prior year, scrip dividends were settled by issuing new shares to shareholders who elected to receive the scrip dividend. For scrip dividends received by shareholders in the current financial year, these shares were issued out of treasury shares. Please see note 12 for further details.

The directors declared a final dividend on 11 June 2020, for the year ended 31 March 2020, of 3.375 pence per share, which is detailed in note 31.

12 Share capital

Authorised

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

Issued share capital	31 March 2020 (no. shares)	31 March 2019 (no. shares)
Opening balance	**298,775,175**	291,718,476
Issue of new shares	**–**	7,056,699
Closing number of shares in issue	**298,775,175**	298,775,175

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

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 (2019: 298,775,175) ordinary shares in issue at the reporting date, including treasury shares. During the period 3 April 2019 to 2 July 2019 the Company utilised treasury shares to settle the exercise of nil cost options to participants of the Deferred Bonus Plan. 198,010 options were exercised at an average issue price of £1.08 per share. As at 31 March 2020, the Company held 15,830,040 treasury shares (2019: 16,028,050). On 31 March 2020 a further 23,289 nil cost options were exercised under the Deferred Share Bonus Plan. The share transfer from treasury shares occurred on 14 April 2020 at a deemed value of GBP 0.94 per nil cost option.

Notes to the Consolidated Financial Statements continued

12 Share capital continued

On 6 June 2019, the Company announced a final dividend of 3.375 pence per share in respect of the six months to 31 March 2019. On 15 August 2019, the Company announced a take up of the scrip dividend and 2,491,772 shares were subsequently issued on 16 August 2019 from treasury shares.

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 2019. On 13 February 2020, the Company announced a take up of the scrip dividend and 1,662,173 shares were subsequently issued on 14 February 2020.

In the period the shareholders were offered the option to receive either a scrip dividend by way of an issue of Stenprop treasury 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 17 July 2019 to 8 August 2019 the Company repurchased 2,491,772 shares at an average price of £1.071 per share. During the period 4 February 2020 to 6 March 2020 the Company repurchased 1,662,173 shares at an average price of £1.273 per share.

The equity reserve account within equity holds all the Company's treasury shares from which all scrip dividends and equity settled share based payments are credited to and issued from on exercise (see note 13).

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 £1,079,000 in the year (2019: £730,000) in relation to the share option schemes. As at 31 March 2020, the equity reserve held £2,657,000 in relation to share-based payment transactions (2019: £1,798,000).

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 6 June 2019 are shown below:

Share price at date of grant	£1.12
Expected option life in years	2
Risk-free rate	0.82%
Standard deviation (annualised)	22%
Value per option	£1.12

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

Date of grant	At 1 April 2019	Granted	Dividend equivalents	Exercised/ Other	Outstanding at 31 March 2020	Exercisable at 31 March 2020	Fair value at grant date in GBP	Exercise dates From	Exercise dates To
10 June 2015	393,564	–	34,256	–	427,820	427,820	£1.08	10 June 2015	10 June 2025
8 June 2016	284,688	–	12,844	(23,883)	273,649	273,649	£1.05	8 June 2016	8 June 2026
7 June 2017	29,748	–	684	(16,712)	13,720	13,720	£1.08	7 June 2017	7 June 2027
7 June 2018	381,644	–	21,988	(91,796)	311,836	311,836	£1.13	7 June 2018	7 June 2028
6 June 2019	–	556,536	20,230	(75,923)	500,843	321,113	£1.12	6 June 2019	6 June 2029

Weighted average exercise price of deferred share bonus plan share options	At 31 March 2020	At 31 March 2019
Exercisable	**£1.10**	£1.09
Non-exercisable	**£1.12**	£1.13

Weighted average remaining contracted life of deferred share bonus plan share options	At 31 March 2020	At 31 March 2019
Exercisable	**7.1 Years**	7.3 Years
Non-exercisable	**9.1 Years**	9.2 Years

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 6 June 2019 are shown below:

Share price at date of grant	£1.12
Exercise price at grant date	£1.12
Expected option life in years	10
Risk-free rate	0.51%
Expected volatility	26%
Value per option	£0.26

Date of grant	At 1 April 2019	Granted	Dividend equivalents	Exercised/ Other	Outstanding at 31 March 2020	Exercisable at 31 March 2020	Fair value at grant date in GBP	Exercise dates From	Exercise dates To
24 January 2018	84,089	–	10,439	–	94,528	94,528	£0.47	31 March 2018	24 January 2028
7 June 2018	341,435	–	51,054	69,835	462,324	308,216	£0.27	31 March 2019	7 June 2028
6 June 2019	–	486,758	29,020	–	515,778	171,926	£0.26	31 March 2020	7 June 2029

Weighted average exercise price of LTIP for senior management share options	At 31 March 2020	At 31 March 2019
Exercisable	**£1.13**	£1.13
Non-exercisable	**£1.12**	£1.13

Weighted average remaining contracted life of LTIP for senior management share options	At 31 March 2020	At 31 March 2019
Exercisable	**8.4 Years**	9.1 Years
Non-exercisable	**8.9 Years**	9.2 Years

Notes to the Consolidated Financial Statements continued

13 Share-based payments continued

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 6 June 2019 are shown below:

Share price	£1.12
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	£0.52

Date of grant	At 1 April 2019	Granted	Dividend equivalents	Exercised/ Other	Outstanding at 31 March 2020	Exercisable at 31 March 2020	Fair value at grant date in GBP	Exercise dates From	Exercise dates To
24 January 2018	1,450,492	–	244,352	(1,227,124)	467,720	–	£0.68	8 June 2020*	8 June 2027
7 June 2018	1,469,380	–	72,665	(468,182)^	1,073,863	–	£0.52	7 June 2021*	7 June 2028
6 June 2019	–	964,172	57,482	–	1,021,654	–	£0.52	6 June 2022*	6 June 2029

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

^ *Patsy Watson 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 when she retired on 5 June 2019.*

Weighted average exercise price of LTIP for executive directors share options	At 31 March 2020	At 31 March 2019
Exercisable	–	–
Non-exercisable	–	–

Weighted average remaining contracted life of LTIP for executive directors share options	At 31 March 2020	At 31 March 2019
Exercisable	–	–
Non-exercisable	8.0 Years	8.7 Years

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 year ended 31 March 2018. The option lapses should the individual cease to be a director, or at the discretion of the Board, after five years. 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 £0.94, 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 2019	Granted	Exercised	Outstanding at 31 March 2020	Exercisable at 31 March 2020	Fair value at grant date in GBP	Exercise dates From	Exercise dates To
30 March 2017	2,000,000	–	–	2,000,000	2,000,000	£0.13	30 March 2022	7 June 2029

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 2020 £'000	31 March 2019 £'000
Brought forward at start of year	(number of shares)	**10,211,145**	10,211,145
Share Purchase Plan shares issued in year	(number of shares)	**–**	–
Share Purchase Plan shares redeemed	(number of shares)	**(173,983)**	–
Carried forward at end of year	(number of shares)	**10,037,162**	10,211,145
Stock price at advancement	(€)	**N/A**	N/A
Share Purchase Plan loans advanced (including accrued interest)	(£'000)	**12,265**	12,304

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 2020 £'000	31 March 2019 £'000
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)	**1,028**	1,056

Notes to the Consolidated Financial Statements continued

14 Earnings per ordinary share

	31 March 2020 £'000	31 March 2019 £'000
Reconciliation of profit for the period to adjusted EPRA[1] earnings		
Earnings per IFRS statement of comprehensive income attributable to shareholders	**15,565**	23,828
Adjustment to exclude loss from discontinued operations	**2,197**	2,323
Earnings per IFRS statement of comprehensive income from continuing operations attributable to shareholders	**17,762**	26,151
Earnings per IFRS statement of comprehensive income attributable to shareholders	**15,565**	23,828
Adjustments to calculate EPRA earnings, exclude:		
Changes in fair value of investment properties	**(1,741)**	5,259
Changes in fair value of financial instruments	**2,410**	1,092
Deferred tax in respect of EPRA adjustments	**(6,843)**	(1,137)
Impairment of intangibles	**305**	–
Loss on disposal of properties	**9,817**	2,514
Profit on disposal of subsidiaries	**–**	(8,890)
Adjustments above in respect of joint ventures and associates:		
Changes in fair value	**(674)**	386
Deferred tax in respect of EPRA adjustments	**194**	(9)
EPRA earnings attributable to shareholders	**19,033**	23,043
Further adjustments to arrive at adjusted EPRA earnings:		
Costs associated with ERP implementation	**669**	–
Straight-line unwind of purchased swaps	**–**	40
Cost associated with Group listing and REIT conversion	**–**	905
Costs associated with significant aborted portfolio acquisition	**–**	1,248
Adjusted EPRA earnings attributable to shareholders[2]	**19,702**	25,236
Weighted average number of shares in issue (excluding treasury shares)	**282,777,020**	282,555,942
Share-based payment award	**3,522,208**	2,852,255
Diluted weighted average number of shares in issue	**286,299,228**	285,408,197

Earnings per share from continuing operations	**pence**	**pence**
IFRS EPS	**6.28**	9.26
Diluted IFRS EPS	**6.20**	9.16
Earnings per share	**pence**	pence
IFRS EPS	**5.50**	8.43
Diluted IFRS EPS	**5.44**	8.35
EPRA EPS	**6.73**	8.16
Diluted EPRA EPS	**6.65**	8.07
Adjusted EPRA EPS	**6.97**	8.93
Diluted adjusted EPRA EPS	**6.88**	8.84

1. *The European Public Real Estate Association (EPRA) issued the Best Practices Recommendations policy in October 2019, which provides 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 to provide additional information on 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.*
2. *As described in the EPRA Best Practice Recommendations policy issued in October 2019, should companies wish to make other adjustments to arrive at an underlying performance measure, they should do that below 'EPRA earnings' and use a different name for that measure. Stenprop highlight that 'adjusted EPRA earnings' is a company-specific earnings measure and it therefore includes company-specific adjustments to 'EPRA earnings' which have been described within this note and which are principally those items considered by management to be non-recurring items that are not directly associated with the operations or performance of the underlying investment property portfolio. Diluted adjusted EPRA earnings is a measure that excludes items considered not to be in the ordinary course of business or other exceptional items that do not necessarily provide an accurate picture of the Group's underlying operational performance.*

As at 31 March 2020, the Company held 15,830,040 treasury shares (2019: 16,028,050).

Costs associated with ERP implementation

Stenprop is implementing a new enterprise resource planning (ERP) and customer engagement (CE) software program to help streamline and grow the business. Significant non-recurring costs will be incurred during the implementation phase before the systems go live.

