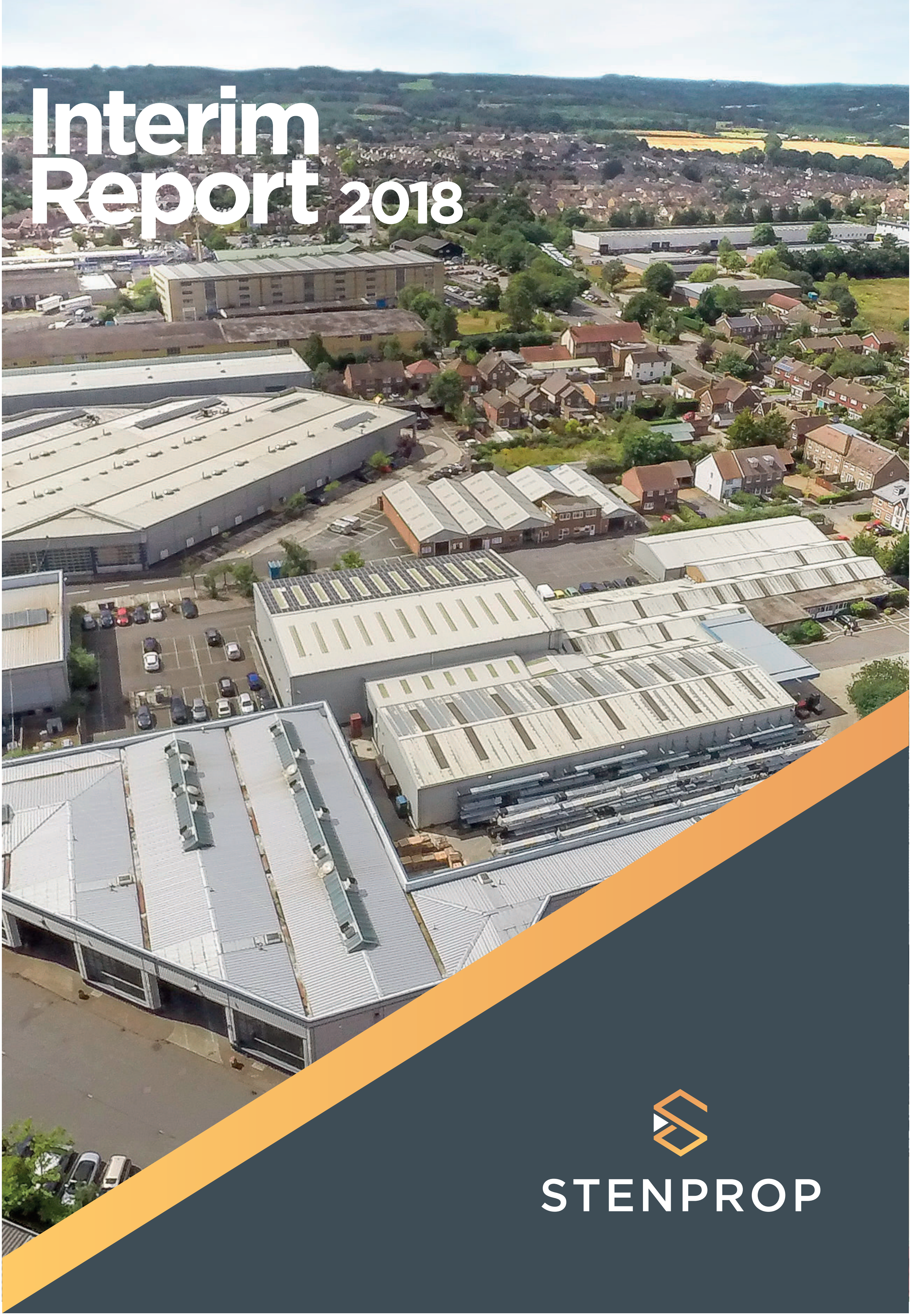
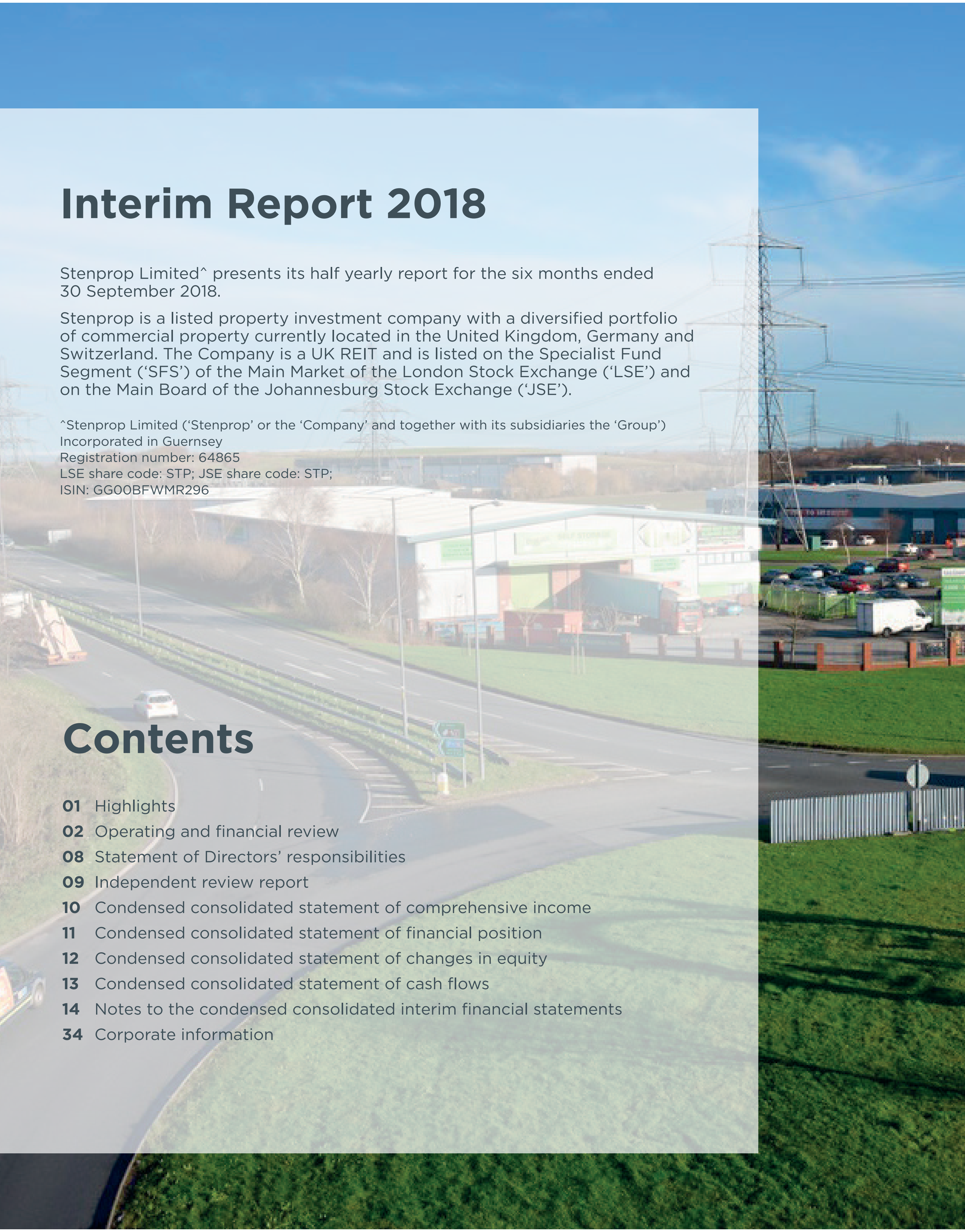
Interim Report 2018



STENPROP



Interim Report 2018

Stenprop Limited^ presents its half yearly report for the six months ended 30 September 2018.

Stenprop is a listed property investment company with a diversified portfolio of commercial property currently located in the United Kingdom, Germany and Switzerland. The Company is a UK REIT and is listed on the Specialist Fund Segment ('SFS') of the Main Market of the London Stock Exchange ('LSE') and on the Main Board of the Johannesburg Stock Exchange ('JSE').

^Stenprop Limited ('Stenprop' or the 'Company' and together with its subsidiaries the 'Group')
Incorporated in Guernsey
Registration number: 64865
LSE share code: STP; JSE share code: STP;
ISIN: GG00BFWMR296

Contents

Highlights

£1.37
Diluted IFRS NAV per share

4.63 pence
Diluted IFRS earnings per share

2.75 pence
Property-related diluted IFRS earnings per share (excl. management fee income of 1.88 pence)

47.3%
Loan-to-value at 30 September 2018

£1.42
Diluted EPRA NAV per share[2]

5.28 pence
Diluted adjusted EPRA earnings per share[1]

3.40 pence
Property-related diluted adjusted EPRA earnings per share (excl. management fee income of 1.88 pence)

3.375 pence
Interim dividend per share declared

	Six months ended 30 September 2018	Six months ended 30 September 2017
Statement of Comprehensive Income		
Net rental income	**£16.0m**	£16.0m
Net operating income	**£16.1m**	£16.5m
Dividend per share	**3.375p**	4.00p
Diluted IFRS earnings per share	**4.63p**	3.08p
Diluted adjusted EPRA earnings per share[1]	**5.28p**	4.87p

	As at 30 September 2018	As at 31 March 2018
Statement of Financial Position		
Portfolio valuation (incl. JV)	**£653.8m**	£733.6m
MLI assets within portfolio	**27.0%**	20.1%
Diluted IFRS NAV per share	**£1.37**	£1.36
Diluted EPRA NAV per share[2]	**£1.42**	£1.41
Loan-to-value	**47.3%**	49.2%

1. See note 5 for reconciliation to IFRS earnings per share (and for all future references in this report to IFRS/EPRA earnings).
2. See note 6 for reconciliation to IFRS NAV per share (and for all future references in this report to IFRS/EPRA NAV).

FX rates in period

Average foreign exchange rates in the period: £1.00:€1.131; £1.00:CHF1.31 (2017: £1.00:€1.138; £1.00:CHF1.259)

Period end foreign exchange rates: £1.00:€1.123; £1.00:CHF1.276 (31 March 2018: £1.00:€1.137; £1.00:CHF1.337)

* 'EPRA' means European Public Real Estate Association. 'EPS' means earnings per share. 'NAV' means net asset value.

Operational Highlights

- Stenprop converted to a UK REIT on 1 May 2018 and listed on the London Stock Exchange ('LSE') on 15 June 2018.
- Stenprop made acquisitions of six multi-let industrial ('MLI') estates in the six-month period with a combined purchase price of £24.9 million. A further estate has been acquired since the period end for a purchase price of £4.8 million.
- In the six months to 30 September 2018, Stenprop's MLI portfolio has seen 53 new lettings/lease renewals for an average term of 3.2 years at an average rent which is 15.2% above the passing rent previously payable on those units.
- On 4 June 2018, Stenprop completed the sale of its joint venture interest in Argyll Street in the West End of London. The sale valued the property at the 31 March 2018 valuation of £83.4 million and generated net proceeds of £22.8 million for Stenprop.
- On 19 July 2018 Stenprop disposed of seven of its eight remaining Swiss properties for a gross consideration of CHF103.65 million compared with a valuation at 31 March 2018 of CHF103.23 million, a gain of CHF420,000.
- On 10 September 2018, contracts were signed and notarised for the sale of the Aldi retail portfolio. Aldi themselves acquired all 14 properties for a purchase price of €35.8 million, a 9.0% increase on the year end valuation of €32.8 million. Completion is expected towards the end of December 2018.

