Schroders

Schroder Real Estate Investment Trust Limited

Annual Report and Consolidated Financial Statements

For the year ended 31 March 2017

Contents

Overview

Company Summary

Schroder Real Estate Investment Trust Limited aims to provide shareholders with an attractive level of income together with the potential for income and capital growth through investing in UK commercial property.

Schroder Real Estate Investment Trust Limited (the 'Company' and together with its subsidiaries the 'Group') is a real estate investment company with a premium listing on the Official List of the UK Listing Authority and whose shares are traded on the Main Market of the London Stock Exchange (ticker: SREI).

On 1 May 2015 the Company converted to a real estate investment trust ('REIT') in order to benefit from the various tax advantages offered by the UK REIT regime as well as the potential for improved liquidity as a result of being able to access a wider shareholder base. The Company continues to be declared as an authorised closed-ended investment scheme by the Guernsey Financial Services Commission under section 8 of the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended and the Authorised Closed-ended Collective Investment Schemes Rules 2008.

Objective

The Company aims to provide shareholders with an attractive level of income and the potential for income and capital growth as a result of its investments in, and active management of, a diversified portfolio of UK commercial real estate.

The Company's dividend policy is to pay a sustainable level of quarterly dividends to shareholders. It is intended that successful execution of the Company's strategy will enable a progressive dividend policy to be adopted. The current annualised level of dividend is 2.48 pence per share ('pps').

The portfolio is principally invested in the three main UK commercial real estate sectors of office, industrial and retail, and may also invest in other sectors including, but not limited to, residential, leisure, healthcare and student accommodation. Over the property market cycle the portfolio aims to generate an above average income return with a diverse spread of lease expiries.

Relatively low level gearing is used to enhance income and total returns for shareholders with the level dependent on the property cycle and the outlook for future returns. The current target gearing level reflects a net loan-to-value ('LTV') ratio of between 25% and 35%.

Investment strategy

The current investment strategy is to grow income and enhance shareholder returns through selective acquisitions, pro-active asset management and selling smaller, lower yielding properties on completion of asset business plans. The issuance of new shares will also be considered if it is consistent with the strategy.

Our objective is to own a portfolio of larger properties in Winning Cities, being locations experiencing higher levels of GDP, employment and population growth, with diversified local economies, sustainable occupational demand and favourable supply and demand characteristics. These properties should offer good long-term fundamentals in terms of location and specification and be let at affordable rents with the potential for income and capital growth from good stock selection and asset management.

Overview

Highlights over the year to 31 March 2017

Net asset value ('NAV') total return of

7.2%

Underlying property portfolio total return of

8.5%

compared with 3.7% for the MSCI Benchmark Index

3%

increase in NAV per share for the year to 64.1 pence per share (pps), principally due to a 3% increase in the capital value of the underlying portfolio

Dividend cover of

107%

Declared and paid dividends amounting to

2.5 pps

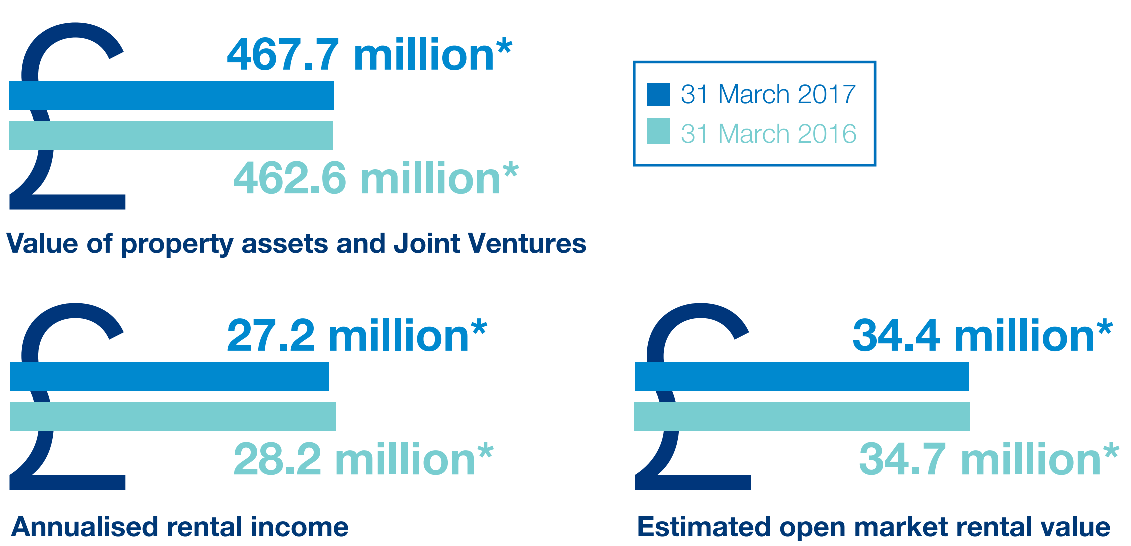
Loan to value, net of all cash, of

26%

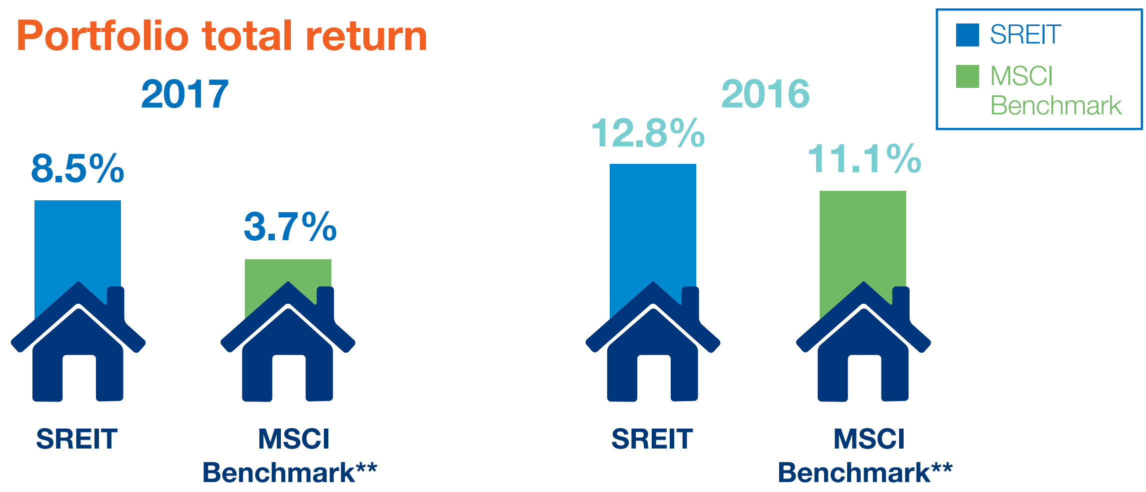
Overview

Property Performance

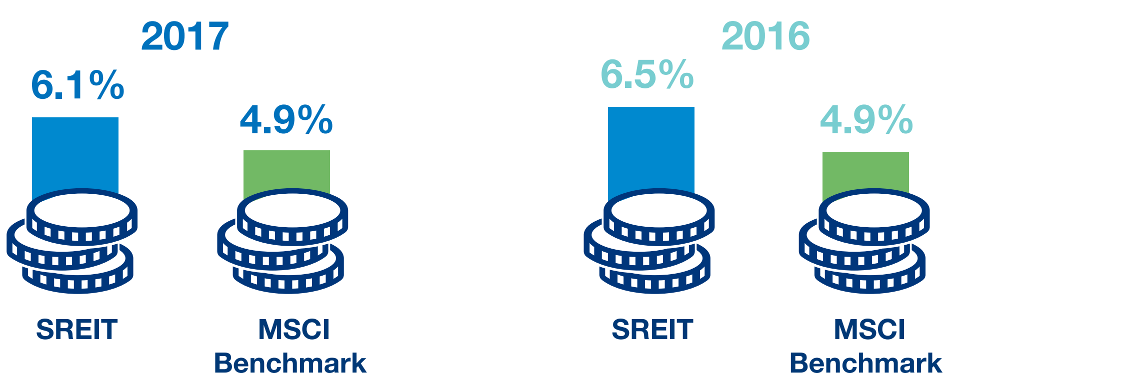
SREIT



Portfolio total return



Portfolio income return



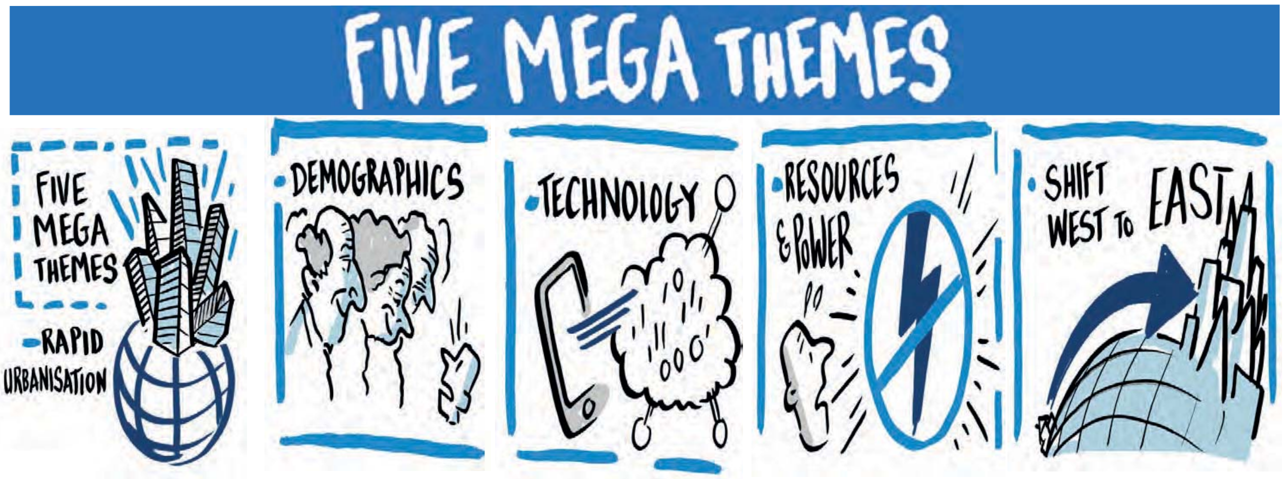
* Includes transactions which unconditionally exchanged, but did not complete prior to year end.

** Source: MSCI Quarterly Version of Balanced Monthly Index Funds including joint venture investments on a like-for-like basis as at 31 March 2017.

Overview

Investment Approach

1. Research led approach



40 global cities by 2025 with 10 million+ populations. The focus on winning cities with faster growth in jobs and locations where people wish to live and work.

We are living longer and moving closer to cities. The focus is on real estate which attracts multiple types of uses eg hotels, care homes, office and retail.

The locations which attract the TMT sector and demand for e-commerce will capture high growth.

Global demand for power and infrastructure is increasing. Locations with better infrastructure and resources / power will thrive.

The shift of economic growth from West to East is changing demand. The focus is on locations that attract businesses which benefit from increasing demand from the East. Eg. luxury goods and education.

Research is used to inform strategy and identify areas of mis-pricing across the market. Cities and towns are analysed to identify differentiated factors that could support growth. These include factors such as the local economy benefiting from being globally facing; a wealth effect from higher value businesses, industries or housing; population and jobs growth; regeneration, infrastructural investment or tourism and amenities such as a Russell Group university. The acquisition strategy then focuses on complementary property-types in locations that have all, or a blend of, these characteristics.

2. Core income

Through the cycle approximately 50% of the portfolio will be invested in property offering secure income characteristics by having an above average lease length and tenant credit quality. The core portfolio will comprise property offering strong fundamentals in locations where rental growth is expected to be realised at rent review, or have contracted rental increases throughout the lease term. Properties offering these characteristics are likely to be where asset business plans have been completed but where the forecast future returns remain attractive. These core properties balance portfolio risk and support the Company's long term financing arrangements.

3. Asset management

Up to 50% of the portfolio will be invested in properties offering enhanced potential returns from more comprehensive asset management initiatives. These properties will generally be acquired with an above average income return, a diverse spread of lease expiries and where an attractive return can be generated by delivering specific initiatives. Examples of this will include lease extensions with tenants, repositioning assets through refurbishment or partial redevelopment and securing change of planning use.

Overview

Performance Summary

Financial summary

	31 March 2017	31 March 2016
NAV	£332.6m	£322.6m
NAV per Ordinary Share (pence)	64.1	62.2
EPRA[1] NAV	£332.6m	£322.6m
Profit for the year	£22.8m	£36.3m
EPRA[1] earnings	£13.8m	£13.1m
Dividend cover	107%	106%

1 EPRA calculations are included in the EPRA Performance measures section on page 66.

Capital values

	31 March 2017	31 March 2016
Share price (pence)	61.8	60.8
Share price (discount) to NAV	(3.7%)	(2.3%)
NAV total return[1]	7.2%	12.3%
FTSE All Share Index	3,990.90	3,408.90
FTSE EPRA/NAREIT UK Real Estate Index	1,724.59	1,788.52

1 Net Asset Value total return calculated by Schroder Real Estate Investment Management Limited.

Earnings and dividends

	31 March 2017	31 March 2016
Earnings (pps)	4.4	7.0
EPRA earnings (pps)	2.7	2.5
Dividends paid (pps)	2.48	2.48
Annualised dividend yield on 31 March share price	4.0%	4.1%

Bank borrowings

	31 March 2017	31 March 2016
On-balance sheet borrowings[1]	£150.1m	£150.1m
Loan to value ratio (LTV), net of all cash[2]	28.9%	30.0%

1 On balance sheet borrowings reflects the loan facility with Canada Life and RBS, without deduction of finance costs.

2 Cash excludes rent deposits and floats held with managing agents. 2017 LTV adjusted for transactions that have completed since the year end is 26%.