The ERP implementation expense is related to a one-off project and is anticipated to complete over approximately 12 months and accordingly has been adjusted for as a 'company-specific adjustment'.

14 Earnings per ordinary share continued

Prior year straight-line unwind of purchased swaps

In the prior year an 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.

Prior year costs associated with Group listing and REIT conversion

In the prior year 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.

Prior year costs associated with significant aborted portfolio acquisition

In the prior year, 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 material and accordingly has been adjusted for as a 'company-specific adjustment'.

Reconciliation of profit for the period to headline earnings	31 March 2020 £'000	31 March 2019 £'000
Earnings per IFRS statement of comprehensive income attributable to shareholders	**15,565**	23,828
Adjustments to calculate headline earnings, exclude:		
Changes in fair value of investment properties	**(1,741)**	5,259
Deferred tax in respect of headline earnings adjustments	**(6,848)**	(1,145)
Impairment of intangibles	**305**	–
Loss on disposal of properties	**9,817**	2,514
Profit on disposal of subsidiaries	**–**	(8,890)
Adjustments above in respect of joint ventures and associates:		
Changes in fair value of investment properties	**(729)**	(55)
Deferred tax	**199**	58
Headline earnings attributable to shareholders	**16,568**	21,569
Earnings per share	**pence**	pence
Headline EPS	**5.86**	7.63
Diluted headline EPS	**5.79**	7.56

15 Net asset value per ordinary share

	31 March 2020 £'000	31 March 2019 £'000
Net assets attributable to equity shareholders	**391,241**	389,251
Adjustments to arrive at EPRA net asset value:		
Derivative financial instruments	**2,001**	730
Deferred tax	**3,782**	10,416
Adjustments above in respect of joint ventures	**1,921**	1,649
EPRA net assets attributable to shareholders	**398,945**	402,046
Number of shares in issue (excluding treasury shares)	**282,945,135**	282,747,125
Share-based payment award	**3,522,208**	2,852,255
Diluted number of shares in issue	**286,467,343**	285,599,380
Net asset value per share (basic and diluted)	**£**	**£**
IFRS net asset value per share	**1.38**	1.38
Diluted IFRS net asset value per share	**1.37**	1.36
EPRA net asset value per share	**1.41**	1.42
Diluted EPRA net asset value per share	**1.39**	1.41

As at 31 March 2020, the Company held 15,830,040 treasury shares (2019: 16,028,050). On 31 March 2020 a further 23,289 nil cost options were exercised under the Deferred Share Bonus Plan. The share transfer from treasury shares occurred on 14 April 2020 at a deemed value of GBP 0.94 per nil cost option.

Notes to the Consolidated Financial Statements continued

16 Investment property

The fair value of the consolidated investment properties at 31 March 2020 was £387.8 million (2019: £562.8 million). This excludes an amount of £14.3 million (2019: £16.2 million) for the last remaining Swiss property (2019: one Swiss property) and £94.8 million (2019: nil) for the remaining eight German properties which has been classified as Held for Sale. The carrying amount of the investment properties are stated at estimated fair value, determined by directors, based on an independent external appraisal. The registered independent appraisers have 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 2020, 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.

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. Due to the current economic uncertainty in the market due to the outbreak of the Novel COVID-19 the valuers have issued their valuation reports with a material valuation uncertainty clause attached to their valuations. They have advised there is less certainty attached to their valuations in comparison to the prior year, but that does not mean the valuations cannot be relied upon. 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 different, 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.

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 and risk 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 and no transfers between the fair value hierarchy levels in the current or 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 two (2019: five) recently acquired MLI properties, all investment properties are mortgaged, details of which can be seen in note 23. 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 2020 are detailed in the table below:

Combined Portfolio (including share of joint ventures)	Market value 31 March 2020 (£'000)	Portfolio by market value (%)	Properties (number)	Area (sq m)	Annualised gross rental income (£'000)	Net initial yield (Weighted average) (%)	Voids by area (%)	Market rent range per month (£/sq m)
Investment properties								
UK multi-let industrial	308,951	58.0	70	420,483	22,701	6.47	8.90	2.6-8.6
UK non multi-let industrial	78,810	14.8	6	32,399	6,044	7.17	0.05	3.0-34.2
Sub-total	387,761	72.8	76	452,882	28,745	6.62	8.27	–
Assets Held for Sale:								
Germany	94,799	17.8	8	52,122	5,736	5.10	0.82	4.9-12.7
Switzerland	14,277	2.7	1	5,974	1,038	5.81	–	14.5
Total – wholly owned	496,837	93.3	85	510,978	35,519	5.19	7.41	–
Share of joint ventures	35,737	6.7	4	19,330	2,429	5.94	–	7.6-13.5
Total	532,574	100	89	530,308	37,948	6.28	7.14	–

16 Investment property continued

	31 March 2020		
	Investment property £'000	Assets held for sale £'000	Total - wholly owned £'000
Opening balance	562,815	16,160	578,975
Acquisitions	41,160	–	41,160
Capitalised expenditure	6,456	6,847	13,303
Transfers to assets held for sale	(230,467)	230,467	–
Disposals	(3,650)	(142,661)	(146,311)
Net fair value gain/(loss) on investment property	4,937	(6,678)	(1,741)
Foreign exchange movement in foreign operations	6,510	4,941	11,451
Closing balance	387,761	109,076	496,837

	31 March 2019		
	Investment property £'000	Assets held for sale £'000	Total - wholly owned
Opening balance	535,509	121,764	657,273
Acquisitions	110,188	–	110,188
Capitalised expenditure	8,080	1,916	9,996
Transfers to assets held for sale	(80,500)	80,500	–
Disposals	(409)	(81,637)	(82,046)
Disposals through sale of subsidiary	–	(110,419)	(110,419)
Net fair value (loss)/gain on investment property	(5,325)	67	(5,258)
Foreign exchange movement in foreign operations	(4,728)	3,969	(759)
Closing balance	562,815	16,160	578,975

Included within the transferred to assets held for sale amount of £239.7 million is the 31 March 2019 fair value of Bleichenhof of £126.9 million. Bleichenhof was subsequently sold for £136.2 million on 28 February 2020.

Future revenue streams comprise contracted rent and Estimated Rental Value ('ERV') after the contract period. In calculating ERV, the potential impact of future lease incentives to be granted to secure new contracts is taken into consideration. An increase/decrease in ERV will increase/decrease valuations. The table below sets out the indicative fair value impact when applying the sensitivity of the unobservable inputs (Level 3) valuations to a 10% change in ERV.

Investment property	Fair value at 31 March 2020 £'000	Impact on valuations +10% ERV £'000	Impact on valuations -10% ERV £'000	Fair value at 31 March 2019 £'000	Impact on valuations +10% ERV £'000	Impact on valuations -10% ERV £'000
UK multi-let industrial	308,951	19,977	(31,119)	255,355	18,479	(17,663)
UK non multi-let industrial	78,810	8,248	(4,820)	84,630	6,466	(6,584)
Germany	94,799	4,259	(4,240)	224,544	16,375	(16,641)
Switzerland	14,277	470	(461)	16,160	439	(439)
Joint ventures	35,737	1,617	(1,672)	35,025	1,449	(1,546)
Group property portfolio valuation	532,574	34,571	(42,312)	615,714	43,208	(42,873)

Net Initial Yield ('NIY') is the contracted rent on investment properties at the balance sheet date, expressed as a percentage of the investment property valuation, plus purchaser's costs. An increase/decrease in NIY will decrease/increase valuations. The table below sets out the indicative fair value impact when applying the sensitivity of the unobservable inputs (Level 3) valuations to a 50 basis point change in yield.

Investment property	Fair value at 31 March 2020 £'000	Impact on valuations +50 bps £'000	Impact on valuations -50 bps £'000	Fair value at 31 March 2019 £'000	Impact on valuations +50 bps £'000	Impact on valuations -50 bps £'000
UK multi-let industrial	308,951	(21,677)	25,216	255,355	(19,053)	22,395
UK non multi-let industrial	78,810	(5,129)	5,897	84,630	(5,243)	5,985
Germany	94,799	(9,636)	12,455	224,544	(24,731)	33,159
Switzerland	14,277	(906)	1,041	16,160	(1,056)	1,210
Joint ventures	35,737	(2,836)	3,351	35,025	(2,738)	3,174
Group property portfolio valuation	532,574	(40,184)	47,960	615,714	(52,821)	65,923

Notes to the Consolidated Financial Statements continued

17 Group companies

Details of the Group's subsidiaries as at 31 March 2020 are as follows:

Name	Principal place of business	Principal activity	% equity owned by Company	% equity owned by Subsidiary
BVI incorporated entities with registered address: *Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, VG1110, British Virgin Islands*				
Davemount Properties Limited	England	Property Investment		100.00
Leatherback Property Holdings Limited	Guernsey	Holding Company		100.00
Ruby Red Holdings Limited	Guernsey	Management		100.00
SP Corporate Services Limited	Guernsey	Management		100.00
SP Nominees Limited	Guernsey	Management		100.00
SP Secretaries Limited	Guernsey	Management		100.00
Stenprop Management Holdings Limited	Guernsey	Holding Company	100.00	
Stenprop Hermann Limited	Guernsey	Property Investment		100.00
Stenprop Victoria Limited	Guernsey	Property Investment		100.00
Stenprop Industrials 1 Limited	Guernsey	Holding Company		100.00
Stenprop Industrials 3 Limited	Guernsey	Property Investment		100.00
Stenprop Industrials 4 Limited	Guernsey	Property Investment		100.00
Stenprop Industrials 5 Limited	Guernsey	Dormant		100.00
Stenprop (UK) Limited	England	Holding Company	100.00	
Curacao incorporated entities with registered address: *Wilhelminalaan 13, Curaçao*				
Anarosa Holdings N.V.	England	Holding Company		94.90
C.S. Property Holding N.V.	England	Holding Company		94.90
Lakewood International N.V.	England	Holding Company		89.00
T.B. Property Holdings N.V.	England	Holding Company		100.00
Germany incorporated entity with registered address: *Dornbusch 4, 20095 Hamburg, Germany*				
KG Bleichenhof Grundtuscksverwaaltung GmbH & Co. KG	Germany	Property Investment		94.90
Guernsey incorporated entities with registered address: *Kingsway House; Havilland Street; St Peter Port; Guernsey GY1 2QE*				
Bernina Property Holdings Limited	England	Holding Company		100.00
GGP1 Limited	England	Property Investment		100.00
Kantone Holdings Limited	Guernsey	Property Investment		100.00
LPE Limited	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	England	Holding Company	100.00	
Stenprop Industrials 6 Limited	England	Property Investment		100.00
Stenprop Industrials 7 Limited	England	Dormant		100.00
Stenprop Industrials 8 Limited	England	Dormant		100.00
Stenprop Trafalgar Limited	Guernsey	Holding Company		100.00
Stenprop (Germany) Limited	England	Holding Company	100.00	
Stenprop (Guernsey) Limited	Guernsey	Dormant		100.00
Stenprop (Swiss) Limited	Guernsey	Holding Company	100.00	
Luxembourg incorporated entities with registered address: *231, Val des Bons Malades, L-2121 Luxembourg*				
Jimmy Investments S.a.r.l.	Luxembourg	Holding Company		100.00
Spike Investments S.A.	Luxembourg	Holding Company		100.00