Financial Highlights

- Declaration of an interim dividend on 21 November 2018 of 3.375 pence per share for the six months ended 30 September 2018 (2017: 4.0 pence), covered fully by property-related earnings, in line with guidance and payable on 8 February 2019. Subject to the receipt of regulatory approvals, a scrip alternative will be offered, which the directors intend to match through the buyback of shares.
- Diluted adjusted EPRA EPS* of 5.28 pence (2017: 4.87 pence) for the period ended 30 September 2018. Diluted IFRS EPS was 4.63 pence (2017: 3.08 pence).
- Diluted EPRA net asset value per share of £1.42 as at 30 September 2018 (31 March 2018: £1.41). Diluted IFRS net asset value per share was £1.37 per share (31 March 2018: £1.36).

Operating and financial review

Stenprop is pleased to report its consolidated interim financial statements for the six months ended 30 September 2018.

Two-year transition plan update

Stenprop is progressing well with its transition to become a focused UK MLI business. The plan required Stenprop to sell approximately £470 million of existing non-MLI assets in the period from 1 October 2017 to 31 March 2020 and to acquire at least £220 million of MLI assets. The plan was also to use part of the net sales proceeds to reduce overall leverage from levels of 55% to a targeted loan-to-value ratio of approximately 45% by 31 March 2019 and approximately 40% by 31 March 2020. Based on achieving these targets, MLI would comprise approximately 65% of gross assets by the end of March 2020.

As at 30 September 2018, MLI assets comprised 27.0% of Stenprop's total portfolio (up from 20.1% at 31 March 2018) and overall loan to value was 47.3%.

During the six-month period under review, Stenprop acquired six MLI estates in separate transactions for an aggregate purchase price of £24.9 million. There are a number of portfolios currently in the market for sale and, if we are successful in acquiring at least one of these, we are confident that we will exceed our target of £100 million of acquisitions for the 12 months ending 31 March 2019.

During the period, Stenprop sold non-MLI assets for a combined sales price of £120.9 million, including seven of Stenprop's eight Swiss properties and its share in a central London property in Argyll Street. After repaying associated debt and selling costs, and funding the acquisition of the six MLI properties mentioned above, an amount of approximately £30 million remains to fund MLI acquisitions currently being considered by Stenprop.

We remain confident that we are on track to achieve the milestones required by the two-year transition plan as outlined above.

Financial Review

Earnings

The basic earnings attributable to ordinary shareholders for the period ended 30 September 2018 were £13.2 million (2017: £8.7 million). This equates to a diluted IFRS EPS of 4.63 pence (2017: 3.08 pence).

Net rental income of £16.0 million (excluding Switzerland) has remained broadly flat compared with the prior period, showing an increase of 0.4%. The UK MLI component of net rents contributed £5.1 million to the total at 30 September 2018, more than double the amount of £2.3 million contributed by this segment in the comparative period. At the same time the UK non-MLI contribution has decreased by a similar amount representing sales of property in pursuance of Stenprop's transition into the MLI sector.

Net management fee income totalled £5.4 million for the period (2017: £3.2 million) and related to fees earned by the Group from management and administration services provided to certain managed property syndicates and funds which had historically been managed by the Group as an ancillary part of its legacy business. Included in the total was a net performance fee of £3.7 million and management fees of £0.3 million which relate to a managed property in Germany. This asset was sold during the period which resulted in the performance fee being earned by Stenprop.

Operating expenses of £5.3 million (2017: £2.6 million) included approximately £0.9 million of one-off costs associated with REIT conversion and listing on the LSE and staff costs have increased by approximately £0.8 million year on year following the acquisition of the C2 Capital management platform in June 2017. There were no goodwill adjustments in the period to 30 September 2018.

In accordance with reporting standards widely adopted across the real estate industry in Europe, the directors feel it is appropriate and useful, in addition to providing the IFRS disclosed earnings, to also disclose EPRA[1] earnings. Adjusted EPRA earnings attributable to shareholders were £15.1 million (2017: £13.7 million), equating to a diluted adjusted EPRA EPS of 5.28 pence (2017: 4.87 pence) representing an 8.4% increase.

The diluted adjusted EPRA EPS attributable to the property rental business amounts to 3.40 pence per share, with the remaining amount of 1.88 pence per share being attributable to the net management fee income (£5.4 million shown on the condensed consolidated income statement, divided by the average number of shares in the period as per note 5).

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). Excluding the one-off costs associated with the listing and REIT conversion, the EPRA cost ratio (including direct vacancy costs) at 30 September 2018 was 31.9% (31 March 2018: 28.0%; 2017: 21.3%).

1. The European Public Real Estate Association ("EPRA") issued Best Practices Policy Recommendations in November 2016, which provide guidelines for performance measures relevant to real estate companies. Their recommended reporting standards are widely applied across this market, aiming to bring consistency and transparency to the sector. The EPRA earnings measure is intended to show the level of recurring earnings from core operational activities with the purpose of highlighting the Group's underlying operating results from its property rental business and an indication of the extent to which current dividend payments are supported by earnings. The measure excludes unrealised changes in the value of investment properties, gains or losses on the disposal of properties and other items that do not provide an accurate picture of the Group's underlying operational performance. The measure is considered to accurately capture the long-term strategy of the Group, and is an indication of the sustainability of dividend payments. See Note 5 for reconciliation to IFRS EPS.

Dividends

On 21 November 2018, the directors declared an interim dividend of 3.375 pence per share (2017: 4.0 pence per share). Subject to the receipt of regulatory approvals, the directors intend to offer shareholders the option to receive all or part of their dividend entitlement by way of a scrip issue of new Stenprop ordinary shares or in cash. An announcement containing details of the dividend, the timetable and the scrip dividend terms is anticipated to be made on 20 December 2018. It is expected that shares will commence trading ex-dividend on 16 January 2019 on the JSE and on 17 January 2019 on the LSE. The record date for the dividend is expected to be 18 January 2019 and the dividend payment date 8 February 2019.

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

As one of the conditions of being a UK REIT, Stenprop must distribute 90% of its aggregate UK property rental business profits as calculated for tax purposes arising in the accounting year by way of dividend within 12 months of the accounting year end. There is no requirement to distribute non-UK property rental business profits, profits from third party management fees or capital gains. Notwithstanding this, Stenprop intends to distribute at least 90% of its UK and non-UK property-related EPRA earnings. Distribution of other non-property-related earnings will be evaluated from time-to-time by the board of directors ('the Board'). In considering the payment of this dividend the Board has chosen to retain the earnings associated with the non-recurring management fees earned in the period which equated to 1.88 pence per share. Distribution of non-property related earnings will continue to be evaluated from time-to-time by the Board.

Net asset value

The IFRS basic and diluted net asset value per share at 30 September 2018 was £1.39 and £1.37 respectively (31 March 2018: £1.37 and £1.36 respectively).

With regard to the disclosure of EPRA earnings, the directors feel that it is appropriate and useful, in addition to IFRS NAV, to also disclose EPRA NAV[2]. The diluted EPRA NAV per share at 30 September 2018 was £1.42. This represents a 0.7% increase on the diluted EPRA NAV per share of £1.41 at 31 March 2018.

Portfolio valuation

Including the Group's share of associates and joint ventures, its investment properties were valued at £653.8 million at 30 September 2018 (31 March 2018: £733.6 million), of which £129.0 million were classified as assets held for sale (31 March 2018: £163.5 million). Assets held for sale consist of the remaining Swiss property in Lugano, Euston House in central London and the German Aldi portfolio that has been contracted for sale. On a like for like basis, excluding the impact of additions and disposals in the period, the valuation of the portfolio since year end increased by 2.3%, of which 0.7% resulted from currency movements. The German and Swiss properties have been translated to GBP at exchange rates of £1.00:€1.123 and £1.00:CHF1.276 respectively. This compares with exchange rates of £1.00:€1.137 and £1.00:CHF1.337 at 31 March 2018.

Combined Portfolio (including share of jointly controlled entities)	Market value 30 September 2018 (£ million)	Portfolio by market value (%)	Properties (number)	Area (sq m)	Annualised gross rental income (£ million)	Net initial yield (weighted average) (%)	Voids by area (%)
UK non multi-let Industrial	**87.1**	**13.2**	**9**	**40,077**	**7.0**	**7.38**	**–**
UK multi-let Industrial	**176.6**	**27.0**	**36**	**244,870**	**12.4**	**6.40**	**7.1**
Germany	**226.0**	**34.6**	**9**	**72,599**	**10.6**	**3.98**	**7.8**
Sub-total	**489.7**	**74.8**	**54**	**357,546**	**30.0**	**5.46**	**6.5**
Switzerland	17.4	2.7	1	5,974	1.2	6.22	–
UK non multi-let Industrial	80.5	12.3	1	10,099	4.2	3.89	–
Germany	31.1	4.8	14	18,843	1.9	5.47	–
Sub-total Assets Held for Sale	**129.0**	**19.8**	**16**	**34,916**	**7.3**	**4.58**	**–**
Total – wholly owned	**618.7**	**94.6**	**70**	**392,462**	**37.3**	**5.28**	**5.9**
Share of joint ventures	**35.1**	**5.4**	**4**	**19,330**	**2.4**	**6.01**	**0.0**
Total	**653.8**	**100.0**	**74**	**411,792**	**39.7**	**5.31**	**5.6**

2. The objective of the EPRA NAV measure is to highlight the fair value of net assets on an ongoing, long-term basis. EPRA NAV is used as a reporting measure to better reflect underlying net asset value attributable to shareholders. Assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value of financial derivatives and deferred taxes on property valuation surpluses are therefore excluded. The EPRA measure thus takes into account the fair value of assets and liabilities as at the balance sheet date, other than fair value adjustments to financial instruments, deferred tax and goodwill. As the Group has adopted fair value accounting for investment property per IAS40, adjustments to reflect the EPRA NAV include only those relating to the revaluation of financial instruments and deferred tax. See Note 6 for reconciliation to IFRS NAV.

Operating and financial review

United Kingdom
The UK portfolio was independently valued at £344.2 million. On a like for like basis, after excluding the acquisition of the six MLI estates acquired in the six month period to 30 September 2018, the valuation of the UK portfolio increased by £5.1 million, or 1.6%, over the valuation at 31 March 2018. The variance is primarily due to a £3.9 million increase across the MLI portfolio and a £1.0 million increase at Euston House. The valuation of the Trafalgar Court property in Guernsey remained unchanged at £59.9 million.

Germany
The German portfolio (excluding joint ventures) was valued at €288.7 million. This represents a like for like increase of 3.3% on the year-end valuation of €284.6 million. The increase of €4.1 million was driven by a €2.2 million uplift at Stenprop's Bleichenhof property in central Hamburg and €2.1 million in relation to the Aldi portfolio which has been included at the values contained within the notarised sale and purchase agreements, less a provision for selling costs and tax. All other properties in the German portfolio were independently valued.

Switzerland
On 19 July 2018, Stenprop disposed of seven of its eight remaining Swiss properties. The final property, known as Lugano, was valued at CHF22.3 million at 30 September 2018. The increase of 6.7% against the year end valuation of CHF20.9 million reflects capital expenditure and the signing of a new lease in September 2018. The property completed its repositioning in October 2018.