Ongoing charges

	31 March 2017	31 March 2016
Ongoing charges (including fund and property expenses[1])	2.5%	2.6%
Ongoing charges (including fund only expenses[1,2])	1.3%	1.2%

1 Ongoing charges calculated in accordance with AIC recommended methodology, as a percentage of average NAV during the year.

2 Fund only expenses excludes all property operating expenses, valuers' and professional fees in relation to properties.

Strategic Report

Chairman's Statement

Overview

I am pleased to report that progress has been made executing the strategy to grow net income, increase exposure to assets in higher growth locations and reduce risk. This strategy has delivered continued growth in net asset value and an improvement in the share price rating.

Dividend cover over the year was 107%, which includes the dilutive impact of seven disposals that crystallised a £4.4 million, or 21%, premium above the aggregate valuation at the start of the year. These disposals will increase cash holdings to approximately £30 million which will be used to fund asset management initiatives and selective acquisitions. The disposals led to a reduction in the level of net income and dividend cover during the year, ahead of the proceeds being reinvested.

A clear and disciplined investment strategy has resulted in over 90% of the portfolio being located in cities and towns expected to generate higher levels of economic growth through stronger occupational demand (source: Oxford Economics). An increasing proportion of the portfolio is also invested in larger assets in prime locations where there is potential to add value from asset management. The portfolio remains diversified by geography and sector, as well as benefiting from a broad tenant base.

Expectations of a cyclical slowdown in the UK real estate market meant a key objective for the year was reducing portfolio risk. This has been achieved through a focus on asset management that has materially reduced the portfolio void rate and increased the duration and quality of underlying rental income streams.

Strategy

The strategic priorities for the current financial year remain unchanged with a focus on managing risk together with the need to provide shareholders with visibility on the potential for future increases in net income.

The UK economy has performed relatively well since the vote to leave the European Union, with real estate values recovering after an initial decline. Continued loose monetary policy and Sterling weakness have also supported economic activity and occupier demand for good quality assets in cities and towns that are prospering.

Whilst market conditions are expected to remain stable, rising inflation expectations and political uncertainty may slow economic growth. As a result the strategy will continue to prioritise improving the portfolio's defensive qualities in terms of asset quality, longer length leases and strong tenants.

Asset management activity is also supporting earnings. For example, conditional lease agreements have been exchanged that will, if completed, generate additional recurring rental income of approximately £750,000 per annum. This will increase further as cash is reinvested into selective new acquisitions that are consistent with the Company's strategy.

Whilst this activity could represent an increase in the level of dividend cover, we remain cautious because of other potential lease expiries across the portfolio. As a result, the Board and Manager will continue to explore a number of strategies for accelerating growth in net income.

Debt

The Company has two loan facilities totalling £150.1 million with an average duration of nine years and an average interest cost of 4.4%, hedged against any movement in interest rates. Adjusting for disposals completed since the year end, the loan to value ratio, net of cash, is 26%, which is within the long term target range of 25% to 35%.

Board composition

Board composition has been reviewed over the year with the aim of identifying a successor for two Board members who had served since the Company's inception in 2004. I am pleased to confirm that following this process Alastair Hughes was appointed as a non-executive Director on 26 April 2017. Alastair has over 25 years of experience in UK and international real estate markets, most recently as an executive of Jones Lang LaSalle, a USA-listed real estate services company.

At the same time John Frederiksen, who joined the Board in 2004, has retired with effect from 25 April 2017. The Directors and Investment Manager are very grateful to John for his wise counsel, deep experience and significant contribution to the Board over the last 13 years. Following a hand over period Keith Goulborn will also be retiring during the coming year.

Outlook

The UK real estate market has weathered considerable political and economic uncertainty during the financial year with healthy levels of investor demand for good quality assets. Whilst upcoming elections and Brexit negotiations could impact confidence and lead to weaker economic growth, loose monetary policy and low levels of new development in many markets should provide support to real estate values.

Against this mixed backdrop we will continue our strategy of improving future returns to shareholders. This will be achieved by investing in Winning Cities, growing income, identifying new and completing asset management plans, in addition to improving the defensive qualities of the portfolio.

Lorraine Baldry
Chairman
Schroder Real Estate Investment Trust Limited
23 May 2017

Strategic Report

Investment Manager's Report

The Company's Net Asset Value ('NAV') as at 31 March 2017 was £332.6 million or 64.1 pence per share ('pps') compared with £322.6 million or 62.2 pps as at 31 March 2016. This reflected an increase of 1.9 pps or 3.1%, with the underlying movement in NAV set out in the table below:

	Pence per share ('pps')
NAV as at 31 March 2016	62.2
Unrealised change in valuation of direct investment property portfolio	3.0
Capital expenditure	(1.6)
Realised gains on disposals	0.7
Unrealised loss on joint ventures*	(0.3)
Net revenue	2.7
Dividends paid	(2.5)
Others	(0.1)
NAV as at 31 March 2017	**64.1**

* Unrealised loss due to capital expenditure at City Tower in Manchester

Performance was driven by a 3% increase in the value of the underlying portfolio which, adjusting for capital expenditure, contributed 2.1 pps to the NAV.

Net revenue over the year was 2.7 pps which, based on dividends paid of 2.5 pps, reflected dividend cover of 107%. This resulted in a NAV total return for the year of 7.2%.

Market overview

The MSCI (formerly IPD) Benchmark produced a total return for commercial real estate of 3.7% over the year to 31 March 2017, which compared with the Company's underlying portfolio total return of 8.5%, generating relative outperformance of 4.8%. This compares to 2016, when our total return outperformed the Benchmark by 1.7%.

A slowdown in total returns had been expected due to parts of the real estate market being late in the cycle, compounded by uncertainties arising from the vote to leave the European Union. This led to falling capital values immediately after the referendum decision and the suspension of daily traded real estate funds open to retail investors. The initial market shock was however mitigated by swift policy measures from the Bank of England Monetary Policy Committee. These measures supported consumer spending and maintained momentum in the economy. This in turn led to real estate values stabilising and a recovery in investment volumes and values post the third quarter of 2016.

Whilst domestic institutional activity levels remain relatively low, private investors are active alongside other new investors such as UK Local Authorities. A sharp fall in sterling has also maintained demand from international investors, notably from Asia targeting Central London.

This activity and stable investment volumes contributed to yields remaining flat over the year, with an average net initial income yield for UK real estate of 5.2% at 31 March 2017. This compares with the long term average of 5.9%. However, the sector still offers an above average premium of approximately 3% above 10 year Sterling Gilt yields.

In terms of sectors, industrial property outperformed other sectors over the year with a total return of 8.7% compared with offices and retail which were both 1.7%. This was due to an above average income return of 5.2% and stronger rental growth. For example, South East industrial rents grew by 6% compared with the market average of 1.7%. Occupational demand is expected to remain robust as a result of online retail and a low supply of multi-let industrial estates in higher growth South East and stronger regional locations. The Company's industrial estates in Milton Keynes and Leeds, acquired as part of the growth strategy between 2014 and 2015, performed strongly over the year, contributing 1.3% to the 4.7% relative outperformance.

The weaker performance of the office sector was driven by the City of London and the rest of UK, where values fell by -2.0% and -5.8% respectively. The City of London and Docklands office markets are vulnerable to the loss of 'passporting' rights for financial services, compounded by the volume of new development compared with other London sub-markets. Gross take-up of office space may fall in London during 2017 but the changing profile of occupier demand should benefit those submarkets which are attractive to higher growth creative industries. These made up 24% of total Central London take up during 2016. We expect locations such as Bloomsbury, where the Company owns its sole Central London asset, to benefit from this trend, evidenced by recent nearby lettings to Facebook and Skyscanner.

Office markets outside of London should be stable due to a more domestically focussed occupier base. We also expect government plans to consolidate the civil service into 13 regional hubs to benefit larger regional cities, particularly those with diversified economies and strong universities such as Bristol, Leeds and Manchester. Furthermore, new development has remained muted and the introduction of permitted development rights legislation in 2013 (enabling automatic change of use from office to residential) has reduced the supply of obsolete offices.

The retail sector continues to be the worst performing due to structural and cyclical factors, with retailer margins being squeezed by higher costs and lower prices. Factors including weaker sales growth, investment in online strategies, a higher national living wage and rising import prices are pressurising the traditional retail format. Against this challenging backdrop we will continue to sell weaker high street assets and focus on convenience retail and out-of-town retail, such as the Arndale Centre in Leeds and St. John's Retail Park in Bedford, where rents are relatively affordable and demand remains resilient.

Strategy

The strategy has focused on the following key objectives:

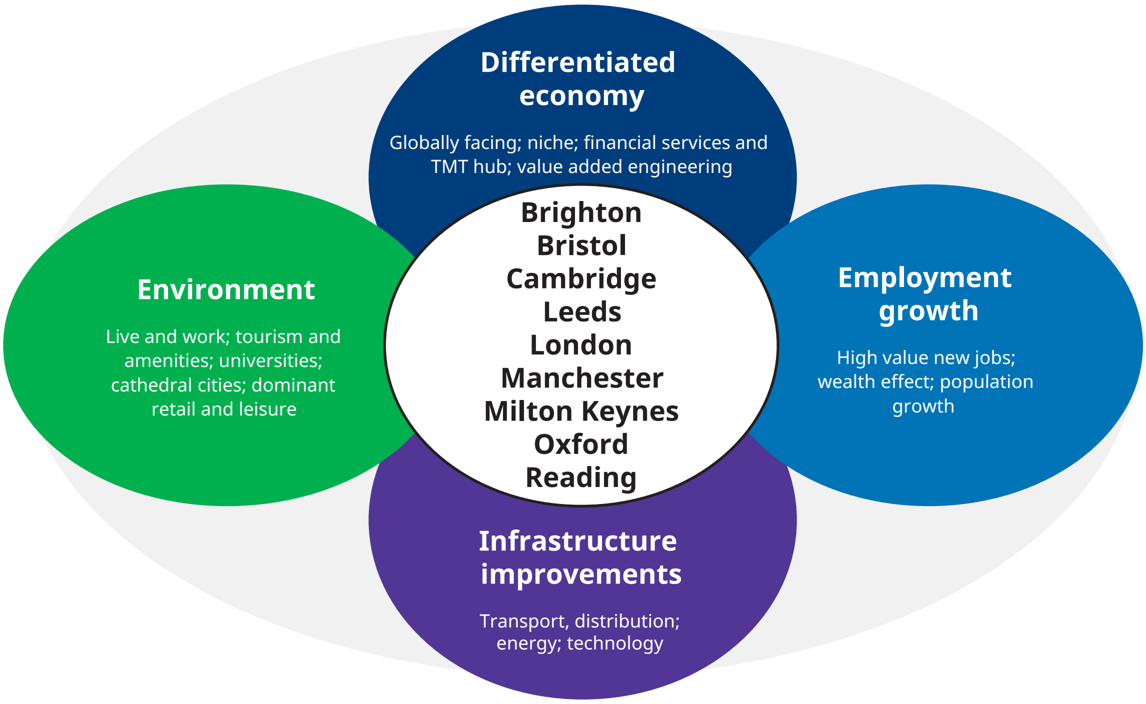
- Increasing net income through transactions and asset management.
- Increasing exposure to assets with strong fundamentals.
- Increasing exposure to Winning Cities, being locations experiencing higher levels of GDP, employment and population growth.
- Managing portfolio risk in order to enhance the portfolio's defensive qualities.

An intensive and disciplined approach to asset management and transactions during the year and since year end has delivered the following progress against the strategic objectives:

1. Sustainable dividend cover of 107%.
2. 93% of the portfolio by value is located in first and second quartile growth cities and towns (source: Oxford Economics).
3. Reduction in the portfolio void rate to 6% compared with 9% at the start of the year.
4. An increase in the average unexpired lease term to 7.4 years, assuming all tenant breaks are exercised at the earliest opportunity, compared with 7 years at the start of the year.
5. A portfolio level income return of 6.1% over the year compared with 4.9% for the MSCI Benchmark, with a higher reversionary income yield of 7.4% compared with 6% for the Benchmark.
6. Seven vacant or low yielding disposals completed, totalling £26.5 million at an average yield of 2.2%. Further disposal unconditionally exchanged for £2.5 million.
7. Reduction in the net loan to value to 26%, at the lower end of the 25% to 35% target range.

The level of occupational demand driving this activity has been encouraging, with 41 new lease agreements completed across the portfolio. These lease agreements were completed at headline rental levels reflecting an average uplift of 2.4% above the independent valuers' assessment of rental value at the start of the year.

Winning Cities
Disciplined approach to investment



Source: Schroders for illustration.

In addition to driving income growth, asset management has focussed on extending leases to better quality tenants. For example, since the year end the lease to Wickes Building Supplies Limited at a retail warehouse in Chester has been extended from four to 16 years in return for a premium equating to two years rent. The tenant will use this premium to modernise the unit which enhances the asset's defensive qualities and creates a more valuable investment.