17 Group companies continued

Name	Principal place of business	Principal activity	% equity owned by Company	% equity owned by Subsidiary
Netherlands incorporated entities with registered address: *Fascinatio Boulevard 764, 2909 VA Capelle aan den IJssel, 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 incorporated entities with registered address: *First Names House, Victoria Road, Douglas, Isle of Man IM2 4DF*				
Stenham Beryl Limited	Guernsey	Property Investment		100.00
Stenham Crystal Limited	Guernsey	Property Investment		100.00
Stenham Jasper Limited	Guernsey	Property Investment		100.00
Gemstone Properties Limited	Guernsey	Holding Company		100.00
England incorporated entities with registered address: *180 Great Portland Street, London, W1W 5QZ*				
C2 Capital Limited	England	Management		100.00
Stenprop Management Limited	England	Management		100.00
Stenprop Limited	England	Dormant		100.00
United States incorporated entities with registered address: *1209 Orange Street, Wilmington, Delaware 19801, USA*				
Industrials UK GP LLC	England	Holding Company		100.00
Industrials UK LP	England	Property Investment		100.00

Details of the Group's investments in joint ventures are disclosed in note 18.

18 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 incorporated entities with registered address: *231, Val des Bons Malades, L-2121 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
Republic of Ireland incorporated entity with registered address: *18f Main Street, Dundrum, Dublin 14*			
Ardale Industrials Limited	Republic of Ireland	Management company	50.00

On 25 February 2020, Stenpark Management Limited was voluntarily struck off the Register of Companies in Guernsey.

Notes to the Consolidated Financial Statements continued

18 Investment in joint ventures continued

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.

31 March 2020	Elysion S.A. £'000	Other £'000	Total £'000
Investment property	35,737	–	35,737
Fixed assets	227	–	227
Cash and cash equivalents	543	10	543
Current assets	42	2	44
Assets	36,549	12	36,561
Bank loans	(18,364)	–	(18,364)
Bond	(14,557)	–	(14,557)
Deferred tax	(1,330)	–	(1,330)
Financial liability	(591)	–	(591)
Current liabilities	(148)	(9)	(157)
Liabilities	(34,990)	(9)	(34,999)
Net assets of joint ventures	1,559	3	1,562
Group's investment in joint venture bond	15,336	–	15,336
Group's share of joint ventures' net assets	780	1	781
Revenue	2,472	15	2,487
Finance costs	(2,193)	(12)	(2,205)
Net fair value gains	674	–	674
Tax expense	(231)	(2)	(233)
Profit from and total comprehensive income from continuing operations	722	1	723
Group income from joint ventures represented by:			
Share of joint venture profits	361	1	362
Interest income on joint venture bond	1,393	–	1,393
Net gain on joint venture bond	360	–	360
Income from joint ventures	2,114	1	2,115

18 Investment in joint ventures continued

31 March 2019	Elysion S.A. £'000	Other £'000	Total £'000
Investment property	33,915	–	33,915
Fixed assets	236	–	236
Cash and cash equivalents	515	180	695
Current assets	55	37	92
Assets	34,721	217	34,938
Bank loans	(18,442)	–	(18,442)
Bond	(13,666)	–	(13,666)
Deferred tax	(1,124)	–	(1,124)
Financial liability	(524)	–	(524)
Current liabilities	(145)	(103)	(248)
Liabilities	(33,901)	(103)	(34,004)
Net assets of joint ventures	820	114	934
Group's investment in joint venture bond	14,076	–	14,076
Group's share of joint ventures' net assets	410	56	466
Revenue	2,489	1,667	4,156
Finance costs	(2,301)	(445)	(2,746)
Net fair value losses	(376)	–	(376)
Tax expense	(110)	(95)	(205)
Profit from and total comprehensive income from continuing operations	(298)	1,127	829
Group income from joint ventures represented by:			
Share of joint venture (losses)/profits	(149)	563	414
Interest income on joint venture bond	1,355	–	1,355
Net loss on joint venture bond	(162)	–	(162)
Income from joint ventures	1,044	563	1,607

Notes to the Consolidated Financial Statements continued

18 Investment in joint ventures continued

Elysion S.A.

Stenprop owns 100% of the shares and shareholder loans in Bernina Property Holdings Limited ('Bernina'). The results and financial position of which is included within these consolidated financial statements. Bernina in turn owns 50% of the issued share capital and 100% of the bonds 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 bonds have attracted, and continue to attract, a 10% compounded interest rate since inception in 2007 and have limited recourse to compartment assets within Elysion S.A., with the proceeds made available to subsidiaries in the joint venture for real estate investment in Care Homes. All costs and expenses incurred by the Elysion S.A. compartment are deducted or withheld from any payment of principal or interest. The fair value has been determined based on the net assets of the compartment which would be available to settle the outstanding bond and which is intrinsically linked to the fair value of the investment property. Further details on the estimates and assumptions used in determining the fair value of investment property can be found in note 16.

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

		Investment in joint ventures		
	Elysion S.A. Bond £'000	Elysion S.A. £'000	Other £'000	Total £'000
31 March 2020				
Opening balance	**14,077**	**409**	**56**	**465**
Income from joint ventures	**1,765**	**349**	**1**	**350**
Investment receipts	**(975)**	**–**	**(56)**	**(56)**
Foreign exchange movement in foreign operations	**469**	**22**	**–**	**22**
Closing balance	**15,336**	**780**	**1**	**781**
31 March 2019				
Opening balance	14,041	577	41	618
Income from joint venture profit	1,193	(149)	563	414
Investment receipts	(852)	–	(317)	(317)
Foreign exchange movement in foreign operations	(305)	(19)	–	(19)
Disposal of joint venture	–	–	(231)	(231)
Closing balance	14,077	409	56	465

19 Assets held for sale and discontinued operations

Management considers the remaining Swiss property and eight properties located in Germany meet the conditions relating to Assets Held for Sale, as per IFRS 5: Non-current Assets Held for Sale and Discontinued Operations. The properties are expected to be disposed of during the next 12 months. The Swiss property at Lugano, which is valued at year end at CHF17.0 million (£14.3 million) (2019: CHF21.0 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. The fair values of all the assets held for sale have been determined by a third-party valuer, JLL.

The fair value of these properties, and their comparative values are disclosed in the table below along with associated assets and liabilities:

	31 March 2020 £'000	31 March 2019 £'000
Investment properties	**109,076**	16,160
Cash and cash equivalents	**1,135**	1,795
Trade and other receivables	**1,646**	3,468
Total assets classified as held for sale	**111,857**	21,423
Bank loans	**43,177**	6,106
Derivative financial instruments	**134**	–
Deferred tax	**3,782**	–
Tax (credit)/payable	**(611)**	1,688
Accounts payable and accruals	**828**	1,532
Liabilities directly associated with assets classified as held for sale	**47,310**	9,326

19 Assets held for sale and discontinued operations continued

The Swiss property is the only asset recognised as a discontinued operation as the Swiss segment is a disposal group. In the prior year, the entire Swiss segment (one property) was recognised as a discontinued operation in accordance with IFRS 5.32. The results of the discontinued operation were as follows:

	31 March 2020 £'000	31 March 2019 £'000
Rental income	764	2,068
Property expenses	(329)	(786)
Net rental income	435	1,282
Operating costs	(214)	(225)
Net operating income	221	1,057
Fair value movement of investment properties	(3,188)	(1,855)
Loss on disposal of subsidiaries	–	(2,236)
Loss from operations	(2,967)	(3,034)
Profit on disposal of property	648	531
Interest receivable	–	7
Finance costs	(70)	(256)
Net foreign exchange gains	(6)	–
Loss for the year before taxation	(2,395)	(2,752)
Current tax	198	(1,689)
Deferred tax	–	2,118
Loss for the year from discontinued operations	(2,197)	(2,323)

Disposals

On 13 December 2019, the Group disposed of its Grimsby property in Davemount Properties Limited for £1.0 million.

On 28 February 2020, the group disposed of its largest single asset, known as Bleichenhof, in Hamburg. The property was sold for €160.15 million.

In line with the Group's strategy to become 100% UK MLI focused, the Group sold the above assets, which were classified as held for sale during the year, following a period of marketing and completion of legals with the successful purchaser. In addition, the disposal of Bleichenhof required shareholder approval. Further details on this transaction can be found in the circular to Stenprop shareholders issued on 27 January 2020 and can be found here: https://stenprop.com/media/2594/circular-notice-of-general-meeting-and-proxy-form.pdf

Prior year 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 26, 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).

Notes to the Consolidated Financial Statements continued

20 Trade and other receivables

Non-current receivables	31 March 2020 £'000	31 March 2019 £'000
Other debtors	**13,523**	13,365
	13,523	13,365

Non-current other debtors includes £12.27 million (2019: £12.27 million) of loans advanced under the Share Purchase Plan (see note 13: Share-based payments) and a £1.0 million (2019: £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.

The loans have been assessed for an expected credit loss under IFRS 9. The analysis shows that due to the full recourse nature of the loans, secured against the shares issued and underlying assets of the borrowers, loss given default is currently estimated at £nil. There has been no perceived significant increase in credit risk and we have not recognised an 12 month expected credit loss on these loans. Refer to note 28 (i) to understand how the Group manages credit risk.

Current receivables	31 March 2020 £'000	31 March 2019 £'000
Accounts receivable	**4,225**	4,644
Loss allowance	**(976)**	(860)
Lease incentives	**2,545**	1,510
Other receivables	**2,610**	4,249
Prepayments	**1,491**	624
Transfer to assets held for sale	**(1,646)**	(3,468)
	8,249	6,699

Other receivables includes tenant deposits and VAT receivable.