Joint ventures
The Care Homes portfolio in Germany was independently valued at €39.5 million, an increase of 0.5% on the 31 March 2018 valuation of €39.3 million.

Stenprop sold its 50% interest in 25 Argyll Street in London's West End on 4 June 2018 by way of a share sale at a price which valued the property at its 31 March 2018 valuation of £83.4 million.

Debt
During the six-month period, the Swiss disposals resulted in a reduction of associated debt of £43.4 million. Stenprop's disposal of its interest in Argyll Street in London reduced debt by a further £18.7 million. The net sales proceeds were used to fund the six MLI acquisitions during the period at a total cost of £26.5 million, with a remaining amount of approximately £30 million held to fund MLI acquisitions currently being considered by Stenprop.

During the transition phase, when existing assets are being sold and the proceeds reinvested in MLI assets, depending on the timing of such disposals and acquisitions, new acquisitions may be funded by drawing down on a £50 million revolving credit facility ('RCF') from Investec Bank Plc. It is intended that drawdowns under the Investec RCF will be short term and will be replaced as soon as possible from a combination of disposal proceeds and longer-term debt finance at an average of 40% of the purchase price.

The value of the property portfolio as at 30 September 2018, including the Group's share of joint venture properties and assets held for sale, was £653.8 million. Senior bank debt at the same date was £309.4 million, resulting in an average loan-to-value ratio of 47.3% (31 March 2018: 49.2%). The rolling credit facility provided by Investec Bank Plc was undrawn as at 30 September 2018.

The weighted average debt maturity stood at 3.0 years at 30 September 2018 compared with 2.9 years at 31 March 2018. The weighted average debt maturity of the combined MLI portfolio stood at 3.8 years at 30 September 2018.

Excluding the Aldi portfolio, the sale of which was notarised on 10 September 2018, and the Swiss property at Lugano which has been earmarked for sale, annual amortisation payments are £3.3 million (31 March 2017: £1.2 million). £2.8 million of this amount relates to the Trafalgar Court loan facility and will cease once the additional funding of £6.1 million used in the acquisition of the Industrial portfolio in June 2017 has been repaid. The balance for this additional amount at 30 September 2018 was £3.3 million.

The all-in contracted weighted average cost of debt was 2.51% at the period end, compared with 2.44% at 31 March 2018.

As previously mentioned, in view of its changed strategy, the Group is targeting to reduce its level of total borrowings (at a Group level) to approximately 45% of its gross asset value by 31 March 2019 and 40% by 31 March 2020, by utilising part of the proceeds of disposals of its existing portfolio. Thereafter, the directors will employ a level of borrowing that they consider to be prudent for the asset class, taking into account prevailing market conditions.

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

Net management fee income from assets managed for third parties
With the focus of the business now on growing the MLI portfolio, Stenprop has actively withdrawn from involvement in its historic fund management arm. Significant performance and exit fees were earned from the realisation of these third party owned assets as a result of crystallised returns exceeding performance hurdles. Due to these exits, the net management fees earned in this period are exceptionally high and will not be recurring. The six-month period to 30 September 2018 delivered net management fee income of £5.4 million (2017: £3.2 million). Future fee income is expected to decline to insignificant levels as much of the third-party managed assets have now been sold. The intention is to have ceased all fund management activity by 31 March 2020.

Foreign exchange

At 30 September 2018, approximately 40.1% of Stenprop's net asset value and 40.4% of its net rental income are denominated in Euros. Consequently the GBP:EUR exchange rate has a material impact on reported GBP earnings and net asset values. At the start of April 2018, the GBP:EUR rate was £1.00:€1.137 and the Euro strengthened over the six-month period by 1.3% to £1.00:€1.123 as at 30 September 2018.

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 Switzerland (until the final Swiss property 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.

Portfolio Summary

As at 30 September 2018, the Company's real estate portfolio, including assets held for sale, comprised an interest in 38 non MLI properties and 36 MLI estates with a combined valued of £653.8 million[3], with 52.5% in the United Kingdom, 44.8% in Germany and 2.7% in Switzerland (by value). The portfolio has a gross lettable area of approximately 411,792[3] sq m and gross contracted annual rent of £39.7 million[3]. MLI accounts for approximately 31% of rental income as at 30 September 2018 (2017: 17.6%) and this is expected to increase significantly over time as Stenprop pursues further acquisitions in the MLI sector and makes disposals from other asset classes. Offices account for approximately 30% of rental income and retail accounts for approximately 25%.

A table detailing the top five property investments in the portfolio can be found below. These five investments account for 79% of the total portfolio market value. The three largest individual properties are Bleichenhof in Hamburg, Euston House in London and Trafalgar Court in Guernsey, which total £274.9 million and represent 41% of the total portfolio. The MLI portfolio accounts for 27% of total portfolio asset value and the Berlin retail centre portfolio (comprising three centrally located daily needs centres) accounts for 10%.

Top five investments by value as at 30 September 2018

Property	Market Value (£ million)	Ownership interest %	Stenprop share of market value (£ million)	Proportion of Stenprop Portfolio %	Sector	Lettable area (m^2)	Annualised Gross Rental (Stenprop share) (£ million)	Weighted Average unexpired lease term (years)
MLI portfolio, UK	176.6	100	176.6	27%	MLI	244,870	12.4	4.1
Bleichenhof, Hamburg	134.5	94.9	127.6	20%	Mixed use	19,527	4.8	4.5
Euston House, London*	80.5	100	80.5	12%	Office	10,099	4.2	4.5
Berlin daily needs retail centre portfolio,	67.1	100	67.1	10%	Retail	35,346	3.8	8.9
Trafalgar Court, Guernsey	59.9	100	59.9	9%	Office	10,564	4.3	8.6
Total	**518.6**	**–**	**511.7**	**78%**		**320,406**	**29.5**	**5.5**

* Asset Held for Sale.

3. Includes Stenprop's share of the properties held within joint venture investments.

Operating and financial review

MLI Portfolio update

As at 30 September 2018, Stenprop owned 36 MLI estates comprising 2.6 million sq ft of MLI space, housing 489 tenants and generating a rent of £12.4 million per annum.

MLI asset management

Over the period we have continued to see strong performance from our MLI portfolio. During the six months to 30 September 2018, there were 53 new lettings and lease renewals across the MLI portfolio, with an average increase in rents over the previous passing rents for these units of 15.2%. The average lease term granted was 3.2 years. An improvement in like-for-like occupancy from 84.6% to 86.6% and the uplifts in rents upon lease events has led to an overall like-for-like increase in rental income across the portfolio of 2.2% over the period. We continue to see good demand for MLI space from occupiers, with a further 134,166 sq ft of space under offer as at 30 September 2018, reflecting an additional £762,183 of rent, which would reduce our vacancy rate to approximately 6.3% if completed. The September 2018 valuation of the MLI portfolio resulted in a like-for-like increase of 2.6% over the period.

We continue to make progress with the development of the Industrials operating platform. Our proptech and digital marketing strategies are beginning to yield material efficiency gains in leasing and management information, while the new industrials.co.uk website which was launched in June 2018 saw a 494% increase in traffic when compared to the old website. We have also made tangible progress with more traditional marketing techniques, with all vacant units now listed directly on major portals and industrials.co.uk. We have also made progress with the roll-out of our Smart Lease and serviced industrial concepts.

Asset management highlights for the six months to 30 September 2018 included:

1. **Leasing** – A number of larger lettings were concluded over the period, including a 10-year lease to Decrobond Fabrications at Eurolink, Wakefield and a 5-year lease to V Installations at Compass Industrial Park, Speke at 19% and 17% uplifts to previous passing rents respectively. No lettings were concluded over the period at rents below ERVs, and to date we have seen little evidence of a slow down due to Brexit.
2. **Capital Expenditure** – In addition to the refurbishment project at Coningsby Park, Peterborough, and a number of smaller projects, the most significant capital expenditure over the period was the refurbishment of Unit 1, Anniesland Business Park, Glasgow. This unit, which sits at the entrance to the estate and was previously let to a local business, was taken back and comprehensively refurbished before being re-let to national trade operator, Toolstation, on a ten year lease. The letting was 16% ahead of our estimated rental value and reflected an increase on the previous passing rent of 26%. It will enhance the trade counter profile of the estate, facilitating further trade deals at premium rental levels.
3. **Industrials platform** - June 2018 saw the launch of the new Industrials website which is focused on marketing space to new and existing tenants. In order to drive value from the website a digital marketing strategy has been put in place focusing on the key digital channels which will drive the most value, search engine optimisation, Google search advertising and remarketing. As a result of this strategy traffic has grown significantly since the new website was launched with visits up 494% (September 2018 versus June 2018). Furthermore, we have now completed the roll-out of Industrials branding across all internal and outsourced staff, including the launch of an 0800 number on all marketing materials to handle all enquiries centrally. This is part of our keen focus on delivering superior customer service, which we believe will result in enhanced customer satisfaction and increased tenant renewals. Our serviced industrial concept has also gained traction over the period, with a significant increase in the number of Smart Leases being signed and the first additional service products being prepared for market.

The Group continues to seek out appropriate additional acquisition opportunities in the MLI space. As a result of the long-established relationships and networks of the industrials.co.uk team the Group acquired a further six estates for £24.9 million over the six months to 30 September 2018 and is under offer on a number of others.

MLI acquisitions

Stenprop continues to evaluate and find new MLI acquisitions which meet its acquisition criteria and which are earnings enhancing from the date of acquisition.

Stenprop completed the acquisition of a fully-let industrial estate in Shrewsbury on 24 April 2018 for £2.9 million. Greenwood Industrial Estate is located off Cartmel Drive in the primary industrial area of Shrewsbury, three miles north of the town centre. It comprises 30 units, totalling 44,611 sq ft of industrial space.

The acquisition of a multi-let industrial estate in Kirkstall, Leeds for £8.1 million completed on 1 June 2018. The estate comprises 14 units totalling 111,081 sq ft of industrial space. Also in June, Stenprop acquired Estuary Court, an industrial estate in Newport, South Wales, for £3.1 million. Estuary Court is a modern estate, located in the established industrial location of Queensway Meadows. It comprises 20 units, totalling 34,980 sq ft of industrial and trade counter space, and is fully let to 17 tenants.

In July 2018, Stenprop acquired two industrial estates in Southampton and Preston in separate transactions for a total of £7.45 million. In Southampton, Trinity Court at Brunel Road, Totton, was acquired for £3.9 million. Trinity Court, which is located within Calmore Industrial Estate, comprises 12 units, totalling 36,790 sq ft. and is fully let. In Preston, Stenprop acquired Carnfield Place at Walton Summit in an off-market transaction for £3.55 million. Carnfield Place comprises eight units, totalling 59,505 sq ft, and is fully let.

At the start of August 2018, Stenprop acquired the Lombard Centre, an industrial estate in Aberdeen for £3.25 million. The Lombard Centre is a modern estate, located next to Aberdeen International Airport. It comprises ten units, totalling 32,622 sq ft of industrial space and is let to six tenants. There is one vacant unit.

Post period end, on 5 October 2018, Stenprop completed the acquisition of an industrial estate in Bridgwater, Somerset, for £4.8 million. Dunball Industrial Estate is a modern estate, which is strategically located just off junction 23 of the M5. Stenprop has acquired four units, totalling 48,432 sq ft of industrial space.