During the year £9.3 million was invested into eight separate capital expenditure initiatives across the portfolio and JV's, of which approximately half was linked to pre-let initiatives such as the new long leases to Premier Inn at the Arndale Centre in Leeds and TK Maxx Homesense at St. John's Retail Park in Bedford. The speculative capital expenditure over the year such as City Tower in Manchester, where there is now 46,000 sq ft of newly refurbished office accommodation, should improve letting prospects as well as the quality of the occupier and the commercial terms achieved.

The success of this approach is illustrated by the disposal of the office in central Bristol. The asset had represented the largest portfolio void at the start of the year. Due to the strength of the Bristol occupational market and an undersupply of new office space, a major refurbishment was undertaken. Prior to completion of the works, terms were agreed to sell the property to the University of Bristol for £11.8 million. This compared to the valuation as at 31 March 2016 of £4.7 million and, adjusting for capital expenditure of £2.8 million, contributed £3.9 million to profits. The other disposals were of small high street retail assets where letting or other activity enabled proceeds to be maximised. Further disposals of smaller, more secondary assets are also planned.

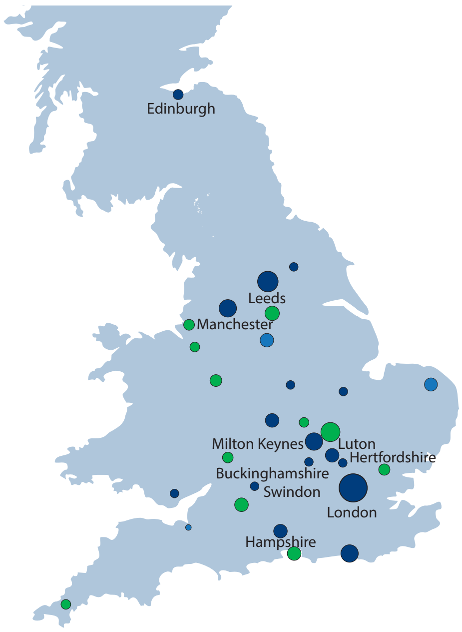
Following these disposals the Company will have approximately £30 million of cash which, after retaining £10 million for operational flexibility, provides funding for both ongoing asset management activity as well as selective new acquisitions. Swift redeployment of this cash in line with the Winning Cities philosophy and continued letting activity is key to driving further net income growth.

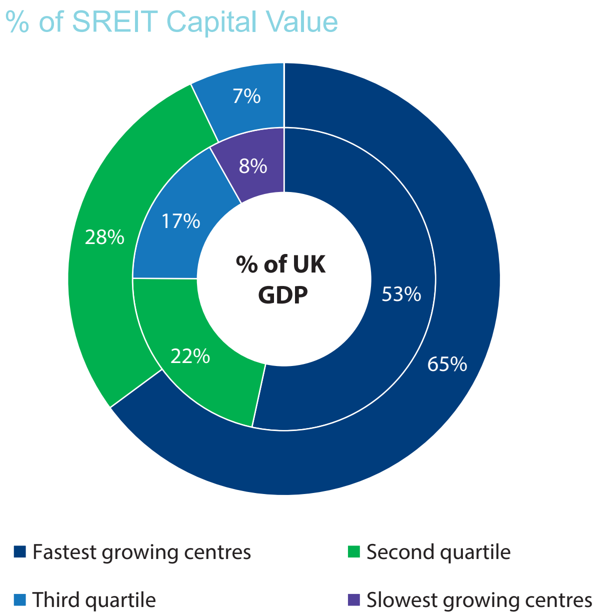
Property portfolio

As at 31 March 2017 the property portfolio comprised 47 properties independently valued at £467.7 million. This includes our share of joint venture properties at City Tower in Manchester and Store Street in Bloomsbury, London. Prior to year end, unconditional contracts were exchanged to sell a small leisure asset in Watford for £2.5 million and a larger office asset in Bristol for £11.8m. Since the year end, and as referred to above, the disposal in Bristol completed.

Excluding the Bristol and Watford assets, the portfolio produced a rent of £27.1 million per annum, reflecting a net initial income yield of 5.6%. The portfolio also benefits from fixed contractual rental uplifts of £3.1 million per annum by March 2019. The Company's independent valuers estimate that the current rental value of the portfolio is £33.6 million per annum, reflecting a reversionary income yield of 7.4%, which compares with the Benchmark at 6%.

93% of the portfolio located in higher growth locations





Source: Oxford Economics, Schroders March 2017. Note: Size of the bubbles represents capital values as at 31 March 2017. The labels are where the cities and towns are within the top 15 GDP growth between 2016 and 2021. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

Bedford, St John's Retail Park

London, Bloomsbury, University of Law

Investment Manager's Report continued

The data below summarises the portfolio information as at 31 March 2017, adjusted for the post year end transactions:

	Weighting (%)	
Sector weightings by value	**SREIT**	**MSCI Benchmark**
Retail	30.9	36.6
Offices	39.1	31.3
Industrial	24.4	21.9
Other	5.6	10.2

	Weighting (%)	
Regional weightings by value	**SREIT**	**MSCI Benchmark**
Central London	6.9	14.8
South East excluding Central London	28.6	38.0
Rest of the South	7.8	15.6
Midlands and Wales	27.6	14.1
North and Scotland	29.1	17.5

The top ten assets set out below comprise 57.6% of the portfolio value:

Top ten properties		Value (£m)	(%)
1	Manchester, City Tower (25% share)	41.6	9.2
2	London, Store Street, Bloomsbury (50% share)	35.3	7.8
3	Bedford, St. John's Retail Park	35.2	7.8
4	Brighton, Victory House	31.0	6.8
5	Leeds, Millshaw Industrial Estate	26.3	5.8
6	Milton Keynes, Stacey Bushes Industrial Estate	22.9	5.0
7	Leeds, Headingley, The Arndale Centre	22.4	4.9
8	Uxbridge, 106 Oxford Road	18.3	4.0
9	Salisbury, Churchill Way West	14.5	3.2
10	Luton, The Galaxy	14.2	3.1
	Total as at 31 March 2017	**261.7**	**57.6**

Salisbury, Churchill Way

Brighton, Victory House

The table below sets out the top ten tenants that generally comprise large businesses and represent 34.7% of the portfolio:

Top ten tenants		Rent p.a. (£000)	% of portfolio
1	University of Law Limited	1,583	5.9
2	Wickes Building Supplies Limited	1,092	4.1
3	Norwich Union Life and Pensions Limited	1,039	3.9
4	The Buckinghamshire New University	1,018	3.8
5	BUPA Insurance Services Limited	961	3.6
6	Mott MacDonald Limited	790	2.9
7	Recticel SA	731	2.7
8	Secretary of State	717	2.7
9	Booker Limited	700	2.6
10	Matalan Retail Limited	676	2.5
	Total as at 31 March 2017	**9,307**	**34.7**

Portfolio performance

The performance of the underlying property portfolio compared with the MSCI Benchmark to 31 March 2017 is shown below. The portfolio is ranked on the 2nd percentile of the Benchmark peer group over 12 months and on the 12th percentile since inception:

	SREIT total return p.a. (%)			MSCI Benchmark total return p.a. (%)			Relative p.a. (%)		
Period	12 months	Three years	Since inception*	12 months	Three years	Since inception*	12 months	Three years	Since inception*
Retail	4.0	9.4	5.8	1.7	6.9	4.5	2.3	2.3	1.3
Office	8.9	15.2	8.3	1.7	12.0	6.9	7.0	2.8	1.3
Industrial	13.7	16.8	8.0	8.7	14.7	7.3	4.6	1.8	0.6
Other	11.6	16.5	4.0	7.6	10.5	7.1	3.6	5.4	–2.9
Total	**8.5**	**13.9**	**7.5**	**3.7**	**10.5**	**5.9**	**4.7**	**3.1**	**1.4**

* Inception was July 2004

Disposals

During the year and since the year end seven assets have been sold with a further asset exchanged and due to complete in June. Details of the disposals are set out in the table below:

During the year	Date	Price (£m)	Net initial Yield (%)	Value 31/03/2016 (£m)	Premium (discount) to valuation (%)
Nottingham, Clumber Street	01/04/2016	2.0	–	2.0	–
New Malden, St. George's Court (mixed retail and office)*	04/04/2016	4.0	5.6	4.0	–
Bath, Abbeygate Street	10/05/2016	4.7	4.7	4.7	–
Bournemouth, Commercial Road	27/10/2016	1.7	5.1	1.6	6.3
Bromley, 102 High Street	02/11/2016	1.3	–	1.1	18.2
Ipswich, Tavern Street	09/12/2016	1.0	6.7	1.2	(16.7)
Bristol, St. Augustine's Courtyard**	07/04/2017	11.8	–	4.7***	57.3
Watford, High Street**	30/06/2017	2.5	4.6	2.5	–
Total		**29.0**	**2.5**	**21.8**	**17.9**

* Included in the 31 March 2016 financial statements as a disposal, as contracts unconditionally exchanged during the prior year.
** Included in the 31 March 2017 financial statements as a disposal, as contracts unconditionally exchanged during the year.
*** Values as at 31 March 2016 before adjusting for the £2.8 million of capital expenditure invested during the year.

Asset Management Case Studies

Milton Keynes, Stacey Bushes Industrial Estate

Stacey Bushes is a 317,000 sq ft multi-let industrial estate comprising 42 units in a good location west of Milton Keynes. The asset was acquired for £14.3 million in 2014. As at 31 March 2017 the asset was valued at £22.9 million reflecting a net initial income yield on contracted rents of 6% and a reversionary income yield of 7.4%. The strategy over the year was to refurbish units as leases expire in order to achieve higher rents. The following progress has been made over the year:

- 18 units refurbished at a total cost of £200,000, net of dilapidations payments.
- Completed 11 new lettings that increase the annual contracted rent by 13.1% to £1.5 million p.a.
- Rental value increased by 8% to £1.8 million per annum.
- Planning consent secured on the additional land for 17,000 sq ft of new warehouse accommodation comprising six units. The estimated cost of development is £1.8 million with potential to generate additional rent of £170,000 per annum.

This activity has delivered strong performance with a total return for the year of 21.8% compared with the Benchmark average for South East industrial of 10.7%.

Asset Management Case Studies continued

Leeds, Millshaw Industrial Estate

Millshaw is a 463,400 sq ft multi-let industrial estate comprising 27 units strategically located south of Leeds city centre close to the M62 and M621 motorways. The asset was acquired for £22.7 million in 2015. As at 31 March 2017 the asset was valued at £26.3 million reflecting a net initial income yield of 5.6% and a reversionary income yield of 7.9%. The strategy over the year was to refurbish units to drive rents and explore higher value uses for the units fronting the Leeds ring road. The following progress has been made over the year:

- Five units refurbished at a total cost of £0.5 million, net of dilapidations payments.
- Completed 6 new letting agreements that increase the annual contracted rent by 7.8% to £1.6 million p.a.
- Rental value increased by 7% to £2.2 million per annum.
- Exchanged an agreement for lease with JD Sports Gyms to let a unit at the front of the estate at a rent of £189,000 per annum or £6 per sq ft, compared with a rental value at the start of the year of £4.50 per sq ft.
- Exploring longer term redevelopment options.

This activity has delivered strong performance with a total return for the year of 14.6% compared with the Benchmark average for rest of UK industrial of 6.1%.

Asset Management Case Studies continued

Manchester, City Tower (25% interest reflected in value and rents below)

City Tower is a landmark 615,429 sq ft office, retail, leisure and hotel investment on a three acre island site in Manchester city centre. The asset was acquired for £33 million in 2014. As at 31 March 2017 the asset was valued at £41.6 million reflecting a net initial income yield of 5.1% and a reversionary income yield of 7.2%. The strategy over the year was to complete the first phase of a major repositioning of the offices and retail in order to increase rents and use transactional evidence for rent reviews and lease renewals. The following progress has been made:

- Office reception refurbishment extension has completed at a cost of £500,000 with positive feedback from existing and prospective tenants
- Refurbished four office floors to a high specification at a cost of £425,000 that are currently being marketed
- Completed five new lettings, lease extensions and renewals totalling 80,800 sq ft at an average headline rent that is 7.2% above the rental value at the start of the year. Examples include:
  - Lease to the National Institute of Clinical Excellence (‘NICE’) of 46,350 sq ft extended by seven years from the contracted lease expiry in December 2017 at £243,000 per annum, which reflects a 15% uplift on the previous rent.
  - Lease to Hays Recruitment on 18,000 sq ft of space extended by ten years at £89,420 per annum or £20 per sq ft, reflecting a 23% uplift on the previous rent.
  - 9,200 sq ft let to iHub, a serviced office provider, as expansion space at £58,000 per annum or £25 per sq ft, an uplift of 9% on the rental value at the start of the year.

Despite the high level of activity the valuation was negatively impacted by the vacant floors and fell from £42.2 million to £41.6 million over the year, resulting in a total return of 2.0%. Further progress letting vacant space will have a positive impact on the valuation in the future.

Asset Management Case Studies continued

Example of a recently upgraded new format Wickes retail warehouse.