	31 March 2020			31 March 2019		
	Trade Receivables £'000	Loss Allowance £'000	Net Receivables £'000	Trade Receivables £'000	Loss Allowance £'000	Net Receivables £'000
Not yet due	**554**	**–**	**554**	492	–	492
1-30 days overdue	**2,182**	**(169)**	**2,013**	2,112	–	2,112
31-60 days overdue	**279**	**(1)**	**278**	447	(219)	228
61-90 days overdue	**258**	**(198)**	**60**	354	–	354
91-120 days overdue	**224**	**(148)**	**76**	236	(7)	229
More than 120 days overdue	**728**	**(460)**	**268**	1,003	(634)	369
	4,225	**(976)**	**3,249**	4,644	(860)	3,784

To measure the loss allowance provision, trade receivables have been grouped based on shared credit risk characteristics and the days overdue. The level of provision required is determined after taking account of rent deposits and personal or corporate guarantees held. Management have performed an assessment of the effectiveness of this approach by comparing actual losses to provisions estimated in prior periods as well as assessing the impact of current macro-economic events. Based on the minimal differences identified within this assessment, management has concluded that there is no material difference between the expected credit loss model prescribed by IFRS 9 and the current provisioning method being applied. Consequently, no allowance has been made for losses on receivables not yet falling due. Management will continue to review this assertion at each reporting period.

21 Cash and cash equivalents

	31 March 2020 £'000	31 March 2019 £'000
Cash at bank	**85,588**	59,220
Transfer to assets held for sale	**(1,135)**	(1,795)
	84,453	57,425

Restricted cash

At year end funds totalling £8.2 million (2019: £8.7 million) were restricted. This comprises primarily of tenant deposits of £2.4 million (2019: £1.6 million), Bleichenhof redevelopment costs of £3.5 million (2019: £4.9 million) and £1.5 million (2019: £1.6 million) related to service charge monies held by managing agents. £0.8 million (2019: £0.6 million) being rents held in bank accounts which are secured by the lenders for the purposes of debt repayments.

Cash held back for other purposes

At year end management have allocated £6.3 million (2019: nil) of the total cash balance for other purposes. These include £5.9 million (2019: nil) in tax payable following the disposal of Bleichenhof with the remaining £0.4 million (2019: nil) being cash held back for committed operational expenditure.

After deducting restricted cash of £8.2 million and cash held back for other purposes of £6.3 million, the group has available cash of £71.1 million, or approximately £70 million.

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.

22 Accounts payable and accruals

	31 March 2020 £'000	31 March 2019 £'000
Accruals	**3,107**	3,980
Rental income received in advance	**6,324**	5,128
Other payables	**5,717**	7,683
Tenant deposits	**2,369**	1,603
Liabilities directly associated with assets classified as held for sale adjustment	**(828)**	(1,532)
	16,689	16,862

Other payables represents amounts owed to service providers for the maintenance and operational running costs of our properties as well as costs to close Stenprop's fund management business.

23 Borrowings

	31 March 2020 £'000	31 March 2019 £'000
Opening balance	**245,090**	259,497
New loans	**24,668**	37,051
Repayment of borrowings	**(2,000)**	–
Amortisation of loans	**(134)**	(3,593)
Capitalised borrowing costs	**(919)**	(873)
Amortisation of transaction fees	**623**	436
Foreign exchange movement in foreign operations	**4,098**	(1,264)
Adjustment for liabilities directly associated with assets transferred to assets held for sale	**(117,255)**	(46,164)
Total borrowings	**154,171**	245,090

Of the movement in borrowings in the year ending 31 March 2020, £24.67 million (2019: £37.05 million) relates to cash received from new bank loans raised and £82.32 million (2019: £61.21 million) relates to repayments of bank loans. The £82.18 million (2019: £61.21 million) of bank loan repayments are included in the adjustment for liabilities directly associated with assets transferred to assets held for sale balance. The sale of Bleichenhof contributed £75.5 million to the total loan repayments. £2.88 million was repaid upon the sale of Hemel Hempstead, £1.80 million was repaid on the sale of Walsall and £2.0 million was repaid when refinancing the Trafalgar loan. Non-cash movements relate to amortisation of capitalised transaction fees and foreign exchange movements.

Notes to the Consolidated Financial Statements continued

23 Borrowings continued

	31 March 2020 £'000	31 March 2019 £'000
Amount due for settlement within 12 months	–	29,805
Amount due for settlement between one to three years	**93,468**	106,943
Amount due for settlement between three to five years	**60,703**	108,342
Total borrowings	**154,171**	245,090
Non-current liabilities		
Bank loans	**154,171**	215,285
Total non-current loans and borrowings	**154,171**	215,285
Current liabilities		
Bank loans	–	29,805
Total current loans and borrowings	–	29,805
Total loans and borrowings	**154,171**	245,090

The facilities are secured by legal charges over the properties to which they correspond. There is no cross-collateralisation of the facilities. Loans are subject to loan-to-value ratios (see note 28 (v)) and interest coverage ratios. No loan was in breach during period or period end. The terms and conditions of outstanding loans are as follows:

						Nominal value		Carrying value*	
Entity	Note	Amortising	Loan interest rate	Currency	Maturity date	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000
United Kingdom									
Davemount Properties Limited		No	LIBOR + 2.25%	GBP	26/5/2021	–	4,000	–	3,983
LPE Limited		No	LIBOR + 2.00%	GBP	31/3/2022	**28,000**	30,000	**27,857**	29,805
GGP1 Limited		No	LIBOR + 2.25%	GBP	26/5/2021	**4,500**	5,175	**4,472**	5,123
Industrials UK		No	LIBOR + 2.25%	GBP	2/6/2022	**61,484**	61,484	**61,259**	61,215
Stenprop Industrials 4 Limited		No	LIBOR + 2.00%	GBP	14/11/2024	**34,879**	10,211	**34,255**	10,043
Stenprop Industrials 6 Limited		No	LIBOR + 2.00%	GBP	1/2/2024	**26,840**	26,840	**26,448**	26,343
Switzerland									
Kantone Holdings Limited	1	Yes	LIBOR + 1.15%	CHF	3-month rolling facility	**6,513**	6,106	**6,513**	6,106
Germany									
Century BV		No	Euribor + 1.55%	EUR	31/12/2022	**7,369**	7,135	**7,319**	7,070
Century 2 BV		No	Euribor + 1.55%	EUR	31/12/2022	**3,832**	3,711	**3,804**	3,673
Isabel Properties BV		No	Euribor + 2.32%	EUR	30/12/2021	**8,001**	7,747	**8,001**	7,747
Bleichenhof GmbH & Co. KG		No	1.58%	EUR	28/2/2022	–	73,114	–	73,114
Stenprop Hermann Ltd		No	Euribor + 1.13%	EUR	30/6/2020	**8,383**	8,117	**8,383**	8,109
Stenprop Victoria Ltd		No	Euribor + 1.28%	EUR	31/8/2020	**9,157**	8,866	**9,157**	8,866
						198,958	252,506	**197,468**	251,197

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

1. *In August 2018 the sole remaining property in Switzerland, 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 2020 is £154.2 million as detailed on the previous page in total borrowings.*

24 Other loans

	31 March 2020 £'000	31 March 2019 £'000
Loans received	–	48,086
Loan repayments including foreign exchange movement	–	(48,506)
Interest	–	420
	–	–

During the period to 31 March 2020, a £30 million (2019: £50 million) revolving credit facility ('RCF') was renewed on similar terms 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.

25 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 £2,410,000 (2019: loss £1,092,000) and £nil (2019: £nil) respectively.

The following table sets out the interest rate swap agreements at 31 March 2020 and 31 March 2019.

Entity	Effective date	Maturity date	Swap rate %	Notional value 31 March 2020 £'000	Fair value 31 March 2020 £'000	Notional value 31 March 2019 £'000	Fair value 31 March 2019 £'000
UK							
LPE Limited	26/3/2015	31/3/2020	1.35	–	–	30,000	(176)
Industrials UK LP	2/6/2017	2/6/2022	0.95	60,375	(768)	60,375	(82)
Industrials 4	14/11/2019	14/11/2024	0.89	24,000	(492)	–	–
Industrials 6	1/2/2019	1/2/2024	1.27	22,814	(741)	22,814	(310)
Germany							
Century BV	31/12/2017	30/12/2022	2.5	7,234	1	7,005	–
Century 2 BV	31/12/2017	30/12/2022	2.5	3,967	–	3,841	–
Isabel Properties BV	30/1/2015	30/12/2021	0.48	8,001	(135)	7,747	(162)
Adjustment for liabilities directly associated with assets classified as held for sale adjustment (see note 19)				–	134	–	–
Total swaps				126,391	(2,001)	131,782	(730)
Liabilities maturing within 12 months				–	–	–	(176)
Liabilities maturing after 12 months				–	(2,001)	–	(554)
Derivative financial instruments – on balance sheet				–	(2,001)	–	(730)
Swaps included in investments in associates and joint ventures							
Elysion Braunschweig S.a.r.l	1/4/2014	29/12/2023	2.43	4,883	(150)	4,860	(127)
Elysion Dessau S.a.r.l	1/4/2014	29/12/2023	2.43	4,831	(143)	4,809	(126)
Elysion Kappeln S.a.r.l	1/4/2014	29/12/2023	2.8	5,379	(181)	5,350	(167)
Elysion Winzlar S.a.r.l	1/4/2014	29/12/2023	2.8	3,442	(116)	3,423	(104)
Derivative financial instruments – associates and joint ventures				18,535	(590)	18,442	(524)

Notes to the Consolidated Financial Statements continued

26 Disposal of subsidiaries

	31 March 2020 £'000	31 March 2019 £'000
Carrying value of net assets at disposal date		
Investment property	–	110,419
Trade and other receivables	–	627
Cash and cash equivalents	–	2,132
Borrowings	–	(45,334)
Trade and other payables	–	(2,871)
Net assets disposed	–	64,973
Net disposal proceeds	–	74,094
Foreign exchange movement in foreign operations	–	(231)
Profit on disposal of subsidiaries (including discontinued operations)	–	8,890
Net assets disposed	–	64,973
Discontinued Operations – Loss on disposal of subsidiary (note 19)	–	(2,236)
Continuing Operations – Profit on disposal of subsidiary	–	11,126
Profit on disposal of subsidiaries (including discontinued operations)	–	8,890

Prior year disposals

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.