Significantly, all the acquisitions were earnings accretive upon acquisition, with strong underlying growth prospects due to their locations in or around densely populated areas and transport infrastructure. In addition, despite their high quality, the aggregate purchase price across all assets acquired over the period reflects a cost of £80 per sq ft, which remains at a 30% discount to the insurance reinstatement cost valuation of the assets (before land) of £113 per sq ft. Given the inelastic nature of supply in MLI in the UK, alongside the structural shift in tenant demand, we believe that there remains significant potential for rental growth in the sector.

The non-MLI portfolio update

The rest of our portfolio continues to perform steadily and is largely fully let. We continue to asset manage the portfolio with a view to maximising value for disposal as the rotation of the portfolio into MLI progresses. The focus for the next year is in disposing of the remaining retail properties in Grimsby, Hemel Hempstead and Walsall, some of our other retail assets in Germany and our remaining one property in Switzerland

Disposals

On 19 July 2018, Stenprop announced the disposal of seven of its eight remaining Swiss properties, being those located at Altendorf, Arlesheim, Chiasso, Baar, Vevey, Montreux and Sissach, for a gross sales consideration of CHF103.65 million. This compared with the valuation of these properties at 31 March 2018 of CHF103.23 million, a gain of CHF420,000. After debt repayment, taxes and transaction costs, the disposal released proceeds of approximately CHF41 million. The remaining property in Lugano has undergone substantial repositioning and opened for trade in October 2018 after the completion of works. The intention is to sell this property in 2019.

On 10 September 2018, contracts were signed and notarised for the sale of the Aldi retail portfolio. Aldi themselves will acquire all 14 properties for an aggregate price of €35.8 million, a 9.0% increase on the year end valuation of €32.8 million. Completion is expected before the end of December 2018.

Subsequent events

As detailed earlier in this report, on 5 October 2018, Stenprop acquired an industrial estate in Bridgwater, Somerset, in an off-market purchase from a private investor for £4.8 million. The estate comprises four units, totalling 48,432 sq ft of industrial space.

On 21 November 2018, the directors declared an interim dividend of 3.375 pence per share (2017: 4.0 pence per share). Subject to the receipt of regulatory approvals, the directors intend to offer shareholders the option to receive all or part of their dividend entitlement by way of a scrip issue of new Stenprop ordinary shares or in cash. An announcement containing details of the dividend, the timetable and the scrip dividend terms is anticipated to be made on 20 December 2018. It is expected that shares will commence trading ex-dividend on 16 January 2019 on the JSE and on 17 January 2019 on the LSE. The record date for the dividend is expected to be 18 January 2019 and the dividend payment date 8 February 2019.

Prospects

In the period under review, Stenprop has delivered on its goal to convert to UK REIT status and to list on the LSE. Its two-year transition plan to become a focused UK MLI business is progressing well, with targeted levels of acquisitions, sales and leverage all considered achievable.

The impact on earnings and distributions during a period of transition depends on several factors, including the timing and commercial terms of acquisitions and disposals, and the implementation of the deleveraging policy, with a key challenge being the minimisation of cash surpluses to mitigate earnings dilution. Ideally acquisitions should take place in advance of disposals and be funded in the short term using the Investec RCF; while this always remains the goal, market conditions are not always conducive to achieving this.

In line with the guidance given in June 2018 at the time of the release of the annual financial statements for the year ended 31 March 2018, an interim dividend of 3.375 pence per share was declared on 21 November 2018, payable on 8 February 2019. This compares with the property-related diluted adjusted EPRA earnings per share of 3.40 pence for the period.

Assuming that current trading conditions continue to prevail, and based on average exchange rates of €1.12:£1:00 and CHF1.28:£1:00, Stenprop continues to target a final dividend of 3.375 pence in August 2019, giving a total dividend of 6.75 pence per share.

This general dividend forecast has been based on the Group's dividend forecast and has not been reported on by the external auditor. There can be no assurance that these targets will be met or that the Company will make distributions in line with these targets.

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.

Statement of Directors' responsibilities

Statement of principal risks and uncertainties

Stenprop is a listed property investment company with a diversified portfolio of commercial property currently located in the United Kingdom, Germany and with one property in Switzerland. Its principal risks are therefore related to the commercial property market in general and its investment properties. Other risks faced by the Group include strategy and performance, financial, operational and regulatory risks.

The Audit and Risk Committee assists the Board with its responsibilities for managing risk. The principal risks currently facing the business are described in more detail under the heading 'Risk Management' within the Company's Annual Report for the year ended 31 March 2018. The Group's principal risks and uncertainties have not changed materially since the date of the Annual Report.

Statement of going concern

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, they continue to adopt the going concern basis in preparing the financial statements.

Statement of Directors' responsibilities in respect of the interim report

The directors confirm that to the best of their knowledge:

i. the condensed set of consolidated financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';

ii. the condensed set of consolidated financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R;

iii. the Operating and Financial Review together with the Statement of Principal Risks and Uncertainties above include a fair review of the information required by the Disclosure Guidance and Transparency Rules ('DTR') 4.2.7R, being an indication of important events that have occurred during the first six months of the financial year, a description of principal risks and uncertainties for the remaining six months of the year, and their impact on the condensed set of consolidated financial statements; and

iv. the Operating and Financial Review together with the condensed set of consolidated financial statements include a fair review of the information required by DTR 4.2.8R, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Company during that period, and any changes in the related party transactions described in the last Annual Report that could do so.

The financial statements are published on the Company's website, www.stenprop.com. A list of the current directors of Stenprop can be found on the Company's website. Legislation in Guernsey governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Approved by the Board on 21 November 2018 and signed on its behalf:

Paul Arenson
Chief Executive Officer

Patsy Watson
Chief Financial Officer

Independent review report to Stenprop Limited

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2018 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and the Listings Requirements of the Johannesburg Stock Exchange.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as issued by the International Accounting Standards Board. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as issued by the International Accounting Standards Board.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as issued by the International Accounting Standards Board and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Deloitte LLP
Statutory Auditor
St Peter Port
Guernsey
21 November 2018

Condensed consolidated statement of comprehensive income

for the six months ended 30 September 2018

	Note	Reviewed 30 September 2018 £'000	Reviewed 30 September 2017 £'000
Continuing operations			
Net rental income	3	**16,012**	15,955
Revenue		**21,092**	20,438
Property expenses		**(5,080)**	(4,483)
Net management fee income	2	**5,357**	3,204
Management fee income		**9,052**	3,204
Adjustment to deferred consideration		**(3,695)**	–
Operating costs	4	**(5,301)**	(2,628)
Net operating income		**16,068**	16,531
Fair value movement of investment properties		**4,031**	(293)
Income from associates		**100**	421
Income from joint ventures		**960**	1,829
Profit from operations		**21,159**	18,488
Net gain from fair value of derivative financial instruments		**18**	1,183
Interest receivable		**164**	170
Finance costs		**(3,870)**	(4,993)
Net foreign exchange loss		**(93)**	(417)
Gain on disposal of property		**–**	336
Goodwill impairment		**–**	(3,500)
Profit for the period before taxation		**17,378**	11,267
Current tax		**(416)**	(799)
Deferred tax		**(2,124)**	(1,286)
Profit for the period from continuing operations		**14,838**	9,182
Discontinued operations			
Loss for the period from discontinued operations	10	**(1,541)**	(193)
Profit for the period		**13,297**	8,989
Profit attributable to:			
Equity holders		**13,209**	8,652
Non-controlling interest derived from continuing operations		**88**	337
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation reserve		**3,402**	1,827
Total comprehensive profit for the period		**16,699**	10,816
Total comprehensive profit attributable to:			
Equity holders		**16,611**	10,479
Non-controlling interest		**88**	337
Earnings per share			
From continuing operations		**Pence**	Pence
IFRS EPS	5	**5.22**	3.16
Diluted IFRS EPS	5	**5.17**	3.14
From continuing and discontinued operations			
IFRS EPS	5	**4.68**	3.09
Diluted IFRS EPS	5	**4.63**	3.08

Condensed consolidated statement of financial position

as at 30 September 2018

	Note	Reviewed 30 September 2018 £'000	Audited as at 31 March 2018 £'000
ASSETS			
Investment properties	8	**489,679**	535,509
Investment in associates		**22**	303
Investment in joint ventures	9	**14,979**	14,660
Other debtors	12	**13,851**	13,617
Deferred tax		**218**	–
Derivative financial instruments		**684**	712
Total non-current assets		**519,433**	564,801
Cash and cash equivalents		**55,541**	24,549
Trade and other receivables	12	**5,903**	8,208
Assets classified as held for sale	10	**138,510**	147,408
Total current assets		**199,954**	180,165
Total assets		**719,387**	744,966
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital and share premium		**318,603**	315,551
Equity reserve		**(11,117)**	(8,453)
Retained earnings		**59,875**	57,947
Foreign currency translation reserve		**25,688**	22,286
Total equity attributable to equity shareholders		**393,049**	387,331
Non-controlling interest		**2,991**	2,939
Total equity		**396,040**	390,270
Non-current liabilities			
Bank loans	11	**239,409**	256,697
Derivative financial instruments		**313**	699
Deferred tax		**11,509**	9,379
Total non-current liabilities		**251,231**	266,775
Current liabilities			
Bank loans	11	**2,800**	2,800
Derivative financial instruments		**–**	–
Taxes payable		**1,761**	2,792
Accounts payable and accruals		**12,298**	14,622
Other loan and interest		**1**	–
Liabilities directly associated with assets classified as held for sale	10	**55,256**	67,707
Total current liabilities		**72,116**	87,921
Total liabilities		**323,347**	354,696
Total equity and liabilities		**719,387**	744,966

Condensed consolidated statement of changes in equity

for the six months ended 30 September 2018

	Share capital and share premium £'000	Equity reserve £'000	Retained earnings £'000	Foreign currency translation reserve £'000	Attributable to equity shareholders £'000	Non-controlling interest £'000	Total equity £'000
Balance at 1 April 2018	**315,551**	**(8,453)**	**57,947**	**22,286**	**387,331**	**2,939**	**390,270**
Issue of share capital	**3,052**	**(65)**	**–**	**–**	**2,987**	**–**	**2,987**
Credit to equity for equity-settled share-based payments	**–**	**421**	**–**	**–**	**421**	**–**	**421**
Repurchase of own shares	**–**	**(3,020)**	**–**	**–**	**(3,020)**	**–**	**(3,020)**
Profit for the period	**-**	**-**	**13,209**	**-**	**13,209**	**52**	**13,261**
Other comprehensive income for the period	**–**	**–**	**-**	**3,402**	**3,402**	**-**	**3,402**
Ordinary dividends	**–**	**–**	**(11,281)**	**–**	**(11,281)**	**–**	**(11,281)**
Balance at 30 September 2018	**318,603**	**(11,117)**	**59,875**	**25,688**	**393,049**	**2,991**	**396,040**
Balance at 1 April 2017	310,141	(8,976)	40,945	22,440	364,550	2,051	366,601
Issue of share capital	5,410	(16)	–	–	5,394	–	5,394
Credit to equity for equity-settled share-based payments	–	1	–	–	1	–	1
Profit for the period	-	-	8,652	-	8,652	308	8,960
Other comprehensive income for the period	–	–	-	1,827	1,827	-	1,827
Ordinary dividends	–	–	(11,048)	–	(11,048)	–	(11,048)
Balance at 30 September 2017	315,551	(8,991)	38,549	24,267	369,376	2,359	371,735