Chester, Sealand Road, Wickes

The Sealand Road asset is a 26,059 sq ft retail warehouse wholly let to Wickes Building Supplies Limited, part of Travis Perkins plc. Sealand Road is an established retail warehouse location on the edge of Chester. As at 31 March 2017 the asset was valued at £5.0 million reflecting a net initial yield of 7.5% based on the rent of £400,000 per annum or £15.35 per sq ft. The strategy during the year was to extend the lease beyond the 2020 expiry and since the year end an agreement for lease has exchanged on the following basis:

- The Company will carry out consented highways improvements works to improve accessibility to the Wickes car park at a cost of £200,000.
- On completion of the highways works, Wickes has agreed to enter into a new 15 year lease without tenant break options at the current rent of £400,000 per annum.
- In return for entering into the new lease Wickes will receive a capital contribution of £800,000 from the Company which will be used to upgrade the unit to the new Wickes format.

The lease extension will enhance the defensive qualities of the asset and the portfolio as well as creating a more valuable investment.

Asset Management Case Studies continued

Finance

Adjusting for transactions that have completed since the year end the Company has an overall loan to value, net of cash, of 26%, within the long term strategic range of 25% to 35%. Details of the two loans and compliance with principal covenants are set out below:

Lender	Loan (£m)	Maturity	Interest rate (%)	Loan to Value ('LTV') ratio* (%)	LTV ratio covenant (%)*	Interest cover ratio (%)**	ICR ratio covenant (%)**	Forward looking ICR ratio (%)***	Forward looking ICR ratio covenant (%)***
Canada Life	103.7 25.9	15/04/2028 15/04/2023	4.77$	38.6	65	311	185	300	185
RBS	20.5	17/07/2019	2.00α	50.1	65	N/A	N/A	463	250

* Loan balance divided by property value as at 31 March 2017.

** For the quarter preceding the Interest Payment Date ('IPD'), ((rental income received – void rates, void service charge and void insurance) / interest paid).

*** For the quarter following the IPD, ((rental income received – void rates, void service charge and void insurance) / interest paid).

$ Fixed total interest rate for the loan term.

α Total interest rate as at 31 March 2017 comprising 3 months LIBOR of 0.40% and the margin of 1.6% at an LTV below 60% and a margin of 1.85% above 60% LTV.

The fixed rate on the Canada Life facility of 4.77% provides long term certainty of interest rate cost but is above rates currently available. The facility allows voluntary prepayments but fixed rate break costs are payable on any prepayment. No break costs are payable on maturity of the smaller loan in 2023. In addition to the secured properties, the joint venture properties City Tower in Manchester and Store Street in London are uncharged with a combined value of £76.9 million.

The Company has significant headroom against its loan covenants and could, on a consolidated basis, withstand a 49% decline in property values before reaching 65% LTV.

Outlook

Whilst the UK economy has remained relatively robust since the EU referendum, uncertainties around the exit terms from the European Union persist. We expect the level of economic growth to therefore be uncertain and lower levels of consumer spending could follow if inflation rises. Whilst lower levels of GDP growth would impact UK real estate markets, we expect a divergence in returns between successful Winning Cities and less productive centres which do not see high levels of economic activity.

The Company's focus of investing in Winning Cities, adding value through asset management and reducing portfolio risk alongside low borrowing levels, means it is well placed to continue to deliver its strategic objectives in this more uncertain environment. The growth strategy executed during 2014 and 2015 together with subsequent investments has increased exposure to Winning Cities and sectors that are expected to generate relative outperformance such as multi-let industrial estates and regional offices. A high level of asset management activity has also improved the quality of the portfolio's income as well as reducing vacancy levels. This process has resulted in sustained outperformance of the portfolio over the last year and since the Company's IPO in 2004.

Ongoing asset management activity and redeploying disposal proceeds will continue to support further sustainable growth in net income. Whilst we expect some of this income growth to be diluted in the short term by the normal pattern of other lease expiries, the portfolio's higher reversionary rental value mitigates the risk to income.

We will continue to adopt a selective and disciplined approach to new investments which could include single assets or portfolios. We will also seek to both enhance the portfolio's defensive qualities and increase the prospects for future income growth by active management. Value enhancing opportunities within the portfolio are capable of being funded from a variety of sources such as existing cash, flexible and cost efficient debt and the possibility of new equity issuance which is accretive to earnings per share.

Duncan Owen
Schroder Real Estate Investment Management Limited
23 May 2017

Strategic Report

Business Model and Strategy

Company's Business

The Company is a real estate investment company with a premium listing on the Official List of the UK Listing Authority and is traded on the London Stock Exchange's main market for listed securities. On 1 May 2015, the Company converted to a Real Estate Investment Trust ('REIT') which means that it is able to benefit from exemptions from UK tax on profits and gains in respect of certain qualifying property rental business activities. The Company continues to be an authorised closed-ended investment scheme registered in Guernsey.

The Board

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate strategy, gearing, corporate governance and risk management.

The Company has no executive Directors or employees.

Investment Objective

The investment objective of the Company is to provide shareholders with an attractive level of income together with the potential for income and capital growth from owning and actively managing a diversified portfolio of real estate.

The portfolio is principally invested in the three main UK commercial real estate sectors of office, industrial and retail, and may also invest in other sectors including, but not limited to, residential, leisure, healthcare and student accommodation. Over the real estate market cycle the portfolio aims to generate an above income return with a diverse spread of lease expiries.

Relatively low levels of debt are used to enhance returns for shareholders with the level of debt dependent on the real estate cycle and the outlook for future returns. The current target borrowing level reflects a net loan to value ('LTV') ratio of between 25% and 35%.

Investment Strategy

The current investment strategy is to grow income and enhance shareholder returns through selective acquisitions, pro-active asset management and selling smaller, lower yielding properties on completion of the asset business plan. The issuance of new shares will also be considered if this is consistent with the strategy.

Our objective is to own a portfolio of larger properties in cities and towns with diversified local economies, sustainable occupational demand and favourable supply and demand characteristics. These properties should offer good long-term fundamentals in terms of location and specification and be let at affordable rents with the potential for income and capital growth from good stock selection and asset management.

The Board has delegated investment management and accounting services to the Investment Manager with the aim of helping the Company to achieve its investment objective and strategy. Details of the Investment Manager's investment approach, along with other factors that have affected performance during the year, are set out in the Investment Manager's Report.

Diversification and asset allocation

The Board believes that in order to maximise the stability of the Group's income, the optimal strategy for the Group is to invest in a portfolio of assets diversified by location, sector, asset size and tenant exposure with low vacancy rates and creditworthy tenants. The value of any individual asset at the date of its acquisition may not exceed 15% of gross assets and the proportion of rental income deriving from a single tenant may not exceed 10%. From time to time the Board may also impose limits on sector, location and tenant types together with other activity such as development.

The Company's portfolio will be invested and managed in accordance with the Listing Rules of the Financial Conduct Authority ('Listing Rules' and 'FCA' respectively) taking into account the Company's investment objectives, policies and restrictions.

Borrowings

The Board has established a gearing guideline for the Investment Manager, which seeks to limit on-balance-sheet debt, net of cash, to 35% of on-balance-sheet assets while recognising that this may be exceeded in the short term from time to time. It should be noted that the Company's Articles limit borrowings to 65% of the Group's gross assets, calculated as at the time of borrowing. The Board keeps this guideline under review and the Directors may require the Investment Manager to manage the Group's assets with the objective of bringing borrowings within the appropriate limit while taking due account of the interests of shareholders. Accordingly, corrective measures may not have to be taken immediately if this would be detrimental to shareholder interests.

Interest Rate Exposure

It is the Board's policy to minimise interest rate risk, either by ensuring that borrowings are on a fixed rate basis, or through the use of interest rate swaps/derivatives used solely for hedging purposes.

Investment Restrictions

As the Company is a closed-ended investment fund for the purposes of the Listing Rules, the Group will adhere to the Listing Rules applicable to closed-ended investment funds. The Company and, where relevant, its subsidiaries will observe the following restrictions applicable to closed-ended investment funds in compliance with the current Listing Rules:

- neither the Company nor any subsidiary will conduct a trading activity which is significant in the context of the Group as a whole and the Group will not invest in other listed investment companies; and
- where amendments are made to the Listing Rules, the restrictions applying to the Company will be amended so as to reflect the new Listing Rules.

In addition, the Company will ensure compliance with the UK REIT regime requirements.

Performance

The Board uses principal financial Key Performance Indicators ('KPIs') to monitor and assess the performance of the Company being the net asset value ('NAV') total return, the performance of the Company's underlying property portfolio relative to its MSCI Benchmark Index and the share price:

1. NAV total return

For the year to 31 March 2017 the Company produced a NAV total return of 7.2% (12.3% for the year to 31 March 2016).

2. Underlying property portfolio performance relative to peer group Benchmark

The performance of the Company's property portfolio is measured against a specific benchmark defined as the MSCI (formerly Investment Property Databank) Quarterly Version of Balanced Monthly Index Funds (the 'Index'). As at 31 March 2017 the Benchmark Index comprised 46 member funds.

Total return for 12 months to 31 March 2017		Total return for 12 months to 31 March 2016	
SREIT (%)	MSCI Index (%)	SREIT (%)	MSCI Index (%)
8.5	3.7	12.8	11.1

The analysis above is prepared by MSCI and takes account of all direct property related transaction costs.

3. Share price performance

The Board monitors the level of the share price compared to the NAV. As at 31 March 2017, the NAV of 64.1 pps reflects a discount to the share price of 3.7%. Where appropriate on investment grounds, the Company may from time to time repurchase its own shares, but the Board recognises that movements in the share price premium or discount are driven by numerous factors, including investment performance, gearing and market sentiment. Accordingly we focus our efforts principally on addressing sources of risk and return as the most effective way of producing long-term value for shareholders.

Investment Manager Performance

The Board reviews the Investment Manager's performance at its quarterly Board meetings. In addition, the Board made its annual visit to the Investment Manager in April 2017 to review portfolio strategy and the Investment Manager's capabilities in more depth. Subsequently, the Directors formally discussed the performance of the Investment Manager and its fees at a private session. On the basis of this review, and the extensive selection process undertaken prior to appointing the Investment Manager, the Board remains satisfied that the Investment Manager has the appropriate capabilities required to support the Company, and believes that the continuing appointment of the Investment Manager is in the interest of shareholders.

Principal Risks and Uncertainties

The Board is responsible for the Company's system of risk management and internal control and for reviewing its effectiveness. The Board has carried out a robust assessment of the principal risks facing the Company including those that would threaten its business model, future performance, solvency or liquidity. A framework of internal controls has been designed and established to monitor and manage those risks. This internal control framework provides a system to enable the Directors to mitigate these risks as far as possible, which assists in determining the nature and extent of the significant risks the Board is willing to take in achieving its strategic objectives. A description of the Company's system of internal control is set out further below in the Corporate Governance statement.

Although the Board believes that it has a robust framework of internal controls in place this can provide only reasonable, and not absolute, assurance against material financial misstatement or loss and is designed to manage, not eliminate, risk.

A summary of the principal risks which the Company faces are considered to be as follows:

Investment Policy and Strategy: An inappropriate investment strategy, or failure to implement the strategy, could lead to underperformance and the share price being at a larger discount, or smaller premium, to NAV than the property market generally. This under performance could be caused by incorrect sector and geographic weightings or a loss of income through tenant failure, both of which could lead to a fall in the value of the underlying portfolio. This fall in values would be amplified by the Company's external borrowings. The Board seeks to mitigate these risks by diversification of its property portfolio through its investment restrictions and guidelines which are monitored and reported on by the Investment Manager. The Board determines borrowing policy and the Investment Manager operates within borrowing restrictions and guidelines. The Investment Manager provides the Directors with timely and accurate management information including performance data, attribution analysis, property level business plans and financial projections. The Board monitors the implementation and results of the investment process with the Investment Manager with a separate meeting devoted to strategy each year.

Economic and property market risk: The performance of the Company could be affected by economic and property market risk. In the wider economy this could include inflation or deflation, economic recessions, movements in interest rates or other external shocks. The performance of the underlying property portfolio could also be affected by structural or cyclical factors impacting particular sectors or regions of the property market. A referendum was held on 23 June 2016 to decide whether the UK should remain in the European Union and a vote was given in favour of the UK leaving the European Union ("Brexit"). The extent of the impact of Brexit on the Company and the wider economy will depend in part on the nature of the arrangements that are put in place between the UK and the European Union following the eventual Brexit and the extent to which the UK continues to apply laws that are based on European Union legislation. The Company may be subject to a period of uncertainty in the period leading up to eventual Brexit including, inter alia, uncertainty in relation to any potential regulatory or tax changes. Further, the macroeconomic effect of an eventual Brexit on the value of investments in the UK real estate sector and, by extension, the value of the investments in the Company's portfolio, is unknown.

Valuation risk: Property valuations are inherently subjective and uncertain. All of the Company's property assets are independently valued quarterly by Knight Frank LLP, a specialist property valuation firm who are provided with regular updates on portfolio activity by the Investment Manager. The Company's two joint venture assets are independently valued quarterly by BNP Paribas Real Estate UK. Members of the Audit Committee meet with the external valuers to discuss the basis of their valuations and their quality control processes.

Accounting, Legal and Regulatory: The risk that the NAV and financial statements could be inaccurate. The Investment Manager has robust processes in place to ensure that accurate accounting records are maintained and that evidence to support the financial statements is available to the Board and the auditors. The Investment Manager operates established property accounting systems and has procedures in place to ensure that the quarterly NAV and Gross Asset Value are calculated accurately. The Company has appointed the Investment Manager as Alternative Investment Fund Manager (AIFM) in accordance with the Alternative Investment Fund Managers Directive (AIFMD).