27 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 2020 £'000	31 March 2019 £'000
Opening balance	**(10,416)**	(9,379)
Deferred tax recognised on disposal of investment properties	**9,533**	2,905
Deferred tax recognised on revaluation of financial liabilities	**(5)**	8
Deferred tax on tax losses	**(4,123)**	492
Deferred tax – other withholding tax	**1,691**	(1,768)
Other deferred tax movements	**(359)**	–
Exchange movements	**(103)**	1,223
Adjustment for liabilities directly associated with assets classified as held for sale adjustment	**3,782**	(3,897)
Closing balance	**–**	(10,416)

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 2020 £'000	31 March 2019 £'000
Deferred tax liabilities	**(4,473)**	(15,574)
Deferred tax assets	**691**	5,158
Adjustment for liabilities directly associated with assets classified as held for sale adjustment	**3,782**	–
Closing balance	**–**	(10,416)
Deferred tax opening balance	**(10,416)**	13,276
Exchange movements	**(103)**	(1,223)
Other movements	**(359)**	–
Deferred tax liability closing balance	**3,782**	(10,416)
Movement in deferred tax	**(7,096)**	1,637

28 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.

The Audit and Risk 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 five European financial institutions that hold more than £1 million (or GBP equivalent) of the Group's cash at 31 March 2020. Together these banks hold 96% of the Group's total cash at bank.

	31 March 2020 S&P Global Ratings	31 March 2020 Fitch Ratings	31 March 2019 Fitch Ratings
ABN AMRO Bank NV	N/A	N/A	A+
Barclays Private Clients International Limited	BBB	A-	A+
Berlin Hyp AG	N/A	N/A	AA-
The Bank of N. T. Butterfield & Son Limited	BBB+	WD	N/A
Credit Suisse AG	N/A	N/A	A
Deutsche Bank AG	N/A	N/A	A-
Hamburg Commercial Bank AG	BBB	N/A	A+
Lloyds Bank plc	BBB+	A+	A+
Royal Bank of Scotland Group plc	BBB	A	A+
Santander UK plc	N/A	N/A	A+

The directors are satisfied as to the creditworthiness of the banks where the remaining cash is held.

The majority of tenant leases are long-term contracts with rents payable quarterly in advance. Rent deposits and personal or corporate guarantees are held in respect of some leases. Taking these factors into account, the risk to the Group of individual tenant default and the credit risk of trade receivables are considered low. The concentration of credit risk is limited due to the large and diverse occupier base. Accordingly, the directors believe that there is no further expected credit loss required in excess of that provided. Trade receivables are presented after deducting a loss allowance provision, as set out in note 20.

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

Notes to the Consolidated Financial Statements continued

28 Financial Risk Management (i) continued

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.

Non-current other debtors are long term loans secured against shares issued by the Group to the related parties referenced in note 20. In order to manage credit risk, the contractual terms include full recourse to assets of the borrower which are monitored alongside the aggregate value of the shares. Furthermore, in respect of the Share Purchase Plan, the terms allow recovery of amounts due through a deduction from salary or other amounts paid to the beneficiary.

The carrying amount of financial assets represents the maximum credit exposure at the reporting date.

At 31 March 2020, trade and other receivables and cash and cash equivalents amounts to £92.3 million (2019: £64.1 million) as shown in the statement of financial position. Further details on what makes up this balance can be found in note 20.

28 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	–	8,417	15,516	112,712	60,703	–	197,348
Loan interest	400	1,610	4,032	7,773	–	(13,149)	666
Financial liabilities	–	–	–	2,135	–	–	2,135
Deferred tax	–	–	3,782	–	–	–	3,782
Other payables (incl. tax)	–	1,974	10,627	2,116	–	–	14,717
Accruals	–	–	5,620	–	–	–	5,620
Deferred income	–	6,324	–	–	–	–	6,324
Lease obligations	1	49	252	222	–	–	524
Liabilities directly associated with assets classified as held for sale	(27)	(8,701)	(20,054)	(19,856)	–	1,328	(47,310)
As at 31 March 2020	**374**	**9,673**	**19,775**	**105,102**	**60,703**	**(11,821)**	**183,806**

	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

28 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.

	Held at fair value through profit or loss £'000	Held at amortised cost £'000	Total carrying amount 31 March 2020 £'000
Financial assets			
Cash and cash equivalents	–	84,453	84,453
Trade and other receivables	–	8,249	8,249
Other debtors	–	13,523	13,523
31 March 2020	–	106,225	106,225
Financial liabilities			
Bank loans	–	154,171	154,171
Derivative financial instruments	2,001	–	2,001
Accounts payable and accruals	–	27,109	27,109
Bonds	15,336	–	15,336
31 March 2020	17,337	181,280	198,617

	Held at fair value through profit or loss £'000	Held at amortised cost £'000	Total carrying amount 31 March 2019 £'000
Financial assets			
Cash and cash equivalents	–	57,425	57,425
Trade and other receivables	–	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
Bonds	14,077	–	14,077
31 March 2019	14,807	263,577	278,384

Notes to the Consolidated Financial Statements continued

28 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 (see fair value hierarchy section). 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 2020 £'000	31 March 2019 £'000
Assets		
CHF	15,252	21,423
EUR	138,840	256,226
Liabilities		
CHF	6,271	9,326
EUR	50,638	122,251

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	(898)	131
EUR impact	(8,820)	(598)
	(9,718)	(467)

The exchange rates against GBP during the year were:

	Average rate for year to 31 March 2020	As at 31 March 2020
CHF	0.7972	0.8393
EUR	0.8740	0.8890

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 25, borrowings from credit institutions are protected against movements in interest rates. The Group uses interest rate swaps to manage its interest rate exposure and to establish more certainty over cash flows. As a result, the Group have not disclosed additional sensitivity analysis to changes in interest rates.

28 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	Designated at fair value Level 2 £'000	Designated at fair value Level 3 £'000
31 March 2020				
Assets				
Derivative financial instruments	–	–	–	–
Total assets	–	–	–	–
Liabilities				
Derivative financial instruments	2,001	–	2,001	–
Bonds	14,557	–	–	14,557
Total liabilities	16,558	–	2,001	14,557
31 March 2019				
Assets				
Derivative financial instruments	–	–	–	–
Total assets	–	–	–	–
Liabilities				
Derivative financial instruments	730	–	730	–
Bonds	13,666	–	–	13,666
Total liabilities	14,396	–	730	13,666

Details of changes in valuation techniques

There have been no significant changes in valuation techniques during the period under review. Derivative financial instruments are measured using the midpoint of the yield curve prevailing on the reporting date. The valuations do not include accrued interest from the previous settlement date to the reporting date. The fair value represents the net present value of the difference between the contracted rate and the valuation rate when applied to the projected balances for the period from the reporting date to the contracted expiry dates.

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.

The unobservable inputs used to determine the value of the bonds in the Eysion S.A. joint venture are based on the unadjusted net assets of the joint venture structure and are subject to the assumptions applied to the valuation methodology of the underlying investment property.

Capital risk management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 23, 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 2020 was 40.8% (2019: 44.2%), 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.

At the date of signing these consolidated financial statements, the Group has positive operating cash flows and positive net

Notes to the Consolidated Financial Statements continued

28 Financial Risk Management (v) continued

assets. Management have carefully assessed the impact of the market uncertainties arising from both Brexit and the outbreak of the COVID-19 pandemic, on the entity's net assets, liquidity and ability to continue as a going concern for the foreseeable future. Given the current market conditions and negative economic outlook, management subjected the Group's cash flow forecast to a stress test scenario for the 18 months to 30 September 2021 by applying highly severe scenario assumptions, including a 75% deterioration in rental income cash receipts, and direct landlord costs of four times the current level, driven by an increase in vacancies. These assumptions were applied over the entire 18 month period of assessment and do not include cash flows for the sale or purchase of properties. The test concluded that even in these scenarios the Group would have positive liquid assets and be able to meet its obligations as they fell due.

The Company's REIT obligations and debt refinancing were assessed in detail as were sensitivities to loan covenants. Despite the disruption in the economy caused by COVID-19, we do not expect the risk of default to have increased. Lenders have been guided by the Government to take a pragmatic view and consider prepayment possibilities, equity cures and waivers of covenants so that breaches with a direct link to the pandemic should not automatically trigger defaults. In addition, we maintain strong relationships with our facility providers and currently have significant headroom for both interest cover and LTV loan covenants. Notwithstanding this assumption, the Group would have cash resources available, even after considering the highly severe scenario, to be utilised to cure covenant breaches if they crystallise and the lenders take a hard stance against government advice. It is further worth noting that the loans are not cross-collateralised and accordingly if certain banks do act aggressively, the Group would continue to operate with the remaining portfolio of assets if any foreclosure events were to arise.

In light of this review and the significant liquid assets, management are satisfied that the Group has access to adequate resources to 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.

29 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'.

Loans provided to a director to purchase Stenprop shares under the Share Purchase Plan can be found in note 20.

Transactions and balances with joint venture parties can be found in note 18.

There are no other related party transactions that occurred during the year.

Ultimate controlling party

The directors do not consider there to be an ultimate controlling party.

30 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 2020 £'000	31 March 2019 £'000
Continuing operations		
Within one year	**30,607**	33,167
Between one and two years	**25,095**	26,796
Between two and five years	**40,944**	45,658
After five years	**39,119**	38,039
	135,765	143,660
Discontinuing operations		
Within one year	**1,038**	1,157
Between one and two years	**1,038**	1,157
Between two and five years	**3,115**	3,470
After five years	**12,986**	15,623
	18,177	21,407

30 Minimum lease payments continued

At the balance sheet date the Group had the following future minimum lease payments as a lessee:

	31 March 2020 £'000	31 March 2019 £'000
Continuing operations		
Within one year	**326**	356
Between one and two years	**232**	285
Between two and five years	**14**	213
After five years	**-**	-
	572	854

At 31 March 2020, Stenprop had no (2019: nil) lessee leases in its discontinued operations.

31 Events after the reporting period

(i) Declaration of dividend

On 11 June 2020, 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. An announcement containing details of the dividend and the timetable will be made in due course.

(ii) Share incentive awards

On 10 June 2020, 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.

(iii) COVID-19 developments

The UK, German and Swiss governments have recently announced measures to lift the COVID-19 lock-down. Each country is at a different stage of economic recovery and as such the Group continues to monitor government policy changes on a daily basis. Stenprop has identified no adjusting events at the date of signing these consolidated financial statements.