Condensed consolidated statement of cash flows

for the six months ended 30 September 2018

		Note	Reviewed 30 September 2018 £'000	Reviewed 30 September 2017 £'000
Operating activities				
Profit from continuing operations			**21,159**	18,488
(Loss)/profit from discontinued operations			**(2,442)**	419
			18,717	18,907
Share of profit from associates			**(100)**	(421)
(Increase)/decrease in fair value of investment property			**(3,170)**	2,216
Share of profit in joint ventures			**(960)**	(1,829)
Loss on disposal of subsidiaries			**2,207**	–
Exchange rate gains			**(92)**	(419)
Increase in trade and other receivables			**(1,361)**	(42)
Increase/(decrease) in trade and other payables			**779**	(2,358)
Interest paid			**(3,644)**	(3,914)
Interest received			**576**	538
Net tax paid			**(709)**	(419)
Net cash from operating activities			**12,243**	12,259
Contributed by:	Continuing operations		**14,524**	10,695
	Discontinued operations		**(2,281)**	1,564
Investing activities				
Dividends received from joint ventures			**1,068**	563
Purchase of investment property		8	**(26,481)**	(57,858)
Capital expenditure		8	**(5,091)**	(3,351)
Proceeds on disposal of assets held for sale - investment property		8	**51,015**	21,574
Acquisition of investment in subsidiary			**–**	(2)
Proceeds on disposal of assets held for sale - joint venture			**22,726**	–
Proceeds on disposal of investment in associate			**–**	17,595
Disposal of subsidiary		13	**9,875**	–
Net cash disposed of in subsidiary			**(67)**	–
Net cash from/(used in) investing activities			**53,045**	(21,479)
Financing activities				
New bank loans raised		11	**10,211**	6,107
New third party loans raised			**–**	34,080
Dividends paid			**(8,294)**	(11,048)
Repayment of borrowings			**(29,205)**	(17,790)
Repurchase of shares			**(3,020)**	–
Financing fees paid			**(380)**	(904)
Net cash (used in)/from financing activities			**(30,688)**	10,445
Net increase in cash and cash equivalents			**34,600**	1,225
Effect of foreign exchange rate changes			**31**	296
Cash and cash equivalents at beginning of the period			**25,287**	25,827
Cash and cash equivalents at end of the period			**59,918**	27,348
Contributed by:	Continuing operations		**55,541**	26,063
	Discontinued operations and assets held for sale		**4,377**	1,285

Notes to the condensed consolidated interim financial statements

1. Basis of preparation

These reviewed condensed consolidated interim financial statements for the six months ended 30 September 2018 have been prepared in accordance the International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'), specifically IAS 34 'Interim Financial Reporting', the JSE Listings Requirements, the Disclosure and Transparency Rules of the UK's FCA and applicable Guernsey law.

These financial statements have been prepared by, and are the responsibility of, the directors of Stenprop.

The accounting policies and methods of computation are consistent with those applied in the preparation of the annual financial statements for the year ended 31 March 2018 which were audited and reported on by the Group's external auditor, except for the new standards adopted during the period. The consolidated annual financial statements for the year ended 31 March 2018 are available on the Company's website: www.stenprop.com.

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

Going concern

At the date of signing these condensed consolidated financial statements, the Group has positive operating cash flow forecasts and positive net assets. Management has reviewed the Group's cash flow forecasts for the 18 months to 31 March 2020 and, in light of this review and the current financial position, they are satisfied that the Company and the Group have access to adequate resources to meet the obligations and continue in operational existence for the foreseeable future, and specifically the 12 months subsequent to the signing of these financial statements.

On 19 July 2018 Stenprop disposed of seven of its eight remaining Swiss properties. The remaining property at Lugano is classified as held for sale. The bank loan in relation to this property has been refinanced on a short-term basis as a rolling credit facility to reflect the intention to sell the asset in the short term. Should a decision be taken not to sell the property for any reason, or if the sale process is delayed, the directors anticipate that, given the quality of the property, the low loan to value and the strong and proven relationships with Swiss lenders, a refinancing could be secured on favourable terms if necessary.

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

Adoption of new and revised standards

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

- IAS 40 (amendments) — Transfers of investment property (effective 1 January 2018)
- IFRS 2 (amendments) — Classification and Measurement of Share-based Payment Transactions (effective 1 January 2018)
- IFRIC 22 — Foreign Currency Transactions and Advance Consideration (effective 1 January 2018)
- IFRS 9 — Financial instruments (effective 1 January 2018)
- IFRS 15 — Revenue from Contracts with Customers (effective 1 January 2018)

At the date of approval of these condensed consolidated financial statements, the Group has not applied the following revised standard which has been issued but which is not yet effective:

- IFRS 16 — Leases (effective 1 January 2019)

Impact assessment of adopting new accounting standards

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

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

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

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

1. Basis of preparation continued

Impact assessment of adopting new accounting standards

IFRS 16: Leases. The standard does not impact the Group's financial position as a lessor or the Group's rental income from its investment properties. The standard requires lessees to recognise a right-of-use asset and related lease liability representing the obligation to make lease payments. Management do not anticipate that the adoption of this standard will have a material impact on the financial statements.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of condensed 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.

Critical Accounting Judgements and estimates

Significant estimates

Investment properties

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

Deferred tax assets and liabilities

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

Significant judgements

Assets held for sale

The directors have disclosed a number of properties which meet the criteria defined in IFRS 5: Assets held for sale and discontinued operations. In the case of the one remaining 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 and 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 value has been determined by the directors, based on an independent external appraisal.

Notes to the condensed consolidated interim financial statements

2. Operating segments

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

Relevant financial information is set out below:

i) Information about reportable segments

		Continuing operations		Discontinued operations	
	Germany £'000	UK Non Multi-let Industrial £'000	UK Multi-let Industrial £'000	Switzerland £'000	Total £'000
Reviewed for the period ended 30 September 2018					
Net rental income	5,744	5,173	5,095	–	16,012
Fair value movement of investment properties	1,923	1,180	928	–	4,031
Net gain/(loss) from fair value of financial liabilities	15	47	(44)	–	18
Income from associates	100	–	–	–	100
Income from joint ventures	715	231	–	–	946
Interest receivable	163	1	–	–	164
Finance costs	(1,064)	(1,488)	(1,318)	–	(3,870)
Operating costs	(311)	(157)	(258)	–	(726)
Net foreign exchange loss	(26)	–	–	–	(26)
Loss for the period from discontinued operations (see note 10)	–	–	–	(1,541)	(1,541)
Taxation	(2,431)	(98)	(147)	–	(2,676)
Total profit/(loss) per reportable segment	4,828	4,889	4,256	(1,541)	12,432
Reviewed 30 September 2018					
Investment properties	226,034	87,080	176,565	–	489,679
Investment in associates	22	–	–	–	22
Investment in joint ventures	14,939	–	–	–	14,939
Cash	11,122	3,646	19,090	–	33,858
Other	15,808	533	3,635	–	19,976
Assets classified as held for sale (see note 10)	31,320	84,241	–	22,949	138,510
Total assets	299,245	175,500	199,290	22,949	696,984
Borrowings – bank loans	112,320	42,104	87,785	–	242,209
Other	13,614	2,361	7,590	–	23,565
Liabilities directly associated with assets classified as held for sale (see note 10)	14,516	30,882	–	9,858	55,256
Total liabilities	140,450	75,347	95,375	9,858	321,030

2. Operating segments continued

	Continuing operations			Discontinued operations	
	Germany £'000	UK Non Multi-let Industrial £'000	UK Multi-let Industrial £'000	Switzerland £'000	Total £'000
Reviewed for the period ended 30 September 2017					
Net rental income	5,748	7,945	2,262	–	15,955
Fair value movement of investment properties	7,464	(1,420)	(6,337)	–	(293)
Net gain from fair value of financial liabilities	175	867	141	–	1,183
Income from associates	421	–	–	–	421
Income from joint ventures	912	854	–	–	1,766
Interest receivable	170	-	-	-	170
Finance costs	(1,235)	(3,042)	(581)	–	(4,858)
Operating costs	(286)	(47)	(97)	–	(430)
Net foreign exchange loss	(30)	(204)	–	–	(234)
Other gains	–	336	–	–	336
Loss for the period from discontinued operations (see note 10)	–	–	–	(193)	(193)
Taxation	(1,327)	(245)	(236)	–	(1,808)
Total profit/(loss) per reportable segment	12,012	5,044	(4,848)	(193)	12,015
Audited 31 March 2018					
Investment properties	221,354	166,400	147,755	–	535,509
Investment in associates	303	–	–	–	303
Investment in joint venture	14,617	–	–	–	14,617
Cash	12,074	4,460	5,853	–	22,387
Other	15,091	1,724	2,331	–	19,146
Assets classified as held for sale (see note 10)	28,987	23,546	–	94,875	147,408
Total assets	292,426	196,130	155,939	94,875	739,370
Borrowings – bank loans	110,889	70,800	77,808	–	259,497
Other	13,289	5,676	5,238	–	24,203
Liabilities directly associated with assets classified as held for sale (see note 10)	14,063	–	–	53,644	67,707
Total liabilities	138,241	76,476	83,046	53,644	351,407

Notes to the condensed consolidated interim financial statements

2. Operating segments continued
ii) Reconciliation of reportable segment profit or loss

	30 September 2018 £'000	30 September 2017 £'000
Rental income		
Net rental income for reported segments	**16,012**	15,955
Profit or loss		
Fair value movement of investment properties	**4,031**	(293)
Net gain from fair value of financial liabilities	**18**	1,183
Income from associates	**100**	421
Income from joint ventures	**946**	1,766
Interest receivable	**164**	170
Finance costs	**(3,870)**	(4,858)
Operating costs	**(726)**	(430)
Net foreign exchange loss	**(26)**	(234)
Other gains	**–**	336
Loss for the period from discontinued operations (see note 10)	**(1,541)**	(193)
Taxation	**(2,676)**	(1,808)
Total profit per reportable segments	**12,432**	12,015
Other profit or loss – unallocated amounts		
Net management fee income	**5,357**	3,204
Income from joint ventures	**14**	63
Finance costs	**–**	(135)
Tax, legal and professional fees	**(1,217)**	(41)
Audit fees	**(134)**	(116)
Administration fees	**(58)**	(119)
Non-executive directors' costs	**(94)**	(69)
Staff remuneration costs	**(2,205)**	(1,381)
Other operating costs	**(866)**	(472)
Net foreign exchange loss	**(68)**	(183)
Other losses	**–**	(3,500)
Taxation	**136**	(277)
Consolidated profit before taxation	**13,297**	8,989

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

As part of the Group's acquisition of the Stenham property management business in 2014, it was agreed that certain performance fees would result in additional variable consideration. This had the economic effect of reducing the performance fees retained by the group. During the six month period to 30 September 2018 a gross performance fee of £7,390,000 (£3,695,000 net after the consideration paid to Stenham Group Limited) was recognised in respect of the sale of the WestendGate property managed by the Group and owned by a third party.