The Administrator monitors legal requirements to ensure that adequate procedures and reminders are in place to meet the Company's legal requirements and obligations. The Investment Manager undertakes full legal due diligence with advisors when transacting and managing the Company's assets. All contracts entered into by the Company are reviewed by the Company's legal and other advisors.

Processes are in place to ensure that the Company complies with the conditions applicable to property investment companies set out in the Listing Rules. The Administrator attends all Board meetings to be aware of all announcements that need to be made and the Company's advisors are aware of their obligations to advise the Administrator and, where relevant, the Board of any notifiable events. Finally, the Board is satisfied that the Investment Manager and Administrator have adequate procedures in place to ensure continued compliance with the regulatory requirements of the FCA and the Guernsey Financial Services Commission.

Financial: Note 19 to the financial statements includes a description of risks relating to financial risk, market price risk, credit risk, liquidity risk and interest rate risk. Cashflow is actively managed to ensure sufficient liquidity is available for day to day use. As described earlier under Investment Policy, the Board establishes gearing guidelines, and ensures that the Investment Manager operates within the defined guidelines.

Hedging: The floating rate debt with RBS has been economically hedged with an interest rate cap. The main debt facility with Canada Life has a fixed interest rate.

Alternative Investment Fund Managers Directive ("AIFMD")

In accordance with the AIFMD, the Company is an Alternative Investment Fund ('AIF') and has appointed the Investment Manager, which has AIFMD regulatory permissions, as its Alternative Investment Fund Manager (the 'Manager' or 'AIFM').

In addition, also in accordance with the requirements of the AIFMD, the Company has appointed Northern Trust (Guernsey) Limited as depositary.

In complying with this regulatory obligation, the Board takes this opportunity to reassure shareholders that it continues to act independently of the Manager and the management fees payable to the Manager remain unchanged.

Leverage

Leverage is any method by which the Company increases its exposure to the market by borrowing or through transactions in other financial instruments such as derivatives.

The "Leverage Ratio" represents the leverage generated through its debt facility, as calculated in accordance with the detailed requirements of the AIFMD, divided by the Company's net asset value. Details on how the amount of leverage is calculated may be found by referring to the AIFMD. The AIFMD requires that ratios are calculated in accordance with two methodologies, the "Gross Method" and the "Commitment Method".

The Manager has set a maximum limit of 1.95 for the Gross Method and 2.20 for the Commitment Method. As at 31 March 2017, the Company's Gross ratio and its Commitment ratio were 1.41 and 1.47 respectively.

The Manager may change the maximum limits from time to time. Any changes will be disclosed to shareholders in accordance with the AIFMD.

Remuneration

The following disclosures are required under the Alternative Investment Fund Managers Directive, as transposed in the UK into chapter Senior Management Arrangements, Systems and Controls Sourcebook ('SYSC') 19B of the Financial Conduct Authority Handbook.

Alternative Investment Fund Managers (AIFM) Remuneration Disclosures as at 31 December 2016

The following disclosures are required under the AIFMD for Schroder Real Estate Investment Management (SREIM) as the Investment Manager to the Company, which is an Alternative Investment Fund (AIF).

These disclosures should be read in conjunction with the Schroders Plc Remuneration Report on pages 68 to 96 of the 2016 Annual Report & Accounts (available on the Group's website – www.schroders.com/ir), which provides more information on the activities of our Remuneration Committee and our remuneration principles and policies.

SREIM's AIFMD Material Risk Takers (MRTs) are individuals in roles which can materially affect the risk of SREIM or any Alternative Investment Funds (AIFs) it manages., which includes the Company.

The Remuneration Committee of Schroders plc has established a Remuneration Policy to ensure the requirements of AIFMD are met proportionately for all AIFMD MRTs. The directors of SREIM are responsible for the adoption of the Remuneration Policy, for reviewing it at least annually, for overseeing its implementation and for ensuring compliance with relevant local legislation and regulation. You can get details of the latest remuneration policy at www.schroders.com/remuneration-disclosures.

The remuneration data that follows reflects amounts paid in respect of performance during 2016. At 31 December 2016, SREIM managed a total of £7.9 billion assets under management, of which £0.7 billion were in AIFs.

- The total amount of remuneration paid by SREIM to its staff is nil as SREIM has no employees. AIFMD MRTs of SREIM are employed and paid by other Schroders Group companies. Employees who serve as Directors of SREIM receive no additional fees in respect of their role on the Board of SREIM.
- The following disclosures relate to AIFMD MRTs of SREIM. Some of these individuals are employed by and provide services to other companies in, and clients of, the Schroders group. As a result, only a portion of remuneration for those individuals is included in the aggregate remuneration figures that follow, based on an objective apportionment to reflect the balance of each role. The aggregate total remuneration paid to the 35 AIFMD MRTs of SREIM in respect of the financial year ending 31 December 2016, and attributed to SREIM and the AIFs it manages, was £353,199 of which £109,736 was paid to Senior Management and £243,464 was paid to other AIFM Remuneration code Staff.

Governance

Board of Directors

Lorraine Baldry (Chairman) – appointed on 13 January 2014

Aged 68, is Chairman of London & Continental Railways, Inventa Partners Ltd, and Hydroxyl Technologies Limited and is also an independent Director of Circle Holdings plc and Thames Water Utilities Limited. She was Chief Executive of Chesterton International plc and prior to that held various senior positions at Prudential Corporation, Morgan Stanley and Regus. She is also an Honorary Member of the Royal Institution of Chartered Surveyors and a Past President of the British Property Federation.

Keith Goulborn – appointed on 27 May 2004

Aged 72, was head of Unilever's UK Property Department for 17 years. In this capacity he was responsible for the property investment activities of the Unilever Pension Fund in the UK and operational property advice to the UK group and its implementation. Prior to that, he was a partner in Debenham, Nightingale Chancellors. He is a Fellow of the Royal Institution of Chartered Surveyors.

Stephen Bligh – appointed on 28 April 2015

Aged 60, Stephen was previously with KPMG for 34 years, specialising in the audit of FTSE 350 companies in property and construction. He is a fellow of the Institute of Chartered Accountants in England & Wales and was previously a non-executive Board Member of the Department of Business, Innovation & Skills.

Graham Basham – appointed on 11 September 2015

Aged 59, is a director of U.S. Bancorp Fund Services (Guernsey), Limited, Computershare Investor Services (Guernsey) Limited and a number of Fiduciary companies in Guernsey. He sits on the majority of the boards of the SREIT subsidiaries, a position he has held for the last 9 years. He has 40 years' experience in fiduciary and fund work, 33 of these spent in several offshore locations. He is currently Deputy Managing Director of the Active Group Ltd, holds a Trustee Diploma as an Associate of Chartered Institute of Banks and is a member of the Society of Trust & Estate Practitioners and Institute of Directors.

Alastair Hughes – appointed on 26 April 2017

Aged 51, Alastair Hughes has over 25 years of experience in real estate markets. He was previously the Managing Director of Jones Lang LaSalle (JLL) in the UK before becoming the CEO for Europe, Middle East and Africa and then most recently becoming the CEO for Asia Pacific. Alastair is a Chartered Surveyor and sat on the Global Executive Board of JLL.

The appointment and replacement of Directors is governed by the Company's Articles, the Companies Law, related legislation and the Listing Rules. The Articles may only be amended by a special resolution of the shareholders.

Governance

Report of the Directors

The Directors of the Company and its subsidiaries (together, the 'Group') present their report and the audited financial statements of the Group for the year ended 31 March 2017. The Company is incorporated in Guernsey, Channel Islands under The Companies (Guernsey) Law, 2008 ('Companies Law').

Results and Dividends

The results for the year under review are set out in the attached financial statements.

During the year the Company has declared and paid the following interim dividends to its ordinary shareholders in accordance with the solvency test (contained in the Companies Law):

Dividend For Quarter	Date Paid	Rate
31 March 2016	31 May 2016	0.62 pence per share
30 June 2016	31 August 2016	0.62 pence per share
30 September 2016	2 December 2016	0.62 pence per share
31 December 2016	28 February 2017	0.62 pence per share

Subject to the solvency test provided for in the Companies Law being satisfied, all dividends are declared and paid as interim dividends. The Directors do not therefore recommend a final dividend. A dividend for the quarter ended 31 March 2017 of 0.62 pence per share ('pps') was declared on 26 April 2017 and paid on 31 May 2017.

The split of dividend between Property Income Distribution (PID) and Ordinary dividend for the year ending 31 March 2017 is 1.52pps and 0.96pps respectively.

Share Capital

As at 31 March 2017 and the date of this Report, the Company has 565,664,749 (2016: 565,664,749) Ordinary Shares in issue of which 47,151,340 Ordinary Shares (representing 8.3% of the Company's total issued share capital) are held in treasury (2016: 47,151,340). The total number of voting rights of the Company is 518,513,409 (2016: 518,513,409) and this figure may be used by shareholders as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change in their interest in the Company, under the Disclosure Guidance and Transparency Rules.

Investment Manager

During the year under review, the Board considered the services provided by the Investment Manager. The Board continues to consider that the Investment Manager provides the Company with considerable investment management resource and experience, thereby enhancing the ability of the Company to achieve its investment objective. The Board therefore considers that the Investment Manager's continued appointment under the terms of the current investment management agreement, further details are set out below, is in the interest of shareholders.

The Investment Manager receives a fee of 1.1% per annum of the Company's NAV for providing investment management and accounting services. The fee is payable monthly in arrears. There is no performance fee. The investment management agreement can be terminated by either party on not less than nine months' written notice or on immediate notice in the event of certain breaches of its terms or the insolvency of either party.

The Company has appointed the Investment Manager as the AIFM under the AIFMD. There is no additional fee paid to the Investment Manager for this service.

Administration

The Board appointed Northern Trust International Fund Administration Services (Guernsey) Limited as the administrator to the Company (the 'Administrator'). The Administrator is entitled to an annual fee equal to £120,000.

Northern Trust (Guernsey) Limited has been appointed by the Board to provide depositary services, as required under the AIFMD, at an annual fee of £40,000.

Going Concern and Viability

Going concern

The Directors have examined significant areas of possible financial risk and have reviewed cash flow forecasts and compliance with the debt covenants, in particular the loan to value covenant and interest cover ratio. They have not identified any material uncertainties which would cast significant doubt on the Group's ability to continue as a going concern for a period of not less than twelve months from the date of the approval of the financial statements. The Directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future.

After due consideration, the Board believes it is appropriate to adopt the going concern basis in preparing the financial statements.

Viability statement

The 2014 UK Corporate Governance Code requires the Board to make a Viability Statement which considers the Company's current position and principal risks and uncertainties together with an assessment of future prospects.

The Board conducted this review over a five year time horizon which is selected to match the period over which the Board monitors and reviews its financial performance and forecasting. The Manager prepares five year total return forecasts for the UK commercial real estate market. The Manager uses these forecasts as part of analysing acquisition opportunities as well as for its annual asset level business planning process. At the annual Manager Visit the Board receives an overview of the asset level business plans which the Manager uses to assess the performance of the underlying portfolio and therefore make investment decisions such as disposals and investing capital expenditure. The Company's principal borrowings are for a weighted duration of nine years and the average unexpired lease term, assuming all tenants vacate at the earliest opportunity, is seven years.

The Board's assessment of viability considers the principal risks and uncertainties faced by the Company, as detailed on pages 23 to 24 of the Strategic Report, which could negatively impact its ability to deliver the investment objective, strategy, liquidity and solvency of the Company.

This includes considering a cash flow model prepared by the Manager that analyses the sustainability of the Company's cash flows, dividend cover, compliance with bank covenants, REIT compliance and general liquidity requirements for a five year period. These metrics are subject to a sensitivity analysis which involves flexing a number of the main assumptions including macro economic scenarios, delivery of specific asset management initiatives, rental growth and void/reletting assumptions. The Board also review assumptions regarding capital recycling and the Company's ability to refinance or extend financing facilities.

Based on the assessment, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of its assessment.

Anti-Bribery Policy

The Board notes the implementation of the Bribery Act 2010 ('Bribery Act') in the United Kingdom. The Company continues to be committed to carrying out its business fairly, honestly and openly. To this end, it has undertaken a risk assessment of its internal procedures and the policies of the Company's main service providers which aim to prevent bribery being committed by Directors and persons associated with the Company on the Company's behalf and to ensure compliance with the Bribery Act.

Directors

The Directors of the Company together with their beneficial interest in the Company's ordinary share capital as at the date of this report are given below:

Director	Number of Ordinary Shares	Percentage (%)
Lorraine Baldry	–	–
Graham Basham	–	–
Stephen Bligh	25,000	Less than 0.1
Keith Goulborn	34,880	Less than 0.1
Alastair Hughes	–	–

Substantial Shareholdings

As at 31 March 2017 the Directors were aware that the following shareholders each owned 3% or more of the issued Ordinary Shares of the Company.

	Number of Ordinary Shares	Percentage (%)
Investec Wealth and Investment	96,238,379	18.6
Schroder Investment Management Limited	82,172,461	15.9
Alliance Trust Savings Limited	34,432,982	6.6
Premier Fund Managers Limited	27,138,418	5.2
Transact (UK)	22,879,702	4.4
BlackRock Inc	22,500,906	4.3
Brooks Macdonald Asset Management	15,791,722	3.1

Independent Auditors

KPMG Channel Islands Limited ('KPMG') have expressed their willingness to continue as auditors to the Company (the 'Auditors') and resolutions proposing their reappointment and authorising the Directors to determine their remuneration for the coming year will be put to shareholders at the annual general meeting ('AGM') of the Company.