Other Information

Property Summary

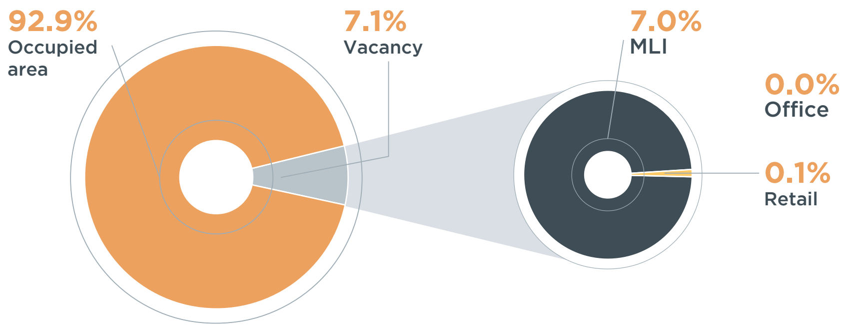
Unaudited

		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	71.4	13.4%	18,086	99.9%	5.5	6.0	5.0	302.3
	MLI	309.0	58.0%	420,483	91.1%	22.7	2.6	2.3	54.0
	Industrial	7.4	1.4%	14,313	100.0%	0.5	0.5	0.5	40.3
	Total	387.8	72.8%	452,882	91.7%	28.7	3.2	2.3	63.5
Germany	Retail	94.8	17.8%	52,122	99.2%	5.7	8.5	8.7	110.1
	Nursing Homes	35.7	6.7%	19,330	100.0%	2.5	9.3	125.6	125.6
	Total	130.5	24.5%	71,452	99.4%	8.2	8.7	8.9	114.3
Switzerland	Retail	14.3	2.7%	5,974	100.0%	1.0	17.5	17.5	173.8
	Total	14.3	2.7%	5,974	100.0%	1.0	17.5	17.5	173.8
Total	Office	**71.4**	**13.4%**	**18,086**	**99.9%**	**5.5**	**6.0**	**5.0**	**302.3**
	Retail	**109.1**	**20.5%**	**58,096**	**99.3%**	**6.7**	**9.9**	**9.6**	**116.6**
	MLI	**309.0**	**58.0%**	**420,483**	**91.1%**	**22.7**	**2.6**	**2.3**	**54.0**
	Industrial	**7.4**	**1.4%**	**14,313**	**100.0%**	**0.5**	**0.5**	**0.5**	**40.3**
	Nursing Homes	**35.7**	**6.7%**	**19,330**	**100.0%**	**2.5**	**9.3**	**9.3**	**125.6**
	Total	**532.6**	**100.0%**	**530,308**	**92.9%**	**37.9**	**4.8**	**3.4**	**71.6**

Rental escalation profile

Stenprop operates in countries with low inflation rates. The annual inflation rate during the 2019 calendar year was 1.4% for the UK, 1.5% for Germany and 0.57% 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 regears when passing rent realigns with estimated rental value.

Vacancy profile, by sector, by rentable area



Portfolio Analysis

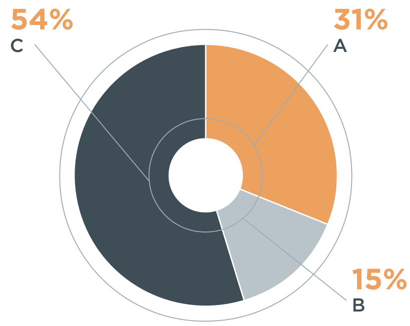
Unaudited

Property/ Portfolio	Portfolio by market value (%)	Market value 31 March 2020 (£m)	Properties	Area (m²)	Annualised gross rental income (£m)	Net initial yield 31 March 2020	WAULT (by rental) (Years)	Voids (by area) (%)	Rental per m² (£/m²)
UK MLI	58.0%	309.0	70	420,483	22.7	6.47%	2.6	8.9%	54
UK non-MLI	14.8%	78.8	6	32,399	6.0	7.17%	5.5	0.1%	187
Subtotal	72.8%	387.8	76	452,882	28.7	6.62%	3.2	8.3%	63
Held for sale:									
Germany	17.8%	94.8	8	52,122	5.7	5.10%	8.5	0.8%	110
Switzerland	2.7%	14.3	1	5,974	1.0	5.81%	17.5	0.0%	174
Subtotal	20.5%	109.1	9	58,096	6.7	5.19%	9.9	0.7%	117
Share of Joint Ventures	6.7%	35.7	4	19,330	2.5	5.94%	9.3	0.0%	126
Total	100.0%	532.6	89	530,308	37.9	6.28%	4.8	7.1%	72

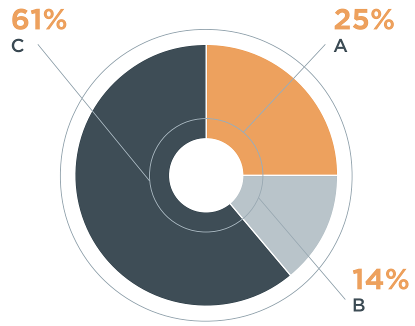
Tenant profile

Stenprop's tenants are classified into three groups as follows:

Tenant profile by annual rent



Tenant profile by let area



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: 849 other tenants.

Consolidated Portfolio

Unaudited

Sector	Company	Property/Portfolio	Ownership interest %	Market value 31 March 2020 (£m)
UK				
MLI	Industrials UK LP	Rawdon Network Centre	100.00%	2.2
MLI	Industrials UK LP	Shire Court	100.00%	3.2
MLI	Industrials UK LP	Sherwood Network Centre	100.00%	3.4
MLI	Industrials UK LP	Caldene Business Centre	100.00%	5.0
MLI	Industrials UK LP	Imex Business Centre	100.00%	5.4
MLI	Industrials UK LP	Boaler Street Industrial Estate	100.00%	3.1
MLI	Industrials UK LP	Croft Business Park	100.00%	3.0
MLI	Industrials UK LP	Eurolink 31	100.00%	3.8
MLI	Industrials UK LP	Dana trading estate	100.00%	17.9
MLI	Industrials UK LP	Wharton Street industrial estate	100.00%	1.6
MLI	Industrials UK LP	Wainright Street industrial estate	100.00%	1.5
MLI	Industrials UK LP	Argyle Business centre	100.00%	0.9
MLI	Industrials UK LP	Cuckoo trade park	100.00%	0.9
MLI	Industrials UK LP	Sovereign business park	100.00%	3.1
MLI	Industrials UK LP	Poulton Close Business Centre	100.00%	3.5
MLI	Industrials UK LP	Rivermead Estate	100.00%	3.3
MLI	Industrials UK LP	Wholesale District Nottingham	100.00%	3.0
MLI	Industrials UK LP	Davey Close Trade Park	100.00%	5.5
MLI	Industrials UK LP	Redbrook Business Park	100.00%	6.8
MLI	Industrials UK LP	Lion Business Park	100.00%	6.3
MLI	Industrials UK LP	Greenway Business Park	100.00%	4.4
MLI	Industrials UK LP	Compass Industrial Park	100.00%	17.0
MLI	Industrials UK LP	Lea Green Business Park	100.00%	10.1
MLI	Industrials UK LP	Anniesland	100.00%	12.3
MLI	Industrials UK LP	Capital Business Park	100.00%	8.1
MLI	Industrials UK LP	Souterhead industrial estate	100.00%	4.3
MLI	Industrials UK LP	Venture Park	100.00%	4.0
MLI	Industrials UK LP	Coningsby Park	100.00%	13.7
MLI	Industrials UK LP	Globe Park	100.00%	2.7
MLI	Stenprop Industrials 4 Ltd	Ellis Hill	100.00%	5.7
MLI	Stenprop Industrials 4 Ltd	Greenwood Industrial Estate	100.00%	3.0
MLI	Stenprop Industrials 4 Ltd	Kirkstall Industrial Estate	100.00%	8.5
MLI	Stenprop Industrials 4 Ltd	Estuary Court	100.00%	3.3
MLI	Stenprop Industrials 4 Ltd	Trinity Court	100.00%	4.0
MLI	Stenprop Industrials 4 Ltd	Carnfield Place	100.00%	4.0
MLI	Stenprop Industrials 4 Ltd	Lombard Centre	100.00%	3.2
MLI	Stenprop Industrials 4 Ltd	Dunball Industrial Estate	100.00%	6.9
MLI	Stenprop Industrials 4 Ltd	Gainsborough Trading Estate	100.00%	6.2
MLI	Stenprop Industrials 4 Ltd	Deeside Industrial Park	100.00%	2.2
MLI	Stenprop Industrials 4 Ltd	Hillfoot Industrial Estate	100.00%	5.2
MLI	Stenprop Industrials 4 Ltd	Armthorpe Business Centre	100.00%	1.3
MLI	Stenprop Industrials 4 Ltd	Trident Business Centre	100.00%	3.3
MLI	Stenprop Industrials 4 Ltd	Forth Industrial Estate	100.00%	4.2
MLI	Stenprop Industrials 4 Ltd	St Peter's Industrial Park	100.00%	2.6
MLI	Stenprop Industrials 4 Ltd	Merryhills Enterprise Park	100.00%	2.5
MLI	Stenprop Industrials 4 Ltd	Western Campus Business Park	100.00%	4.6
MLI	Stenprop Industrials 4 Ltd	Brookfoot Business Park	100.00%	6.0
MLI	Stenprop Industrials 4 Ltd	Clarendon Court	100.00%	3.7
MLI	Stenprop Industrials 6 Ltd	Star Road Industrial Estate	100.00%	6.3
MLI	Stenprop Industrials 6 Ltd	Albion Gateway	100.00%	2.6
MLI	Stenprop Industrials 6 Ltd	Chasewater Heaths Business Pk	100.00%	2.4
MLI	Stenprop Industrials 6 Ltd	Queensway Industrial Estate	100.00%	3.5
MLI	Stenprop Industrials 6 Ltd	Tyburn Trading Estate	100.00%	3.6