2. Operating segments continued

iii) Reconciliation of reportable segment financial position

	30 September 2018 £'000	31 March 2018 £'000
ASSETS		
Investment properties	**489,679**	535,509
Investment in associates	**22**	303
Investment in joint venture	**14,939**	14,617
Cash	**33,858**	22,387
Other	**19,976**	19,146
Assets classified as held for sale (see note 10)	**138,510**	147,408
Total assets per reportable segments	**696,984**	739,370
Other assets – unallocated amounts		
Investment in joint ventures	**40**	43
Cash	**21,683**	2,162
Other	**680**	3,391
Total assets per consolidated statement of financial position	**719,387**	744,966
LIABILITIES		
Borrowings – bank loans	**242,209**	259,497
Other	**23,565**	24,203
Liabilities directly associated with assets classified as held for sale (see note 10)	**55,256**	67,707
Total liabilities per reportable segments	**321,030**	351,407
Other liabilities – unallocated amounts		
Other	**2,317**	3,289
Total liabilities per consolidated statement of financial position	**323,347**	354,696

Notes to the condensed consolidated interim financial statements

3. Net rental Income

	30 September 2018 £'000	30 September 2017 £'000
Rental income	**18,404**	19,692
Other income – tenant recharges	**3,783**	3,800
Other income	**191**	318
Discontinued Operations Adjustment (note 10)	**(1,286)**	(3,372)
Rental Income	**21,092**	20,438
Direct property costs	**(5,644)**	(5,338)
Discontinued Operations Adjustment (note 10)	**564**	855
Property expenses	**(5,080)**	(4,483)
Total net rental income	**16,012**	15,955

4. Operating costs

	30 September 2018 £'000	30 September 2017 £'000
Tax, legal and professional fees	**1,654**	230
Audit fees	**123**	114
Interim review fees	**30**	30
Administration fees	**194**	231
Investment advisory fees	**172**	221
Non-executive directors costs	**94**	69
Staff remuneration costs	**1,784**	1,380
Share-based payments	**421**	1
Other operating costs	**925**	527
Discontinued Operations Adjustment (note 10)	**(96)**	(175)
	5,301	2,628

The increase in Tax, legal and professional fees is driven by the costs associated with the London listing and conversion to REIT status (£0.9 million).

Share-based payments of £421,000 (September 2017: £1,000) relates to the equity-settled incentive schemes operated by the Group. As at 30 September 2018 the Group's equity reserve held £1,489,000 (March 2018: £1,133,000) in relation to the schemes after the exercise of options at fair value of £65,000 (September 2017: £16,000) during the period.

5. Earnings per ordinary share

	30 September 2018 £'000	30 September 2017 £'000
Reconciliation of profit for the period to adjusted EPRA[1] earnings		
Earnings per IFRS statement of comprehensive income attributable to shareholders	**13,209**	8,652
Adjustment to exclude loss from discontinued operations	**1,541**	193
Earnings per IFRS statement of comprehensive income from continuing operations attributable to shareholders	**14,750**	8,845
Earnings per IFRS statement of comprehensive income attributable to shareholders	**13,209**	8,652
Adjustments to calculate EPRA earnings, exclude:		
Changes in fair value of investment properties	**(3,170)**	2,216
Changes in fair value of financial instruments	**(18)**	(1,183)
Deferred tax in respect of EPRA adjustments	**624**	1,462
Goodwill impairment	**–**	3,500
Loss/(profit) on disposal of properties	**1,163**	(230)
Loss on disposal of subsidiaries	**2,207**	–
Adjustments above in respect of joint ventures and associates		
Changes in fair value	**41**	(897)
Deferred tax in respect of EPRA adjustments	**72**	26
EPRA earnings attributable to shareholders	**14,128**	13,546
Further adjustments to arrive at adjusted EPRA earnings		
Straight-line unwind of purchased swaps	**40**	144
Cost associated with group listing and REIT conversion	**902**	–
Adjusted EPRA earnings attributable to shareholders	**15,070**	13,690
Weighted average number of shares in issue (excluding treasury shares)	**282,430,456**	280,302,489
Share-based payment award	**3,115,355**	1,004,369
Diluted weighted average number of shares in issue	**285,545,811**	281,306,858
Earnings per share from continuing operations	**pence**	pence
IFRS EPS	**5.22**	3.16
Diluted IFRS EPS	**5.17**	3.14
Earnings per share	**pence**	pence
IFRS EPS	**4.68**	3.09
Diluted IFRS EPS	**4.63**	3.08
EPRA EPS	**5.00**	4.83
Diluted EPRA EPS	**4.95**	4.82
Adjusted EPRA EPS	**5.34**	4.88
Diluted adjusted EPRA EPS	**5.28**	4.87

As at 30 September 2018, the Company held 11,662,469 treasury shares (September 2017: 9,026,189 and March 2018: 9,026,189).

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

Costs associated with Group Listing and REIT conversion
A further adjustment was made to the EPRA earnings attributable to shareholders relating to the costs associated with converting to REIT status and the 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.

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

Notes to the condensed consolidated interim financial statements

5. Earnings per ordinary share continued

Reconciliation of profit for the period to headline earnings

	30 September 2018 £'000	30 September 2017 £'000
Earnings per IFRS statement of comprehensive income from continuing operations attributable to shareholders	**13,209**	8,652
Adjustments to calculate headline earnings exclude:		
Changes in fair value of investment properties	**(3,170)**	2,216
Deferred tax in respect of headline earnings adjustments	**624**	1,436
Goodwill impairment	**–**	3,500
Loss/(Profit) on disposal of properties	**1,163**	(230)
Costs associated with disposal of property company	**2,207**	–
Adjustments above in respect of joint ventures and associates		
Changes in fair value of investment properties	**(107)**	(437)
Deferred tax	**71**	91
Headline earnings attributable to shareholders	**13,997**	15,228
Earnings per share	**pence**	pence
Headline EPS	**4.96**	5.43
Diluted headline EPS	**4.90**	5.41

6. Net asset value per ordinary share

	30 September 2018 £'000	31 March 2018 £'000
Net assets attributable to equity shareholders	**393,049**	387,331
Adjustments to arrive at EPRA net asset value:		
Derivative financial instruments	**(371)**	(13)
Deferred tax	**11,074**	13,276
Adjustments above in respect of non-controlling interests	**1,429**	1,641
EPRA net assets attributable to shareholders	**405,181**	402,235
Number of shares in issue (excluding treasury shares)	**282,747,125**	282,692,287
Share-based payment award	**3,115,356**	1,796,978
Diluted number of shares in issue	**285,862,481**	284,489,265
Net asset value per share (basic and diluted)	**£**	£
IFRS net asset value per share	**1.39**	1.37
Diluted IFRS net asset value per share	**1.37**	1.36
EPRA net asset value per share	**1.43**	1.42
Diluted EPRA net asset value per share	**1.42**	1.41

As at 30 September 2018, the Company held 11,662,469 treasury shares (March 2018: 9,026,189). Refer to note 7.

7. Share Capital

Authorised

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

	30 September 2018	31 March 2018
Issued share capital	**(no. shares)**	(no. shares)
Opening balance	**291,718,476**	286,681,880
Issue of new shares	**2,691,118**	5,036,596
Closing number of shares issued	**294,409,594**	291,718,476
	£'000	£'000
Authorised share capital		
Share capital	**1**	1
Share premium	**320,833**	317,781
Less: Acquisition/transaction costs	**(2,231)**	(2,231)
Total share capital and share premium	**318,603**	315,551

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

The Company has 294,409,594 (March 2018: 291,718,476) ordinary shares in issue at the balance sheet date. In the period to 30 September 2018, a total of 54,838 new ordinary shares were issued at an issue price of £1.16 per share in respect of the Deferred Share Bonus Plan.

On 7 June 2018, the Company announced a final dividend of 4.0 pence per share in respect of the six months to 31 March 2018. On 16 August 2018, the Company announced a take up of the scrip dividend representing 0.9% of the issued share capital and 2,636,280 shares were subsequently issued on 17 August 2018.

As at 30 September 2018, the Company held 11,662,469 treasury shares (March 2018: 9,026,189). In the period the shareholders were offered the option to receive either a scrip dividend by way of an issue of new Stenprop shares, or a cash dividend. Given the Company's share price, which is at a discount relative to NAV, the directors matched the scrip alternative through share purchases to mitigate the dilutive effect that would otherwise have occurred through the issuance of new ordinary shares. During the period 19 July 2018 to 7 August 2018 the Company repurchased 2,636,280 shares at an average price of £1.146 per share.

8. Investment property

The consolidated fair value of the investment properties at 30 September 2018 was £618.7 million (31 March 2018: £535.5 million). This includes an amount of £129.0 million (31 March 2018: £121.8 million) for properties which have been classified as assets held for sale, including the remaining Swiss asset at Lugano, the German Aldi portfolio and Euston House in Central London. The carrying amount of investment property is the fair value of the property as determined by registered independent appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued ('valuers').

The fair value of each of the properties as at 30 September 2018 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. Where a sale and purchase agreement has been signed as at the Statement of Financial Position date, the fair value is taken as the sales price less expected associated disposal costs.

The valuations performed by the independent external 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 regarding the valuation process and results are held between senior management and the external valuers on a bi-annual basis. The audit committee reviews the valuation results and, provided the committee is satisfied with the results, recommends them to the board for approval.

The valuation techniques used are consistent with IFRS13 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 year end.

Notes to the condensed consolidated interim financial statements

8. Investment property continued

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 the 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 three recently acquired MLI properties, all investment properties are mortgaged, details of which can be seen in note 11. 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 30 September 2018 are detailed in the table below:

Combined Portfolio (including share of jointly controlled entities)	**Market value 30 September 2018 (£ million)**	**Portfolio by market value (%)**	**Properties (number)**	**Area (sq m)**	**Annualised gross rental income (£ million)**	**Net initial yield (Weighted average) (%)**	**Voids by area (%)**
UK non multi-let Industrial	**87.1**	**13.2**	**9**	**40,077**	**7.0**	**7.38**	**–**
UK multi-let Industrial	**176.6**	**27.0**	**36**	**244,870**	**12.4**	**6.40**	**7.1**
Germany	**226.0**	**34.6**	**9**	**72,599**	**10.6**	**3.98**	**7.8**
Sub-total	**489.7**	**74.8**	**54**	**357,546**	**30.0**	**5.46**	**6.5**
Switzerland	17.4	2.7	1	5,974	1.2	6.22	–
UK non multi-let Industrial	80.5	12.3	1	10,099	4.2	3.89	–
Germany	31.1	4.8	14	18,843	1.9	5.47	–
Sub-total Assets Held for Sale	**129.0**	**19.8**	**16**	**34,916**	**7.3**	**4.58**	**–**
Total - wholly owned	**618.7**	**94.6**	**70**	**392,462**	**37.3**	**5.28**	**5.9**
Share of joint ventures	**35.1**	**5.4**	**4**	**19,330**	**2.4**	**6.01**	**0.0**
Total	**653.8**	**100.0**	**74**	**411,792**	**39.7**	**5.31**	**5.6**