The Audit Committee's evaluation of the Auditors is described in the Report of the Audit Committee on page 41.

Disclosure of Information to Auditors

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

Status for Taxation

The Director of Income Tax in Guernsey has granted the Company exemption from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and the income of the Company may be distributed or accumulated without deduction of Guernsey Income Tax. Exemption under the above mentioned Ordinance entails the payment by the Company of an annual fee of £1,200.

During the year, the Company's properties have been held in various subsidiaries and associates, the majority of which are subject to UK Income Tax. In each instance any tax due is computed after deduction of debt financing costs and other allowances as appropriate.

Following 96.5% of shareholders voting in favour of the special resolution to convert to a Real Estate Investment Trust ('REIT'), the Company entered the UK REIT regime on 1 May 2015.

Shareholders who are in any doubt concerning the taxation implications of a REIT should consult their own tax advisers.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as issued by the IASB and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Law. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Responsibility Statement of the Directors in respect of the Consolidated Annual Report

We confirm to the best of our knowledge:

– The financial statements, prepared in accordance with International Financial Reporting Standards as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole and comply with the Companies Law;

– The Strategic Report on pages 7 to 25 and Governance Report on pages 26 to 43 include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties it faces; and

– The Annual Report and Consolidated Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Responsibility for electronic publication

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

THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt about the contents of this section of the document or the action you should take, you are recommended to seek immediately your own personal financial advice from an appropriately qualified independent adviser authorised pursuant to the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all your shares in the Company, please send this document (including the Notice of AGM) and the accompanying documents at once to the purchaser, transferee, or to the stockbroker, bank or other person through whom the sale or transfer was effected for onward transmission to the purchaser or transferee. However, such documents should not be distributed, forwarded or transmitted in or into the United States, Canada, Australia or Japan or into any other jurisdiction if to do so would constitute a violation of applicable laws and regulations in such other jurisdiction.

The Notice of the Annual General Meeting of Shareholders is set out on pages 77 to 78. The following paragraphs explain the resolutions to be put to the AGM.

Ordinary Resolutions 1 – 9

Ordinary Resolutions 1-9 are being proposed to approve the ordinary business of the Company to: (i) consider and approve the consolidated annual report and the remuneration report of the Company for the year ended 31 March 2017; (ii) re-elect the Directors; and (iii) re-appoint the Auditors and to authorise the Directors to determine the Auditor's remuneration.

Ordinary Resolution 10 Approval of the Company's Dividend Policy

The Company's dividend policy is to pay a sustainable level of quarterly dividends to shareholders (in arrears). It is intended that successful execution of the Company's strategy will enable a progressive dividend policy.

The Company's objective and strategy, outlined in the Chairman's Statement and Investment Manager's Report, is to deliver sustainable net income growth in due course through active management of the underlying portfolio. Any future decision to increase the dividend will be determined by factors including whether it is sustainable over the long-term, current and anticipated future market conditions, rental values and the potential impact of any future debt refinancing.

As the Company is a REIT, the Board must also ensure that dividends are paid in accordance with the requirements of the UK REIT regime (pursuant to part 12 of the UK Corporation Tax Act 2010) in order to maintain the Company's REIT status. Shareholders should note that the dividend policy is not a profit forecast and dividends will only be paid to the extent permitted in accordance with the Companies Law and the UK REIT regime.

The Board acknowledges that the dividend policy is fundamental to shareholders income requirements as well as the Company's investment and financial planning. Therefore, in accordance with the principles of good corporate governance and best practice relating to the payment of interim dividends without the approval of a final dividend by a company's shareholders, a resolution to approve the Company's dividend policy will be proposed annually for approval.

Special Resolution 1 Authority to repurchase shares

The Company did not buy back any ordinary shares during the year ended 31 March 2017. The Directors currently have authority to repurchase up to 14.99% of the Company's ordinary shares and will seek annual renewal of this authority from shareholders at the AGM. The Board monitors the level of the ordinary share price compared to the NAV per ordinary share. Where appropriate on investment grounds, the Company may from time to time repurchase its ordinary shares, but the Board recognises that movements in the ordinary share price, premium or discount, are driven by numerous factors, including investment performance, gearing and market sentiment. Accordingly, it focuses its efforts principally on addressing sources of risk and return as the most effective way of producing long term value for Shareholders. Any repurchase of ordinary shares will be made subject to Guernsey law and within any guidelines established from time to time by the Board. The making and timing of any repurchases will be at the absolute discretion of the Board, although the Board will have regard to the effects of any such repurchase on long-term shareholders in exercising its discretion.

Purchases of ordinary shares will only be made through the market for cash at prices below the prevailing NAV of the ordinary shares (as last calculated) where the Directors believe such purchases will enhance shareholder value. Such purchases will also only be made in accordance with the Listing Rules and the Disclosure Guidance and Transparency Rules which provide that the maximum price to be paid for each ordinary share must not be more than the higher of: (i) 5 per cent. above the average mid-market value of the ordinary shares for the five business days before the purchase is made; and (ii) that stipulated by the regulatory technical standards adopted by the European Union pursuant to the Market Abuse Regulation from time to time. Any ordinary shares purchased under this authority may be cancelled or held in treasury.

This authority will expire at the conclusion of the annual general meeting of the Company to be held in 2018 unless varied, revoked or renewed prior to such date by ordinary resolution of the Company.

Special Resolution 2 Authority to disapply pre-emption rights

The Directors require specific authority from shareholders before allotting new ordinary shares for cash (or selling shares out of treasury for cash) without first offering them to existing shareholders in proportion to their holdings. Special Resolution 2 empowers the Directors to allot new ordinary shares for cash or to sell ordinary shares held by the Company in treasury for cash, otherwise than to existing shareholders on a pro-rata basis, up to such number of ordinary shares as is equal to 10% of the ordinary shares in issue (including treasury shares) on the date the resolution is passed. No ordinary shares will be issued without pre-emption rights for cash (or sold out of treasury for cash) at a price less than the prevailing net asset value per ordinary share at the time of issue or sale from treasury.

The Directors do not intend to allot or sell ordinary shares other than to take advantage of opportunities in the market as they arise and will only do so if they believe it to be advantageous to the Company's existing shareholders and when it would not result in any dilution of the net asset value per ordinary share (owing to the fact that no ordinary shares will be issued or sold out of treasury for a price less than the prevailing net asset value per ordinary share).

This authority will expire on the earlier of the conclusion of the annual general meeting of the Company to be held in 2018 or on the expiry of 15 months from the passing of this Special Resolution 2.

The Board considers that the resolutions to be proposed at the AGM are in the best interests of the Company's shareholders as a whole. The Board therefore recommends unanimously to shareholders that they vote in favour of each of the resolutions, as they intend to do in respect of their own beneficial holdings.

Lorraine Baldry
Chairman
23 May 2017

Stephen Bligh
Director
23 May 2017

Remuneration Report

The Company's Articles currently limit the aggregate fees payable to the Board of Directors to a total of £250,000 per annum. Subject to this overall limit, it is the Board's policy to determine the level of Directors' fees having regard to the fees payable to non-executive Directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities, and time committed to the Company's affairs.

Directors receive a base fee of £30,000 per annum, and the Chairman receives £50,000 per annum. The Chairman of the Audit Committee and the Senior Independent Director receive an additional fee of £5,000 respectively. The fees were reviewed by an external consultant during 2015, which led to the recommendation adopted and current level of fees taking effect from 1 October 2015.

No Director past or present has any entitlement to pensions, and the Company has not awarded any share options or long-term performance incentives to any of them. No element of Directors' remuneration is performance-related. There were no payments to former directors for loss of office.

The Board believes that the principles of Section D of the UK Corporate Governance Code relating to remuneration do not apply to the Company, except as outlined above, as the Company has no executive Directors.

No Director has a service contract with the Company. However, each of the Directors has a letter of appointment with the Company. The Directors' letters of appointment, which set out the terms of their appointment, are available for inspection at the Company's registered office address during normal business hours and will be available for inspection at the AGM.

All Directors are appointed for an initial term covering the period from the date of their appointment until the first AGM thereafter, at which they are required to stand for re-election in accordance with the Articles. When recommending whether an individual Director should seek re-election, the Board will take into account the provisions of the UK Corporate Governance Code, including the merits of refreshing the Board and its Committees.

The Board has approved a policy that all Directors will stand for re-election annually.

Performance

The performance of the Company is described on page 23 in the Business Model and Strategy Report.

The following amounts were paid by the Company for services as non-executive Directors:

Director	31 March 2017	31 March 2016
Lorraine Baldry (Chairman)	50,000	48,000
Keith Goulborn**	35,000	33,000
John Frederiksen*	30,000	30,500
Stephen Bligh#	35,000	28,186
Graham Basham##	30,000	16,370
Alison Ozanne*	–	5,500
Harry Dick-Cleland*#	–	18,795
David Warr*	–	16,538
Alastair Hughes*	–	–
Total	**180,000**	**196,889**

* Member of the Transaction Committee. Following the UK REIT conversion on 1 May 2015, the Transaction Committee was dissolved. Alison Ozanne retired on 28 April 2015. John Frederiksen retired on 25 April 2017. Alastair Hughes was appointed on 26 April 2017.

** Senior Independent Director.

Chairman of the Audit Committee (Harry Dick-Cleland retired 11 September 2015 and Stephen Bligh was appointed).

Graham Basham was a director on a majority of the subsidiary companies, for which an additional £21,000 was paid to his employer, Active Group, during the year for his service. Mr Basham owns 15% of Active Group.

Lorraine Baldry
Chairman
23 May 2017

Stephen Bligh
Director
23 May 2017

Corporate Governance

The Directors are committed to maintaining high standards of corporate governance. Insofar as the Directors believe it to be appropriate and relevant to the Company, it is their intention that the Company should comply with best practice standards for the business carried on by the Company.

The Guernsey Financial Services Commission (the 'GFSC') states in the Finance Sector Code of Corporate Governance (the 'Code') that companies which report against the UK Corporate Governance Code or the Association of Investment Companies Code of Corporate Governance (the 'AIC Code') are deemed to meet the Code, and need take no further action.

The Board has considered the principles and recommendations of the AIC Code by reference to the AIC Corporate Governance Guide for investment companies (the 'AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders. Copies of the AIC Code and the AIC Guide can be found at www.theaic.co.uk

It is the Board's intention to continue to comply with the AIC Code.

Statement of Compliance

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to:

- the role of the chief executive;
- executive directors' remuneration; and
- internal audit function.

For the reasons set out above the Board considers that these provisions are not relevant to the Company, being an externally managed investment company. The provision in relation to the internal audit function is referred to in the Audit Committee report. The Company has therefore not reported further in respect of these provisions.

Role of the Board

The Board has determined that its role is to consider and determine the following principal matters which it considers are of strategic importance to the Company:

- The overall objectives of the Company as described under the paragraph above headed 'Investment Policy and Strategy' and the strategy for fulfilling those objectives within an appropriate risk framework in light of market conditions prevailing from time to time;
- The capital structure of the Company including consideration of an appropriate policy for the use of borrowings both for the Company and in any joint ventures in which the Company may invest from time to time;
- The appointment of the Investment Manager, Administrator and other appropriately skilled service providers and to monitor their effectiveness through regular reports and meetings; and
- The key elements of the Company's performance including NAV growth and the payment of dividends.

Board Decisions

The Board makes decisions on, among other things, the principal matters set out under the paragraph above headed 'Role of the Board'. Issues associated with implementing the Company's strategy are generally considered by the Board to be non-strategic in nature and are delegated either to the Investment Manager or the Administrator, unless the Board considers there will be implementation matters significant enough to be of strategic importance to the Company and should be reserved to the Board. Generally these are defined as:

- large property decisions affecting 10% or more of the Company's assets;
- large property decisions affecting 5% or more of the Company's rental income; and
- decisions affecting the Company's financial borrowings.

Board performance evaluation

As in prior years, the Board has undertaken a review of its performance. The review concluded that the Board was operating effectively and that the Directors had the breadth of skills required to fulfil their roles.

Corporate Governance continued

Non-Executive Directors, rotation of Directors and Directors' tenure

The UK Corporate Governance Code recommends that Directors should be appointed for a specified period. The Board has resolved in this instance that Directors' appointments need not comply with this requirement as all Directors are non-executive and their respective appointments can be terminated at any time without penalty. The Board has approved a policy that all Directors will stand for re-election annually.

The Board considers that independence is not compromised by length of tenure and that it has the appropriate balance of skills, experience and length of service. Independent non-executive Directors who have served for nine years will only be asked to stand for re-election if the Board remains satisfied both with the Director's performance and that nine years' continuous service does not compromise the Director's continuing independence.

The Board has determined that all the Directors are independent of the Investment Manager. Keith Goulborn is the Senior Independent Director.

Board composition, changes and diversity

The Board currently consists of five non-executive Directors. The Chairman is Lorraine Baldry. The biography of each of these Directors is set out on page 26 of the report. The Board considers each of the Directors to be independent notwithstanding that Keith Goulborn has served for 13 years. It is expected that Mr Goulborn will retire from the Board after a period of handover to Alastair Hughes. The independence of each Director is considered on a continuing basis.