Number of Properties	Area (m^2)	Annualised gross rental income (£m)	Net initial yield 31 March 2020 (%)	WAULT (by rental) (years)	Voids (by area) (%)	Rental per m^2 (£/m2)
1	3,008	0.2	6.79%	1.7	9.7%	53
1	5,844	0.2	7.23%	1.8	0.0%	41
1	4,960	0.3	7.83%	1.0	2.2%	58
1	7,524	0.5	8.46%	2.9	5.5%	61
1	4,346	0.4	6.87%	1.6	0.0%	92
1	4,480	0.2	6.78%	2.3	7.6%	52
1	3,099	0.2	6.85%	1.4	17.3%	66
1	4,573	0.3	6.52%	3.2	0.0%	58
1	20,966	1.1	6.50%	1.9	0.0%	59
1	2,104	0.1	7.23%	3.0	0.0%	57
1	1,746	0.1	6.49%	2.0	0.0%	60
1	746	0.1	7.62%	1.6	0.0%	103
1	565	0.1	6.24%	3.2	0.0%	99
1	4,528	0.2	6.28%	2.7	18.0%	46
1	4,389	0.2	3.03%	1.1	35.1%	41
1	2,527	0.2	4.79%	1.6	17.5%	79
1	3,326	0.2	6.92%	1.9	10.2%	65
1	5,028	0.4	5.75%	2.2	4.4%	74
1	15,353	0.6	6.35%	2.1	14.6%	36
1	4,984	0.4	5.95%	2.6	0.0%	86
1	4,762	0.3	5.46%	2.1	5.5%	55
1	22,601	1.3	6.78%	3.5	6.3%	57
1	14,181	0.7	6.72%	5.4	0.0%	54
1	16,913	0.9	6.56%	2.7	14.7%	60
1	9,540	0.5	5.96%	2.8	20.8%	55
1	3,736	0.4	6.71%	2.1	13.8%	100
1	6,530	0.3	6.42%	3.7	0.0%	42
1	23,428	0.7	4.24%	4.4	36.0%	33
1	3,528	0.2	6.88%	2.4	5.3%	56
1	7,072	0.5	7.50%	2.9	0.0%	65
1	4,144	0.2	5.94%	0.9	9.1%	48
1	10,301	0.6	6.38%	4.0	0.0%	61
1	3,343	0.2	7.45%	1.5	3.9%	75
1	3,418	0.3	5.98%	2.7	0.0%	87
1	5,528	0.3	5.88%	1.2	17.0%	46
1	3,031	0.3	7.99%	0.9	7.4%	93
1	6,958	0.4	5.69%	2.0	16.2%	64
1	15,026	0.5	8.66%	2.3	4.1%	36
1	2,933	0.1	5.87%	2.3	18.9%	47
1	6,034	0.3	5.79%	1.6	11.8%	60
1	1,250	0.1	4.76%	1.5	26.5%	54
1	5,508	0.2	6.02%	2.3	10.1%	42
1	3,709	0.3	6.63%	4.5	0.0%	80
1	4,148	0.2	5.31%	2.1	0.0%	56
1	3,495	0.2	7.04%	3.1	4.9%	56
1	4,140	0.3	5.00%	2.0	25.3%	75
1	9,792	0.5	8.27%	3.2	4.4%	56
1	3,395	0.3	6.18%	1.1	6.1%	84
1	6,146	0.4	6.26%	4.3	0.0%	70
1	2,598	0.2	6.10%	6.3	0.0%	67
1	3,739	0.2	6.36%	2.0	12.6%	54
1	5,999	0.3	7.22%	2.1	0.0%	45
1	4,766	0.3	7.02%	2.2	0.0%	59

Consolidated Portfolio continued

Unaudited

Sector	Company	Property/Portfolio	Ownership interest %	Market value 31 March 2020 (£m)
MLI	Stenprop Industrials 6 Ltd	Windmill Road Industrial Estate	100.00%	1.9
MLI	Stenprop Industrials 6 Ltd	Greenfield Business Pk (A-M)	100.00%	4.6
MLI	Stenprop Industrials 6 Ltd	Tir Llwyd Industrial Estate	100.00%	3.7
MLI	Stenprop Industrials 6 Ltd	Phoenix Close Ind Est	100.00%	2.9
MLI	Stenprop Industrials 6 Ltd	Holbrook Enterprise Park	100.00%	3.9
MLI	Stenprop Industrials 6 Ltd	Cleveland Trading Estate	100.00%	1.3
MLI	Stenprop Industrials 6 Ltd	Venture Point	100.00%	3.0
MLI	Stenprop Industrials 6 Ltd	Chapel Brook Trade Park	100.00%	6.0
MLI	Stenprop Industrials 6 Ltd	Brasenose Road	100.00%	3.1
MLI	Stenprop Industrials 6 Ltd	Hanson Park	100.00%	0.9
MLI	Stenprop Industrials 6 Ltd	Jubilee Park	100.00%	0.8
MLI	Stenprop Industrials 6 Ltd	Townley Park	100.00%	2.1
MLI	Stenprop Industrials 6 Ltd	Larch Lea Industrial Estate	100.00%	2.2
MLI	Stenprop Industrials 6 Ltd	Link at Huyton Business Pk	100.00%	4.3
MLI	Stenprop Industrials 6 Ltd	Mountheath Trading Est	100.00%	3.9
MLI	Stenprop Industrials 6 Ltd	Old Mill Industrial Estate	100.00%	4.8
MLI	Stenprop Industrials 6 Ltd	Watery Lane	100.00%	0.8
Total UK MLI				**309.0**
UK non-MLI				
Industrial	GGP1 Limited (Guernsey)	Ashby de la Zouch	100.00%	5.8
Office	GGP1 Limited (Guernsey)	Merthyr Tydfil	100.00%	1.4
Office	GGP1 Limited (Guernsey)	Reading	100.00%	8.2
Industrial	GGP1 Limited (Guernsey)	Sheffield	100.00%	3.0
Industrial	GGP1 Limited (Guernsey)	Worcester	100.00%	3.0
Office	LPE Ltd (Guernsey)	Trafalgar	100.00%	57.4
Total UK non-MLI				**78.8**

Number of Properties	Area (m^2)	Annualised gross rental income (£m)	Net initial yield 31 March 2020 (%)	WAULT (by rental) (years)	Voids (by area) (%)	Rental per m^2 (£/m2)
1	2,724	0.2	7.65%	2.1	0.0%	61
1	11,929	0.4	4.53%	3.8	12.9%	31
1	6,321	0.3	6.43%	2.5	16.5%	44
1	3,909	0.2	5.95%	2.6	32.8%	46
1	5,208	0.3	7.53%	2.5	0.0%	60
1	2,765	0.1	7.07%	1.8	16.6%	39
1	4,195	0.3	8.03%	1.3	3.8%	63
1	7,875	0.4	6.11%	2.0	0.0%	51
1	7,909	0.3	8.42%	2.8	3.1%	34
1	938	0.1	7.06%	1.4	0.0%	70
1	1,421	0.1	8.47%	0.6	0.0%	52
1	3,029	0.2	7.36%	2.0	0.0%	54
1	4,309	0.2	7.69%	1.5	0.0%	43
1	8,080	0.3	7.37%	2.9	0.0%	41
1	3,431	0.3	6.06%	1.1	7.3%	79
1	9,444	0.4	7.26%	1.2	20.8%	39
1	1,208	0.1	7.39%	1.1	0.0%	48
70	**420,483**	**22.7**	**6.47%**	**2.6**	**8.9%**	**54**

1	4,718	0.4	6.75%	2.2	0.0%	88
1	3,739	0.1	9.07%	1.3	0.0%	36
1	2,803	0.7	8.26%	2.0	0.0%	256
1	6,860	0.3	7.70%	0.3	0.0%	36
1	3,714	0.2	6.00%	0.2	0.0%	52
1	10,565	4.3	7.05%	7.1	0.2%	410
6	**32,399**	**6.0**	**7.17%**	**5.5**	**0.1%**	**187**

Assets Held for Sale

Unaudited

Sector	Company	Property	Ownership interest %	Market value 31 March 2020 (£m)	Properties	Area (m²)	Annualised gross rental income (£m)	Net initial yield 31 March 2020 (%)	WAULT (by rental) (years)	Voids (by area) (%)	Rental per m² (£/m2)
Germany											
Retail	Anarosa Holdings N.V (Curacao)	Ludwigsburg	100.00%	5.9	1	4,890	0.4	6.94%	9.3	0.0%	84
Retail	Anarosa Holdings N.V (Curacao)	Frankfurt	100.00%	6.4	1	3,840	0.5	5.48%	12.1	0.0%	123
Retail	Anarosa Holdings N.V (Curacao)	Marburg	100.00%	1.7	1	1,533	0.1	6.90%	7.7	0.0%	93
Retail	Anarosa Holdings N.V (Curacao)	Sindelfingen	100.00%	7.7	1	4,700	0.5	6.18%	10.8	0.0%	115
Retail	Anarosa Holdings N.V (Curacao)	Kassel	100.00%	1.4	1	1,768	0.1	5.93%	12.1	0.0%	58
Retail	Isabel Properties B.V	Neukoelln Carree	100.00%	20.9	1	13,364	1.3	5.18%	6.1	0.0%	95
Retail	Stenprop Hermann Ltd	Hermann Quartier	100.00%	22.9	1	8,317	1.3	4.89%	4.7	2.5%	153
Retail	Stenprop Victoria Ltd	Victoria Centre	100.00%	27.9	1	13,710	1.5	4.27%	11.4	1.6%	111
Total Germany				**94.8**	**8**	**52,122**	**5.7**	**5.10%**	**8.5**	**0.8%**	**110**
Switzerland											
Retail	Kantone Holdings Ltd	Lugano	100.00%	14.3	1	5,974	1.0	5.81%	17.5	0.0%	174
Total Switzerland				**14.3**	**1**	**5,974**	**1.0**	**5.81%**	**17.5**	**0.0%**	**174**
Total assets held for sale				**109.1**	**9**	**58,096**	**6.7**	**5.19%**	**9.9**	**0.7%**	**117**

Jointly Controlled Entities

Unaudited

Sector	Company	Property	Ownership interest %	Market value 31 March 2020 (£m)	Properties	Area (m²)	Annualised gross rental income (£m)	Net initial yield 31 March 2020 (%)	WAULT (by rental) (years)	Voids (by area) (%)	Rental per m² (£/m2)
Germany											
Nursing Homes	Elysion S.a.r.l.	Braunschweig	100.00%	10.0	1	4,131	0.7	6.03%	8.0	0.0%	162
Nursing Homes	Elysion S.a.r.l.	Dessau	100.00%	8.2	1	6,195	0.6	5.55%	6.3	0.0%	92
Nursing Homes	Elysion S.a.r.l.	Kappeln	100.00%	12.4	1	5,225	0.7	5.20%	13.8	0.0%	138
Nursing Homes	Elysion S.a.r.l.	Winzlar	100.00%	5.1	1	3,779	0.5	8.17%	8.0	0.0%	124
Total Germany				**35.7**	**4**	**19,330**	**2.5**	**5.94%**	**9.3**	**0.0%**	**126**