	30 September 2018 £'000	**31 March 2018 £'000**
Opening balance	**535,509**	470,603
Properties acquired	**26,481**	149,831
Capitalised expenditure	**5,091**	5,549
Disposals through the sale of property	**(50,268)**	(34,946)
Disposals through the sale of subsidiary (see note 13)	**(29,919)**	(79,900)
Foreign exchange movement in foreign operations	**6,873**	(1,814)
Net fair value gain on investment property – continuing operations	**4,031**	20,223
Net fair value loss on investment property – discontinued operations (note 10)	**(861)**	(5,918)
Assets Held for Sale	**(7,258)**	11,881
Closing balance	**489,679**	535,509

8. Investment property continued

		30 September 2018 £'000	31 March 2018 £'000
Acquisitions UK			
Stenprop Industrials 1 + 2 Limited	25 properties	–	127,000
Stenprop Industrials 3 Limited	4 properties	–	16,715
Stenprop Industrials 4 Limited	6 properties	**26,481**	–
Stenprop Industrials 4 Limited	1 property	–	6,116
Total		**26,481**	149,831

	30 September 2018 £'000	31 March 2018 £'000
Disposals		
Germany		
Stenprop Hermann Limited (Burger King)	–	(2,931)
Swiss		
Bruce Properties Sarl (Chiasso)	**(6,825)**	–
Algy Properties Sarl (Sissach)	**(2,993)**	–
Kantone Holdings Limited (Vevey)	**(4,623)**	–
Kantone Holdings Limited (Baar)	**(16,010)**	–
Kantone Holdings Limited (Montreux)	**(19,817)**	–
Kantone Holdings Limited (Granges-Paccot)	–	(15,414)
David Properties Sarl (Cham)	–	(10,711)
UK		
GGP1 Limited (Uxbridge)	–	(3,000)
GGP1 Limited (Worthing)	–	(2,890)
Disposals through the sale of property	**(50,268)**	(34,946)
Swiss		
Polo Property GmbH (Altendorf)	**(20,219)**	–
Polo Property GmbH (Arlesheim)	**(9,700)**	–
UK		
Normanton Properties Limited (Pilgrim St)	–	(79,900)
Disposals through the sale of subsidiary (note 13)	**(29,919)**	(79,900)
Total	**(80,187)**	(114,846)

Gain on disposal of property (discontinued operations only)

30 September 2018	Sales proceeds £'000	Disposal costs £'000	Net Sales proceeds £'000	Carrying value £'000	Foreign exchange movement £'000	Gain/(loss) on disposal £'000
Discontinued Operations						
Chiasso, Switzerland	7,366	(126)	7,240	(6,825)	(2)	413
Sissach, Switzerland	3,487	(128)	3,359	(2,993)	(2)	364
Vevey, Switzerland	4,623	(219)	4,404	(4,623)	1	(218)
Baar, Switzerland	17,788	(147)	17,641	(16,010)	(8)	1,623
Montreux, Switzerland	19,198	(824)	18,374	(19,817)	8	(1,435)
	52,462	**(1,444)**	**51,018**	**(50,268)**	**(3)**	**747**

Notes to the condensed consolidated interim financial statements

8. Investment property continued

31 March 2018	Sales proceeds £'000	Disposal costs £'000	Net Sales proceeds £'000	Carrying value £'000	Foreign exchange movement £'000	Gain/(loss) on disposal £'000
Continuing Operations						
Dolphin Bridge House, Uxbridge, UK	3,400	(64)	3,336	(3,000)	–	336
Wicker House & Studios, Worthing, UK	3,650	(50)	3,600	(2,890)	–	710
	7,050	**(114)**	**6,936**	**(5,890)**	**–**	**1,046**
Discontinued Operations						
Granges-Paccot, Switzerland	15,953	(581)	15,372	(15,414)	(3)	(45)
Cham, Switzerland	10,783	(167)	10,616	(10,711)	(1)	(96)
Burger King, Hermann, Germany	2,931	–	2,931	(2,931)	–	–
	29,667	**(748)**	**28,919**	**(29,056)**	**(4)**	**(141)**

9. Investment in joint ventures

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

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

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

9. 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.

	Elysion S.A. £'000	Stenpark Management Limited £'000	Stenprop Argyll Limited £'000	Ardale Industrials Limited £'000	TOTAL £'000
30 September 2018					
Investment property	**35,429**	**–**	**–**	**–**	**35,429**
Current assets	**438**	**67**	**–**	**21**	**526**
Assets	**35,867**	**67**	**–**	**21**	**35,955**
Bank loans	**(19,402)**	**–**	**–**	**–**	**(19,402)**
Intergroup shareholder loan	**(13,731)**	**–**	**–**	**–**	**(13,731)**
Deferred tax	**(1,183)**	**–**	**–**	**–**	**(1,183)**
Financial liability	**(246)**	**–**	**–**	**–**	**(246)**
Current liabilities	**(97)**	**(8)**	**–**	**(1)**	**(106)**
Liabilities	**(34,659)**	**(8)**	**–**	**(1)**	**(34,668)**
Net assets of joint ventures	**1,208**	**59**	**–**	**20**	**1,287**
Net assets of joint ventures excluding shareholder loans	**14,939**	**59**	**–**	**20**	**14,998**
Group share of joint ventures' net assets	**14,939**	**30**	**–**	**10**	**14,979**
Revenue	**1,228**	**–**	**876**	**–**	**2,104**
Interest payable	**(889)**	**–**	**(199)**	**–**	**(1,088)**
Tax expense	**(96)**	**–**	**–**	**–**	**(96)**
Profit/(loss) from continuing operations and total comprehensive income/(loss) excluding interest due to the Group	**715**	**(10)**	**462**	**38**	**1,205**
Share of joint ventures' profit/(loss) due to the Group	**715**	**(5)**	**231**	**19**	**960**
31 March 2018					
Investment property	34,878	–	83,400	–	118,278
Current assets	607	151	5,751	18	6,527
Assets	35,485	151	89,151	18	124,805
Bank loans	(19,454)	–	(37,373)	–	(56,827)
Shareholder loan	(13,463)	–	–	–	(13,463)
Deferred tax	(1,104)	–	–	–	(1,104)
Financial liability	(137)	–	(453)	–	(590)
Current liabilities	(172)	(82)	(4,235)	(1)	(4,490)
Liabilities	(34,330)	(82)	(42,061)	(1)	(76,474)
Net assets of joint ventures	1,155	69	47,090	17	48,331
Net assets of joint ventures excluding shareholder loans	14,618	69	47,090	17	61,794
Group share of net assets	14,618	34	23,545	8	38,205
Net assets directly associated with assets classified as held for sale adjustment (see note 10)	–	–	(23,545)	–	(23,545)
Group share of joint ventures' net assets	14,618	34	–	8	14,660
Revenue	2,450	381	4,794	35	7,660
Interest payable	(1,795)	–	(1,115)	–	(2,910)
Tax expense	(713)	–	–	–	(713)
Profit from continuing operations and total comprehensive income excluding interest due to the Group	4,678	101	5,760	30	10,569
Share of joint ventures' profit due to the Group	4,678	51	2,880	15	7,624

Notes to the condensed consolidated interim financial statements

9. Investment in joint ventures continued

Elysion S.A

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

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

	Elysion S.A. £'000	Stenpark Management Limited £'000	Stenprop Argyll Limited £'000	Ardale Industrials Limited £'000	TOTAL £'000
30 September 2018					
Opening balance	**14,618**	**34**	**–**	**8**	**14,660**
Share of joint venture profit	**715**	**(5)**	**231**	**19**	**960**
Distribution received from joint venture	**(575)**	**–**	**–**	**(17)**	**(592)**
Foreign exchange movement in foreign operations	**181**	**1**	**–**	**–**	**182**
Disposal of joint venture	**–**	**–**	**(231)**	**–**	**(231)**
Closing balance	**14,939**	**30**	**–**	**10**	**14,979**
31 March 2018					
Opening balance	10,283	37	21,115	–	31,435
Share in associates acquired during the period	–	–	–	(1)	(1)
Share of joint venture profit	4,678	51	2,880	15	7,624
Distribution received from joint venture	(613)	(54)	(450)	(6)	(1,123)
Foreign exchange movement in foreign operations	270	–	–	–	270
Transfer to Assets Held for Sale and Discontinued Operations (note 10)	–	–	(23,545)	–	(23,545)
Closing balance	14,618	34	–	8	14,660

10. Assets held for sale and discontinued operations

Management consider 16 properties (the properties known as Lugano in the Swiss portfolio, the Aldi portfolio and Euston House, London) to meet the conditions relating to assets held for sale, as per IFRS 5: Non-current Assets Held for Sale. The properties are expected to be disposed of during the next 12 months. The sale of Lugano, which is valued at September 2018 at CHF22.25 million (GBP17.4 million) may not complete within 12 months. However, 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 assets held for sale have been determined by an external valuer, Jones Lang LaSalle. Where a sale and purchase agreement has been signed as at the Statement of Financial Position date, the fair value is taken as the sales price less expected associated disposal costs.

The fair value of these properties, and their comparatives are shown in the table below:

	30 September 2018 £'000	31 March 2018 £'000
Investment properties	**129,021**	121,764
Investment in joint ventures	**–**	23,545
Cash and cash equivalents	**4,377**	738
Trade and other receivables	**5,112**	1,361
Total assets classified as held for sale	**138,510**	147,408
Bank loans	**46,729**	62,225
Derivative financial instruments	**311**	14
Deferred tax	**1,166**	3,897
Accounts payable and accruals	**7,050**	1,571
Liabilities directly associated with assets classified as held for sale	**55,256**	67,707

In the six months to 30 September 2018, the results of the eight properties (the entire Swiss portfolio) have been recognised as discontinued operations in accordance with IFRS 5.32. Seven of these properties had been sold at the reporting date.

10. Assets held for sale and discontinued operations continued

The results of the discontinued operations were as follows:

	30 September 2018 £'000	30 September 2017 £'000
Net rental income	**722**	2,517
Rental income	**1,286**	3,372
Property expenses	**(564)**	(855)
Operating costs	**(96)**	(175)
Net operating income	**626**	2,342
Fair value movement of investment properties	**(861)**	(1,923)
Loss on disposal of subsidiaries	**(2,207)**	–
(Loss)/profit from operations	**(2,442)**	419
Profit/(loss) on disposal of property	**747**	(106)
Net finance costs	**(222)**	(361)
Net foreign exchange losses	**–**	(2)
Loss for the period before taxation	**(1,917)**	(50)
Current tax	**(1,742)**	(499)
Deferred tax	**2,118**	356
Loss for the period from discontinued operations	**(1,541)**	(193)

Current 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 13, 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 whilst Chiasso and Sissach were owned by Bruce Properties Sarl and Clint Properties Sarl respectively:

- Baar was sold for CHF22.7 million (CHF22.5 million after disposal costs) generating a profit of CHF2.1 million against the year end fair value of CHF20.4 million.
- Vevey was sold for CHF5.9 million (CHF 5.6 million after disposal costs) resulting in a loss of CHF0.3 million against the year end fair value and reflecting only the sales costs.
- Montreux was sold for CHF24.5million (CHF23.5 million after disposal costs). At disposal, there was a loss of CHF1.8 million as the property was held at a fair value of CHF25.3 million.
- Chiasso was sold for CHF9.4 million (CHF9.2 million after disposal costs). At disposal, there was a profit of CHF0.5 million as the property was held at a fair value of CHF8.7 million.
- Sissach was sold for CHF4.5 million (CHF4.3 million after disposal costs). At disposal, there was a profit of CHF0.5 million as the property was held at a fair value of CHF3.8 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.