The Board is satisfied that it is of sufficient size with an appropriate balance of skills and experience, independence and knowledge of both the Company and the wider investment company sector, to enable it to discharge its respective duties and responsibilities effectively and that no individual or group of individuals is, or has been, in a position to dominate decision making. When a vacancy arises the board selects the best candidate taking into account the skills and experience required, while taking into consideration board diversity as part of a good corporate governance culture.

Board Committees

The Board has delegated certain of its responsibilities to its Audit and Nomination Committees. Each of these committees has formal terms of reference established by the Board, which are available on the Company's website.

Audit Committee

Details of the Audit Committee are set out in the Report of the Audit Committee.

Nomination Committee

The role of the Nomination Committee, chaired by Keith Goulborn, is to consider and make recommendations to the Board on its composition so as to maintain an appropriate balance of skills, experience and diversity, including gender, and to ensure progressive refreshing of the Board. On individual appointments, the Nomination Committee leads the process and makes recommendations to the Board.

Before the appointment of a new director, the Nomination Committee prepares a description of the role and capabilities required for a particular appointment. While the Nomination Committee is dedicated to selecting the best person for the role, it aims to promote diversification and the Board recognises the importance of diversity. The Board agrees that its members should possess a range of experience, knowledge, professional skills and personal qualities as well as the independence necessary to provide effective oversight of the affairs of the Company.

The Nomination Committee considered the appointment of a new non-executive director during the year under review. The Nomination Committee was able to produce a very good shortlist of candidates which obviated the need to advertise.

To discharge its duties, the members of the Nomination Committee met on one occasion to consider the composition and balance of the Board, Board succession planning and the selection of suitable candidates as Directors, subsequent to which the appointment of Mr Alastair Hughes was recommended to the Board for approval.

Remuneration Committee

As all the Directors are non-executives, the Board has resolved that it is not necessary to have a Remuneration Committee.

Board Meetings and Attendance

The Board meets at least four times each year. Additional meetings are also arranged as required and regular contact between Directors, the Investment Manager and the Administrator is maintained throughout the year. Representatives of the Investment Manager and Company Secretary attend each Board meeting and other advisers also attend when requested to do so by the Board. At least once a year the Board carries out a site visit to properties owned by the Company.

Attendance records for the four quarterly Board meetings and two six-monthly Audit Committee meetings during the year under review are set out in the table below.

	Board	Audit Committee
Lorraine Baldry (Chairman)	4/4	2/2
Keith Goulborn	4/4	2/2
John Frederiksen	3/4	1/2
Graham Basham	4/4	2/2
Stephen Bligh	4/4	2/2
No. of meetings during the year	4	2

In addition to its regular quarterly meetings, the Board met on five other occasions during the year, although it was not possible for all Directors to attend all such additional meetings.

Information flows

All Directors receive, in a timely manner, relevant management, regulatory and financial information and are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and internal controls. The Board receives and considers reports regularly from the Investment Manager and other key advisers and ad hoc reports and information are supplied to the Board as required.

Data protection and security

The Board requires its Investment Manager and Administrator to have robust information security and data protection environment in place. This is reviewed with the Investment Manager at the annual Manager visit day. All Board communication of a confidential nature is managed via a secure Board application.

Directors' and Officers' Liability Insurance

During the year, the Company has maintained insurance cover for its Directors under a liability insurance policy.

Relations with Shareholders

The Board believes that the maintenance of good relations with both institutional and retail shareholders is important for the long-term prospects of the Company. The Board receives feedback on the views of shareholders from its corporate broker, the Investment Manager and from the Chairman. Through this process the Board seeks to monitor the views of shareholders and to ensure an effective communication programme.

The Board believes that the Annual General Meeting provides an appropriate forum for investors to communicate with the Board, and encourages participation. The Notice of Annual General Meeting on page 77 sets out the business of the Annual General Meeting to be held on 8 September 2017.

Governance
Sustainability Report

The Board and the Investment Manager believe that corporate social responsibility is key to long term future business success.

The Investment Manager states in its Responsible Real Estate Investment Report:

'The changes in markets as a consequence of environmental and social issues are simply investment risks that Schroders must understand to protect our clients' assets from depreciation.

Offering occupiers resource-efficient and flexible space is critical to ensure our investments are fit for purpose and sustain their value over the long term. As a landlord, we have the opportunity to help reduce running costs for our occupiers, increase employee productivity and well-being, and contribute to the prosperity of a location through building design and management. Ignoring these issues when considering asset management and investments would risk the erosion of income and value as well as missing opportunities to enhance investment returns.

Through its construction, use and demolition, the built environment accounts for more than one-third of global energy use and is the single largest source of greenhouse gas emissions in many countries.

The industry's potential to cost-efficiently reduce emissions and the consumption of depleting resources, combined with the political imperative to tackle issues such as climate change, means the property sector will remain a prime target for policy action. This presents new challenges and opportunities for the real estate industry with profound implications for both owners and occupiers.

A good investment strategy must incorporate environmental and social issues alongside traditional economic considerations. At Schroders we believe a complete approach should be rewarded by improved investment decisions and performance.'

Environmental Management System

This year Schroder Real Estate, led by its Head of Sustainability, has continued to work with sustainability and energy management consultancy Evora Global to develop its Environmental Management System ("EMS"). The EMS is aligned with the internationally recognised standard ISO 14001. The EMS provides the framework for how sustainability principles (environmental and social) are managed throughout all stages of its investment process including acquisition due diligence, asset management, property management provided by third parties, refurbishments and developments. Schroder Real Estate reviews its Sustainability Policy annually which is approved by the Investment Committee. Key aspects of the Policy and its objectives are set out below.

Property Manager Sustainability Requirements

Property managers play an integral role in supporting the sustainability program. Schroder Real Estate has established a set of Sustainability Requirements for Property Managers to adhere to in the course of delivering their property management services. This includes a set of key performance indicators to help improve the property managers sustainability related services to the Company and which are assessed on a six-monthly and annual basis at December and June respectively. Schroder Real Estate is pleased to report that MJ Mapp, its principal property manager, has met the target set for the six month reporting period to December 2016. The first annual assessment will be for the year to June 2017.

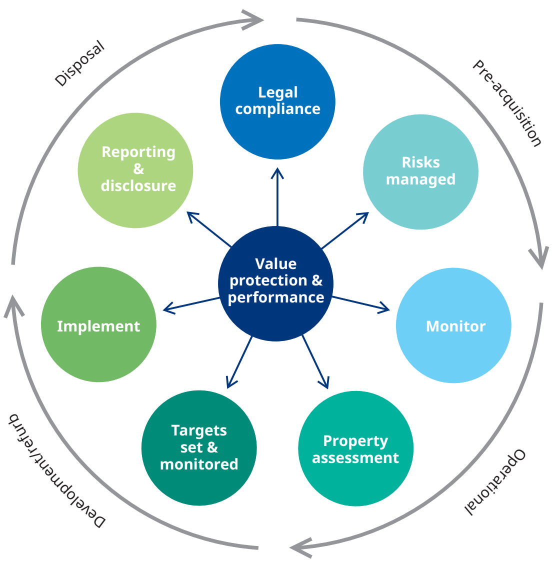
Energy

Energy is an important element of the landlord's responsibilities for buildings where the landlord has operational control. Schroder Real Estate has continued to develop the monitoring of the Company's energy usage and efficiency as well as water and waste with analysis and reporting on a quarterly and annual basis.

In the first quarter of 2016 Schroder Real Estate introduced an energy reduction target of 6% across its UK managed assets over a two year period to March 2018 from a baseline of 2015/16 reporting years. Alongside this Schroder Real

Environmental Management System

Applies to the Investment Management Lifecycle



Estate continues to work with Evora Global and MJ Mapp to achieve further reductions on a cost effective basis. As part of this all managed assets within the Company have been reviewed and sustainability objectives identified for 2016/2017. Improving energy efficiency and reducing energy consumption will benefit tenants' occupational costs and should help tenant retention and attracting new tenants. Schroder Real Estate can report for the 2016 calendar year that the managed assets within the Company saw an energy reduction for landlord procured energy of 1% on a like for like basis. Progress against this target will be reported on an annual basis.

Energy Performance Certificates ("EPC") for the portfolio are regularly reviewed in light of the 2015 Minimum Energy Efficiency Standards (England and Wales) legislation. Schroder Real Estate is actively managing the potential risk of this legislation to the portfolio. This legislation brings in a minimum EPC standard of "E" for new leases and renewals for non domestic buildings from 1 April 2018; this minimum standard applies to all leases from 1 April 2023.

The EPC profile for the portfolio is set out within the EPRA Sustainability Reporting Performance Measures.

Refurbishments and green building certifications

Schroder Real Estate seeks to deliver developments and refurbishments to sustainable standards and deliver good performance against building certifications, including EPCs and BREEAM (the Building Research Establishment Environmental Assessment Methodology an environmental assessment method and rating system for buildings). Standards required are set for each project in context for the asset and Schroder Real Estate's guiding principles for projects of minimum D rated EPCs and BREEAM Very Good.

Water

Schroder Real Estate monitors water consumption where the landlord has supply responsibilities and encourages asset-level improvements. Where the Company had supply responsibilities, a 10% reduction in like for like water consumption was achieved between the calendar years 2015 and 2016.

Waste

Waste management and disposal activities are responsible for considerable negative environmental and societal impact. As a result, waste should be minimised and disposal should be as sustainable as possible. To this end, Schroder Real Estate has set an objective to send zero waste to landfill and to achieve optimal recycling. During 2016 the Company had over 99% diversion from landfill.

EPRA Sustainability Reporting Performance Measures

This year the Company Report includes a Sustainability Report setting out environmental performance indicator data for the portfolio. The report is aligned with EPRA Best Practices Recommendations on Sustainability Reporting 2014. The report is included in the Company EPRA Performance Measures report.

Global Real Estate Sustainability Benchmark

The Company participated in the annual Global Real Estate Sustainability Benchmark ("GRESB") survey for the Company for the first time in 2016. GRESB is the dominant global standard for assessing Environmental Social and Governance performance for real estate funds and companies.

Schroder Real Estate intends to participate in the survey for the Company in 2017 with the objective of achieving a Green Star rating: this rating is achieved where scores for the two dimensions of Management and Policy and Implementation and Measurement are at least 50 out of 100 points.

Carbon Reduction Commitment

The Company's portfolio did not require registration for Phase II of the CRC Scheme and the purchase of allowances. It was announced in the March 2016 Budget that the CRC Scheme will not continue beyond Phase II.

Energy Savings Opportunity Scheme

The Company did not qualify for participation in the Energy Savings Opportunity Scheme.

Greenhouse Gas Emissions

The Company is not incorporated in the UK and therefore does not fall within the requirements for mandatory reporting of greenhouse gas emissions for UK quoted companies which came into effect from 1 October 2013. However greenhouse gas emissions are reviewed annually and the Company includes a report on a voluntary basis (as recommended by DEFRA guidance) within this financial year report. The Company's report on greenhouse gas emissions can be found in the EPRA Sustainability Reporting Performance Measures report: greenhouse gas emissions reporting is a requirement for EPRA Best Practices Recommendations on Sustainability Reporting 2014.

The Board and its advisors will continue to monitor requirements and guidance in relation to managing and reporting environmental matters and developments in legislation.

Health, wellbeing and productivity

The real estate industry is beginning to gain a new perspective on the importance of the built environment on health, wellbeing and productivity. A number of schemes have emerged which seek to identify the impacts of spaces and places on people and provide new ways of certifying buildings. Case studies demonstrate the benefit of reflecting wellbeing in good design. Schroder Real Estate is working to embed this aspect into its investment process.

Stakeholder Engagement and Community

Schroder Real Estate seeks active engagement with tenants to ensure a good occupational experience to help retain and attract tenants. As the day to day relationship is with the property manager, the Property Manager Sustainability Requirements include a key performance indicator on tenant engagement.

Schroder Real Estate believes in the importance of understanding a building's relationship with the community and its contribution to the wellbeing of society. Positively impacting on local communities helps create successful places that foster community relationships, contribute to local prosperity, attract building users and ultimately, lead to better, more resilient investments. Schroder Real Estate looks to understand and develop the community relationship to ensure investments provide sustainable social solutions for the long-term.

Industry Participation

Schroder Real Estate is a member of a number of industry bodies including the European Public Real Estate Association (EPRA), INREV (European Association for Investors in Non-Listed Real Estate Vehicles), British Council for Offices and the British Property Federation. It was a founding member of the UK Green Building Council in 2007 and in 2017 became a member of the Better Buildings Partnership and an Investor Member of GRESB.

Employees

The Company is an externally managed real estate investment trust and has no direct employees. Schroder Real Estate is part of Schroders plc which has responsibility for the employees that support the Company. Schroders believes diversity of thought and an inclusive workplace are key to creating a positive environment for their people. Schroder Real Estate's real estate team have a sustainability objective within their annual objectives.

Further information on Schroders' principles in relation to people including diversity, gender pay gap, values, employee satisfaction survey, wellbeing and retention can be found at http://www.schroders.com/annualreport2016/strategy-business-review/our-people.html

Corporate Responsibility

Schroders' commitment to corporate responsibility is to ensure that its commitment to act responsibly, support clients, deliver value to shareholders and make a wider contribution to society is embedded across its business in all that it does.