Tenant Analysis

Unaudited

Number of tenants

Country	Number of tenants	Annual rental income (%)
UK	908	75.8%
Germany	56	21.5%
Switzerland	1	2.7%
Total	**965**	**100.0%**

Top 15 tenants

	Tenant	Sum of annualised rent 31 March 2020 (£)	Percentage of total rent (%)	WAULT (years)
1	Northern Trust (Gsy) Ltd	3,185,319	8.39%	8.5
2	Unipart Group Limited	1,246,374	3.28%	1.9
3	BIKE & OUTDOOR COMPANY GmbH & Co.KG	1,185,959	3.13%	12.1
4	Close Brothers Properties Guernsey Ltd	1,117,540	2.94%	3.3
5	The Planet Wellness SA	1,038,274	2.74%	17.5
6	Kappeln	721,087	1.90%	13.8
7	Thames Water Utilities Ltd	718,458	1.89%	2.0
8	Kaufland	701,791	1.85%	11.4
9	Braunschweig	669,743	1.76%	8.0
10	Dessau	568,584	1.50%	6.3
11	Holmes Place Health Clubs	554,375	1.46%	13.8
12	Winzlar	469,188	1.24%	8.3
13	Siemens PLC	413,550	1.09%	2.2
14	EDEKA MIHA-Immobilien-Service GmbH	401,757	1.06%	6.6
15	Booker Ltd	326,625	0.86%	0.7
	Grand Total	**13,318,624**	**35.09%**	**8.2**

EPRA Key Performance Measures

Unaudited

The European Public Real Estate Association ('EPRA') issued the Best Practices Recommendations policy in October 2019, which provides 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 to provide additional information on 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 2020 and 31 March 2019:

Indicator	Description	31 March 2020	31 March 2019
EPRA Earnings	Dilutive adjusted earnings from operational activities	**£19.7 million**	£25.2 million
EPRA Earnings per share	Dilutive adjusted earnings per share from operational activities	**6.88 pence**	8.84 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	**£398.9 million**	£402.0 million
EPRA Net Asset Value (NAV) per share	Diluted EPRA NAV per share	**£1.39**	£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	**£1.39**	£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	**5.95%**	5.67%
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)	**6.33%**	5.79%
EPRA Occupancy Rate	Estimated Market Rental Value (ERV) of occupied space divided by ERV of the portfolio as a whole	**94.40%**	96.00% ^
EPRA Cost Ratio (including direct vacancy costs)	Administrative and operating costs expressed as a percentage of gross rental income	**35.30%**	31.80%

^ *Excluding assets being re-positioned, Conningsby Estate, Peterborough.*

Accounting policies adopted in relation to the Group's property portfolio are 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	403	23.28%	93,659	0.03%
1,001 - 10,000 shares	612	35.36%	2,625,628	0.88%
10,001 - 100,000 shares	475	27.44%	16,955,306	5.67%
100,001 - 1,000,000 shares	202	11.67%	55,230,818	18.49%
1,000,001 shares and over	39	2.25%	223,869,764	74.93%
Total	**1,731**	**100.00%**	**298,775,175**	**100.00%**

Distribution of Shareholders	Number of Shareholdings	Percentage	Number of Shares	Percentage
Retail	1,597	92.24%	134,735,920	45.09%
Mutual Funds	44	2.54%	58,515,547	19.59%
Investment Trusts	2	0.12%	23,482,672	7.86%
Directors	15	0.87%	23,138,167	7.74%
Treasury	1	0.06%	15,830,040	5.30%
Corporate	14	0.81%	14,829,670	4.96%
Pensions	27	1.56%	12,769,798	4.27%
Trading	14	0.81%	6,897,566	2.31%
Hedge	6	0.35%	6,757,635	2.26%
Insurance	6	0.35%	1,479,047	0.50%
REIT	1	0.06%	170,642	0.06%
Charities	3	0.17%	120,806	0.04%
Banks	1	0.06%	47,665	0.02%
Total	**1,731**	**100.00%**	**298,775,175**	**100.00%**

Public/Non-Public Shareholders	Number of Shareholdings	Percentage	Number of Shares	Percentage
Non-Public Shareholders	**16**	**0.93%**	**39,391,714**	**13.18%**
Directors and Associates of the Company holdings	15	0.87%	23,561,674	7.89%
Treasury Stock	1	0.06%	15,830,040	5.30%
Public Shareholders	**1,715**	**99.07%**	**259,383,501**	**86.82%**
Total	**1,731**	**100.00%**	**298,775,175**	**100.00%**

Major shareholders

As at the financial year end there were 1,731 (2019: 1,833) shareholders in the Company. As at 31 March 2020, Thames River Capital held a direct and indirect interest of 7.34% in the issued share capital of the Company and 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 2020.

Shareholder Diary

Financial year end	31 March 2020
Annual report posted	June 2020
Annual general meeting	September 2020

Announcement of results

30 September 2020	Interim results	November 2020
31 March 2021	Annual results	June 2021

Dividends	Declared	Paid
2020 Interim	November 2020	February 2021
2021 Annual	June 2021	August 2021

Alternative Performance Measures

At Stenprop management considers a number of Alternative Performance Measures (APMs) important to improve the transparency and relevance of our published results, as well as the comparability of our results with other listed European real estate companies. APMs are financial measures which are not specified under IFRS and are included to supplement the information contained in the Group financial statements. These APMs include a number of European Public Real Estate Association ('EPRA') measures. EPRA issued the Best Practices Recommendations policy in October 2019, which provides guidelines for alternative 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 table below identifies the APMs used in this Annual Report, the nearest IFRS measure where applicable, and a reference to where in this Annual Report an explanation and / or reconciliation can be found.

APM	Nearest IFRS measure	Reference in document
Cost of Debt	N/A	Glossary
Diluted Adjusted EPRA earnings and Diluted Adjusted EPRA earnings per share ('EPS')	IFRS Earnings and IFRS earnings per share	Note 14, Glossary and page 22 of this document
Debt maturity	N/A	Glossary
Distribution per share	N/A	Page 22 of this document
EPRA Net Asset Value ('NAV') and EPRA NAV per share	Net Assets	Note 15 of the financial statements and page 22 of this document
EPRA Triple Net Asset Value (NNNAV) per share	N/A	Glossary and page 154 of this document
EPRA Net Initial Yield (NIY)	N/A	Glossary and page 154 of this document
EPRA cost ratio	N/A	Glossary and page 154 of this document
EPRA Occupancy Rate Estimated Market Rental Value (ERV)	N/A	Glossary and page 154 of this document
EPRA Cost Ratio (including direct vacancy costs)	N/A	Glossary and page 154 of this document
Free cash	Cash and cash equivalents less restricted cash and cash held for other purposes.	Glossary and Note 21 of the financial statements
Headline earnings	IFRS Earnings	Glossary and Note 14 of the financial statements
Interest cover	N/A	Glossary
Loan-to-value	N/A	Note 28 of the financial statements and page 22 of this document

Glossary

Cost of debt
This represents the all-in interest rate after including the reference rate, the margin and interest rate derivative, if applicable. The Group weighted average cost of debt is the all-in interest rate of the Group weighted by loan size.

Debt maturity
Measured in years, the debt maturity is calculated by comparing the reference date (e.g. year-end) to the maturity date of the debt referred to.

Diluted Adjusted EPRA Earnings
Utilises EPRA earnings and applies further company-specific adjustments to earnings to exclude items considered not to be in the ordinary course of business or other exceptional items that do not necessarily provide an accurate picture of the Group's underlying operational performance.

Diluted Adjusted EPRA Earnings per share
Diluted adjusted earnings per share (based on the period weighted average number of shares in issue, less treasury shares).

EPRA
The European Public Real Estate Association.

EPRA Earnings
Earnings from operational activities. A key measure of the company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.

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.

EPRA NAV per share
EPRA NAV divided by the number of shares in issue at the period (less treasury shares).

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.

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.

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).

EPRA Occupancy Rate
Estimated Market Rental Value (ERV) of occupied space divided by ERV of the portfolio as a whole.

EPRA Cost Ratio (including direct vacancy costs)
Administrative and operating costs expressed as a percentage of gross rental income.

Estimated Rental Value ('ERV')
The external valuers' opinion of the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

Free cash
Available cash after deducting restricted cash and cash held back for other purposes (significant tax liabilities and committed operational expenditure) from cash and cash equivalents.

Group
Stenprop, the Company, its subsidiaries and its share of joint ventures.

Headline earnings
A method of reporting corporate earnings, as required by the JSE listings requirements. The measure is based entirely on operational, trading, and capital investment activities achieved during the period. Excluded from the headline earnings figure are profits or losses associated with the sale or termination of discontinued operations, fixed assets or related businesses, or from any permanent devaluation or write-off of their values.

IFRS
International Financial Reporting Standards issued by the International Accounting Standards Board.

Interest cover
Represents the number of times net interest payable is covered by underlying rental income (or net rental income, as appropriate).

LIBOR
London Interbank Offered Rate, the interest rate charged by one bank to another for lending money.

Like-for-like basis
This represents the change in a measure (such as property valuation) for reference data which applies throughout the current and previous periods under review.

Loan-to-Value (LTV)
Ratio of gross debt to the aggregate value of properties.

Property Income Distribution (PID)
As a REIT, the Group is obliged to distribute 90% of its UK property tax-exempt profits. PIDs are profits distributed to shareholders which are subject to tax in the hands of the shareholders as property income. PIDs are normally paid net of withholding tax currently at 20% which the REIT pays to the tax authorities on behalf of the shareholder. Certain types of shareholder (e.g. pension funds) are tax exempt and receive PIDs without deduction of withholding tax. REITs also pay out normal dividends which are taxed in the same way as dividends received from non REIT companies and are not subject to withholding tax.

Real Estate Investment Trust (REIT)
REITs are property companies that allow people and organisations to invest in commercial property and receive benefits as if they directly owned the properties themselves. The effect is that taxation is moved from the corporate level to the investor level as investors are liable for tax as if they owned the property directly. Stenprop became a REIT in May 2018.

Treasury shares
Shares repurchased by the Company, reducing the amount of outstanding stock on the open market.

Total shareholder return
Growth in capital from purchasing a share in the Company assuming that the dividends are reinvested each time they are paid.

Voids
Unlet space as a percentage of area, including voids where refurbishment work is being carried out unless specifically mentioned.

WAULT
Weighted average unexpired lease term, indicating the average remaining life of the leases within our portfolio.

Corporate Information

Stenprop Limited

Registered in Guernsey
Registration number 64865
LSE share code: STP
JSE share code: STP
ISIN: GG00BFWMR296

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