Prior year disposals

On 1 July 2017, the Group disposed of the Kantone Holdings Limited properties known as Grange Paccot 1 and Grange Paccot 2, Switzerland, for CHF20 million (equating to CHF19.9 million after disposal costs). At disposal, there was a loss of CHF0.1 million to the Group equating to the disposal costs, as the property was already held at a fair value equivalent to the sale price. On 30 October 2017, the Group disposed of the property known as Cham which was the sole property owned by David Properties S.a.r.l for CHF14.2million (equating to CHF14.1 million after disposal costs). At disposal, there was a loss of CHF0.1 million to the Group equating to the disposal costs, as the property was already held at a fair value equivalent to the sale price.

Notes to the condensed consolidated interim financial statements

11. Borrowings

	30 September 2018 £'000	31 March 2018 £'000
Opening balance	**259,497**	229,051
Loan repayments	**(44,257)**	(60,808)
New loans	**10,211**	89,703
Amortisation of loans	**(2,147)**	(5,751)
Capitalised borrowing costs	**(260)**	(505)
Amortisation of transaction fees	**189**	401
Foreign exchange movement in foreign operations	**3,480**	(1,152)
Adjustment for liabilities directly associated with assets classified as held for sale adjustment (see note 10)	**15,496**	8,558
Total borrowings	**242,209**	259,497
Amount due for settlement within 12 months	**49,529**	65,025
Amount due for settlement between one to three years	**56,864**	76,258
Amount due for settlement between three to five years	**182,545**	180,439
Liabilities directly associated with assets classified as held for sale adjustment (see note 10)	**(46,729)**	(62,225)
	242,209	259,497
Non-current liabilities		
Bank loans	**239,409**	256,697
Total non-current loans and borrowings	**239,409**	256,697
The maturity of non-current borrowings is as follows:		
Amount due for settlement between one to three years	**56,864**	76,258
Amount due for settlement between three to five years	**182,545**	180,439
	239,409	256,697
Current liabilities		
Bank loans	**49,529**	65,025
Liabilities directly associated with assets classified as held for sale adjustment (see note 10)	**(46,729)**	(62,225)
Total current loans and borrowings	**2,800**	2,800
Total loans and borrowings	**242,209**	259,497

11. Borrowings continued

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

Entity	Note	Amortising	Loan interest rate	Currency	Maturity date	Nominal value 30 September 2018 £'000	Nominal value 31 March 2018 £'000	Carrying value* 30 September 2018 £'000	Carrying value* 31 March 2018 £'000
United Kingdom									
Laxton Properties Limited		No	LIBOR +1.4%	GBP	08/05/2020	**27,540**	27,540	**27,440**	27,410
Davemount Properties Limited		No	LIBOR +2.25%	GBP	26/05/2021	**4,000**	4,000	**3,979**	3,975
LPE Limited		Yes	LIBOR +2.5%	GBP	31/03/2020	**33,308**	34,708	**33,014**	34,317
GGP1 Limited		No	LIBOR +2.25%	GBP	26/05/2021	**5,175**	5,175	**5,111**	5,099
Industrials UK LP		No	LIBOR +2.25%	GBP	02/06/2022	**77,984**	77,984	**77,739**	77,808
Stenprop Industrials 4 Limited		No	LIBOR +2.25%	GBP	01/06/2023	**10,211**	–	**10,046**	–
Switzerland									
Algy Properties S.a.r.l.	1	Yes	LIBOR +2.47%	CHF	31/03/2019	**–**	2,310	**–**	2,310
Bruce Properties S.a.r.l.	1	No	LIBOR +1.35%	CHF	29/03/2019	**–**	3,557	**–**	3,557
Kantone Holdings Limited	1	Yes	LIBOR +1.15%	CHF	3 month rolling facility	**6,269**	26,296	**6,269**	26,296
Polo Property GmbH	1	Yes	LIBOR +1.15%	CHF	3 month rolling facility	**–**	17,019	**–**	17,020
Germany									
Century BV		Yes	Euribor +1.55%	EUR	31/12/2022	**7,382**	7,290	**7,305**	7,205
Century 2 BV		Yes	Euribor +1.55%	EUR	31/12/2022	**3,839**	3,791	**3,795**	3,742
Stenham Beryl Limited		Yes	Euribor +1.85%	EUR	30/04/2020	**4,557**	4,565	**4,557**	4,565
Stenham Crystal Limited		Yes	Euribor +1.85%	EUR	30/04/2020	**3,806**	3,812	**3,806**	3,812
Stenham Jasper Limited		Yes	Euribor +1.85%	EUR	30/04/2020	**4,657**	4,665	**4,657**	4,665
Isabel Properties BV		No	Euribor +2.32%	EUR	30/12/2021	**8,015**	7,915	**8,015**	7,915
Bleichenhof GmbH & Co. KG		No	Fixed 1.58%	EUR	28/02/2022	**75,645**	74,694	**75,645**	74,694
Stenprop Hermann Ltd		No	Euribor +1.13%	EUR	30/06/2020	**8,398**	8,293	**8,386**	8,274
Stenprop Victoria Ltd		No	Euribor +1.28%	EUR	31/08/2020	**9,174**	9,058	**9,174**	9,058
						289,960	322,672	**288,938**	321,722

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

1. All of the Swiss properties owned by the Group, with the exception of Lugano, were sold in July 2018. At this time all outstanding loans in respect of the whole of the Swiss portfolio were repaid. In August 2018 the sole remaining property, Lugano, was refinanced for CHF8 million on a three month rolling credit facility at a margin of LIBOR +1.15%.

Notes to the condensed consolidated interim financial statements

12. Trade and other receivables

	30 September 2018 £'000	31 March 2018 £'000
Non-current receivables		
Other debtors	**13,931**	13,617
Transfer to assets held for sale (see note 10)	**(80)**	–
	13,851	13,617

Non-current other debtors includes £12.8 million (March 2018: £12.5 million) of loans advanced under the Share Purchase Plan and £1.1 million (March 2018: £1.1 million) advanced on 30 March 2017 to purchase one million 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 are therefore subject to foreign exchange movements.

	30 September 2018 £'000	31 March 2018 £'000
Current receivables		
Accounts receivable*	**5,510**	7,089
Other debtors	**4,663**	1,755
Prepayments	**762**	725
Transfer to assets held for sale (see note 10)	**(5,032)**	(1,361)
	5,903	8,208

* Included in this balance are provisions for doubtful debts of £418,081 (March 2018: £260,918).

13.Disposal of subsidiaries

On 17 July 2018, the Group disposed of its 100% shareholding in Polo Property GmbH for a consideration of CHF12,663,799. Polo Property GmbH owned the properties known as Altendorf and Arlesheim in Switzerland. The impact of the disposal on the Group is shown below:

	30 September 2018 £'000
Carrying value of net assets at disposal date	
Investment property	**29,919**
Trade and other receivables	**25**
Cash and cash equivalents	**67**
Borrowings	**(17,212)**
Trade and other payables	**(1,336)**
Net assets disposed of	**11,463**
Cash consideration	**9,875**
Selling costs	**(389)**
Net disposal proceeds	**9,486**
Foreign exchange movement in foreign operations	**(230)**
Loss on disposal of subsidiaries	**(2,207)**

13. Disposal of subsidiaries continued

Prior year disposals

On 11 January 2018, the Group disposed of its 100% shareholding in Normanton Properties Limited for a consideration of £42,607,525. Normanton Properties Limited owned the property known as Pilgrim Street in London. The impact of the disposal on the Group is shown below:

	31 March 2018 £'000
Carrying value of net assets at disposal date	
Investment property	79,900
Trade and other receivables	205
Cash and cash equivalents	1,831
Borrowings	(37,608)
Trade and other payables	(1,694)
Net assets disposed of	42,634
Cash consideration	42,608
Loss on disposal of subsidiaries	(26)

14. Financial Risk Management

Fair value measurements

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). The fair value of the Group's secured loan facilities and derivative financial instruments are included in Level 2.

Level 3: unobservable inputs for the asset or liability. The fair value of the Group's investment properties is included in Level 3. Valuations represent the highest and best use of the properties.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no transfers between levels for the period ended 30 September 2018.

The fair value of all other financial assets and liabilities is not materially different from their carrying value in the financial statements.

The Group's financial risk management objectives and policies are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 March 2018.

15. 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.

There have been no material changes in the related party transactions described in the Annual Report and Accounts for the year ended 31 March 2018.

16. Events after the reporting period

On 5 October 2018, Stenprop acquired an industrial estate in Bridgwater, Somerset, in an off-market deal from a private investor for £4.8 million. Dunball Industrial Estate is a modern estate, which is strategically located just off junction 23 of the M5. Stenprop has acquired four units, totalling 48,432 sq ft of industrial space.

On 21 November 2018, the directors declared an interim dividend of 3.375 pence per share (2017: 4.0 pence per share). Subject to the receipt of regulatory approvals, the directors intend to offer shareholders the option to receive all or part of their dividend entitlement by way of a scrip issue of new Stenprop ordinary shares or in cash. An announcement containing details of the dividend, the timetable and the scrip dividend terms is anticipated to be made on 20 December 2018. It is expected that shares will commence trading ex-dividend on 16 January 2019 on the JSE and on 17 January 2019 on the LSE. The record date for the dividend is expected to be 18 January 2019 and the dividend payment date 8 February 2019.

Corporate information

STENPROP LIMITED
(Registered in Guernsey)
(Registration number 64865)
LSE share code: STP
JSE share code: STP
ISIN: GG00BFWMR296

Registered office of the Company
Stenprop Limited
(Registration number 64845)
Kingsway House
Havilland Street
St Peter Port
GY1 2QE
Guernsey

Postal address of the Company
180 Great Portland Street
London, W1W 5QZ
United Kingdom

Company secretary
Sarah Bellichi

JSE sponsor
Java Capital Trustees and Sponsors Proprietary Limited
(Registration number 2006/005780/07)
6A Sandown Valley Crescent
Sandown
Sandton, 2196
South Africa
(PO Box 522606, Saxonwold, 2132)

SA transfer secretaries
Computershare Investor Services Proprietary Limited
(Registration number 2004/003647/07)
Rosebank Towers, 15 Biermann Avenue,
Rosebank, Johannesburg, 2196,
South Africa

Correspondence address
PO Box 61051
Marshalltown, 2107
South Africa

Legal advisors
Bryan Cave Leighton Paisner LLP
Adelaide House
London Bridge
London, EC4R 9HA
United Kingdom

South African corporate advisor
Java Capital Proprietary Limited
(Registration number 2012/089864/07)
6A Sandown Valley Crescent
Sandown
Sandton, 2196
South Africa
(PO Box 522606, Saxonwold, 2132)

Broker and financial adviser
Numis Securities Limited
The London Stock Exchange Building
10 Paternester Square
London, EC4M 7LT

Guernsey registrars
Computershare Investor Services (Guernsey) Limited
1st Floor, Tudor House
Le Bordage
St Peter Port
Guernsey
GY1 1DB

Correspondence address
2nd Floor, Queensway House
Hilgrove Street
St. Helier
Jersey
JE1 1ES
Channel Islands

Auditor
Deloitte LLP
Regency Court
Glategny Esplanade
St Peter Port
GY1 3HW
Guernsey
Channel Islands

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www.stenprop.com