Full information on Schroders Corporate Responsibility approach including its economic contribution, environmental impacts and community involvement, can be found at http://www.schroders.com/annualreport2016/strategy-business-review/our-impact/corporate-responsibility.html

Slavery and Human Trafficking Statement

The Company is not required to produce a statement on slavery and human trafficking pursuant to the Modern Slavery Act 2015 as it does not satisfy all the relevant triggers under that Act that required such a statement.

Schroder Real Estate, the Investment Manager to the Company, is part of Schroders plc and whose statement on Slavery and Human Trafficking has been published in accordance with the Modern Slavery Act 2015 (the 'Act'). It sets out the steps that Schroders plc and other relevant group companies ('Schroders' or the 'Group') have taken during 2016 and will be taking in 2017 to prevent slavery and human trafficking from taking place in its supply chains or any part of its business. Schroder Real Estate is part of the Schroders Group.

Schroders' statement can be found at www.schroders.com/slavery

Governance

Report of the Audit Committee

Composition

The Audit Committee is chaired by Stephen Bligh with Lorraine Baldry, Keith Goulborn, Graham Basham and Alastair Hughes (who replaced John Frederiksen) as members. The Board considers that Stephen Bligh's professional experience makes him suitably qualified to chair the Audit Committee.

Responsibilities

The Audit Committee ensures that the Company maintains the highest standards of integrity in financial reporting and internal control. This includes responsibility for reviewing the half-year and annual financial statements before their submission to the Board. In addition, the Audit Committee is specifically charged under its terms of reference to advise the Board, *inter alia*, on the terms and scope of the appointment of the Auditors, including their remuneration, independence, objectivity and reviewing with the Auditors the results and effectiveness of the audit and the interim review.

Work of the Audit Committee

The Audit Committee meets no less than twice a year and, if required, meetings are also attended by the Investment Manager, the Administrator and the Auditor. During the year under review, the Audit Committee met on two occasions to consider:

- The contents of the interim and annual financial statements and to consider whether, taken as a whole, they were fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's performance, business model and strategy;
- The effectiveness of the Company's system of internal control;
- The external Auditor's terms of appointment, audit plan, half year review findings and year-end report;
- The management representation letter to the Auditors;
- The effectiveness of the audit process;
- The independence, effectiveness and objectivity of the external Auditor;
- The risk assessment of the Company; and
- Compliance with the UK REIT regime.

Significant matters considered by the Audit Committee in relation to the financial statements

Matter	Action
Property Valuation Property valuation is central to the business and is a significant area of judgement. Although valued by an independent firm of valuers, Knight Frank LLP and BNP Paribas Real Estate UK for the joint ventures, the valuation is inherently subjective. Errors in valuation could have a material impact on the Company's net asset value.	The Audit Committee reviewed the outcomes of the valuation process throughout the year and discussed the detail of each quarterly valuation with the Investment Manager at the Board meetings. The chair of the Audit Committee, together with Keith Goulborn, met with Knight Frank LLP and BNP Paribas Real Estate UK outside the formal meeting to discuss the process, assumptions, independence and communication with the Investment Manager. The valuers also gave a presentation on their valuations at the year end to the full Audit Committee. Furthermore, as this is the main area of audit focus, the Auditors contact the valuers directly and independently of the Investment Manager. The Audit Committee receives detailed verbal and written reports from KPMG on this matter as part of their interim and year end reporting to the Audit Committee. On the basis of the above, the Audit Committee concluded that the valuations were suitable for inclusion in the financial statements.

Report of the Audit Committee continued

Internal Control

The UK Corporate Governance Code requires the Board to conduct, at least annually, a review of the adequacy of the Company's systems of internal control, and to report to shareholders that it has done so. The Audit Committee, on behalf of the Board, regularly reviews a detailed 'Risk Map' identifying significant strategic, investment-related, operational and service provider related risks and ensures that risk management and all aspects of internal control are reviewed at least annually.

The Company's system of internal controls is substantially reliant on the Investment Manager's and the Administrator's own internal controls and internal audit processes due to the relationships in place.

Although the Board believes that it has a robust framework of internal controls in place, this can provide only reasonable and not absolute assurance against material financial misstatement or loss and is designed to manage, not eliminate, risk. No significant issues were identified from the internal controls review.

Internal Audit

The Audit Committee considered the need for an internal audit function and concluded that this function is provided by Schroder's Group Internal Audit reviews, which cover the functions provided by the Investment Manager, Schroder Real Estate Investment Management Limited.

In addition, the Investment Manager prepares an ISAE 3402 / AAF 01/06 Internal Controls Report which includes the Company within the scope of the review. This report is reviewed by PricewaterhouseCoopers LLP (PWC) which issued an unqualified opinion for the year ended December 2016. The Audit Committee has considered both the Investment Manager's internal controls report and the review by PWC.

External Auditor remuneration, independence and effectiveness

Annually the Audit Committee considers the remuneration and independence of the external auditor. The Committee recommends the remuneration of the external auditor to the Board and keeps under review the ratio of audit to non-audit fees to ensure that the independence and objectivity of the external auditor are safeguarded.

Effectiveness of the independent audit process

The Audit Committee evaluated the effectiveness of the independent audit firm and process prior to making a recommendation on its re-appointment at the forthcoming Annual General Meeting. As part of the evaluation, the Committee considered feedback from the Investment Manager on the audit process and the half year and year end report from the Auditor, which details the auditor's compliance with regulatory requirements, on safeguards that have been established and their own internal quality control procedures. The Audit Committee had discussions with the audit partner on audit planning, accounting policies and audit findings, and met the audit partner both with and without representatives of the Investment Manager present. The Chairman of the Audit Committee also had informal discussions with the audit partner during the course of the year. The Committee is satisfied with the effectiveness of the audit.

The effective performance by the Investment Manager's finance team and by the Auditors has enabled the Company to bring forward the announcement of its audited results by nearly two months over the past two years.

The Audit Quality Review Team of the Financial Reporting Council performed a review of the audit of the Company for the year ended 31 March 2015 and in the opinion of the Audit Committee the outcome was satisfactory, which provides further comfort on the effectiveness of KPMG.

The current audit partner has now come to the end of her five year term and her successor has been considered and approved by the Audit Committee.

Review of auditor appointment

KPMG has been the Group's Auditor since inception in 2004. In order to benchmark KPMG's service quality, effectiveness and value for money, together with adopting the UK Corporate Governance code on audit tendering and rotation, the Audit Committee conducted a formal tender process during May/June 2014. Three firms, including KPMG, were asked to participate in this process. Following this, a recommendation was made to the Audit Committee to retain KPMG as the Group's auditor.

The Company aims to review its external auditors in accordance with the EU Directive and Regulation on Audit Reform although this does not apply to a non-EU Company. The aim is for the next audit tender to take place before 2024 when a change in auditor would be required under current rules.

Non-audit services

In order to help safeguard the independence and objectivity of the auditor, the Audit Committee maintains a policy on the engagement of the external auditor to provide non-audit services. The Audit Committee's policy for the use of the external auditor for non-audit services recognises that there are certain circumstances where, due to KPMG's expertise and knowledge of the Company, it will often be in the best position to perform non audit services. Under the policy, the use of the external auditor for non-audit services is subject to pre-clearance by the Audit Committee. Clearance will not be granted if it is believed it would impair the external auditor's independence or where provision of such services by the Company's auditor is prohibited. Prior to undertaking any non-audit service, KPMG also completes its own independence confirmation processes which are approved by the Audit Partner.

During the year, the non-audit services fees paid to KPMG was £13,000. (2016: £96,000 in relation to the interim review and transaction due diligence performed on a property acquisition).

Independent auditor's report

to the members of Schroders Real Estate Investment Trust Limited

Opinions and conclusions arising from our audit

1. Our opinion on the Group financial statements is unmodified

We have audited the Group financial statements ("the financial statements") of Schroders Real Estate Investment Trust Limited for the year ended 31 March 2017 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes. In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; and
- Comply with the Companies (Guernsey) Law, 2008.

Overview		
Materiality: Group financial statements as a whole	£3.7m (2016: £3.7m) 0.8% (2016: 0.8%) of Gross Assets	
Coverage	100% (2016: 100%) of Gross Assets	
Risks of material misstatement vs 2016		
Recurring risks	Valuation of investment property held directly and indirectly	◄►

2. Our assessment of risks of material misstatement

The risks of material misstatement detailed in this section of this report are those risks that we have deemed, in our professional judgment, to have had the greatest effect on: the overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team. Our audit procedures relating to these risks were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of these risks, and we do not express an opinion on these individual risks.

In arriving at our audit opinion above on the financial statements, the risk of material misstatement that had the greatest effect on our audit, was as follows:

	The risk	Our response
Valuation of investment property held directly by the Group and indirectly through investment in joint ventures Investment property £366 million; 2016: £371 million Investment in joint ventures £77 million; 2016: £78 million *Refer to page 41 Audit Committee Report), page 52 (accounting policy) and page 57 (financial disclosures).*	The Group's direct property portfolio accounted for 74.8% of the Group's total assets as at 31 March 2017 and the investment in joint ventures accounted for a further 15.7% of total assets. The fair value of the direct and indirect investment properties at 31 March 2017 was assessed by the Board of Directors based on independent valuations prepared by the Group's and joint ventures' external property valuers. As highlighted in the Report of the Audit Committee the valuation of the combined property portfolio is a significant area of judgement and requires subjective assumptions to be made. Determination of the fair value of the direct and indirect investment properties is considered a significant audit risk due to the magnitude of the balance and the subjective nature of the valuation.	**Procedures to address this audit risk included those listed below:** **Controls evaluation** We tested the design, implementation and operating effectiveness of the relevant controls over the valuation including the information contained in the lease database for investment properties. **Evaluating Property Valuation specialist** We assessed the competence, capabilities and objectivity of the valuers for both the directly and indirectly held properties. We also assessed the independence of the valuers by considering the scope of their work and the terms of their engagement. **Evaluating inputs used in the valuations** We critically assessed the valuations prepared by the external property valuers by evaluating the appropriateness of the valuation methodologies and assumptions used, including undertaking discussions on key findings with the external valuers and challenging the assumptions used based on market information, with the assistance of our own real estate specialist. We compared a sample of key inputs to the valuation such as yields, occupancy and tenancy contracts for consistency with other audit findings and observable market evidence. **Consideration of accounting policies** We also considered the Group's investment property valuation policies and their application as described in the notes to the financial statements for compliance with International Financial Reporting Standards as issued by the IASB in addition to the adequacy of disclosures in Notes 1, 11 and 12 in relation to the fair value of the investment properties and investment in joint ventures.

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

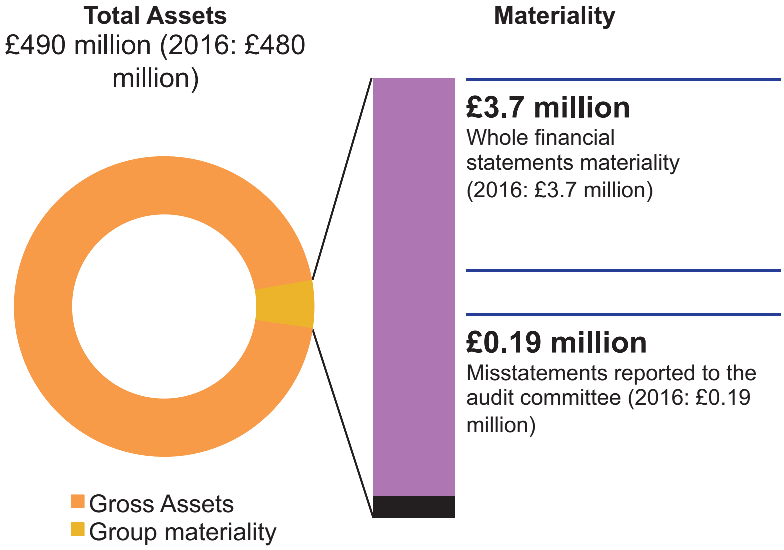
Materiality for the financial statements as a whole was set at £3.7 million determined with reference to a benchmark of Group Gross Assets of £490 million, of which it represents approximately 0.8% (2016: approximately 0.8%).

We reported to the audit committee any corrected or uncorrected identified misstatements exceeding £185,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our assessment of materiality has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

The Group team performed the audit of the Group as if it was a single operating entity based on the aggregated set of financial information for the Group. The audit was performed using the materiality level set out above and covered 100% of total Group rental income, Group profit before taxation, total Group assets and total Group liabilities.

Whilst the audit process is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather we plan the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant depth of work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the Responsible Individual, to subjective areas of the accounting and reporting process.



KPMG

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

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

- the directors' viability statement on page 28, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the Group's continuing in operation over the 5 years to 31 March 2022; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

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

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

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

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

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

- The Company has not kept proper accounting records; or
- The financial statements are not in agreement with the accounting records; or
- We have not received all the information and explanations, which to the best of our knowledge and beliefs are necessary for the purposes of our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement on page 35 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

6. The purpose of this report and restrictions on its use by persons other than the Company's members as a body

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

7. Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 30, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors.

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Deborah J Smith

for and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors
Glategny Court, Glategny Esplande, St Peters Port,
Guernsey, GY1 1WR

23 May 2017

KPMG

Financial Statements

Consolidated Statement of Comprehensive Income

	Notes	31/03/2017 £000	31/03/2016 £000
Rental income		24,079	24,740
Other income	4	1,283	383
Property operating expenses	5	(2,561)	(2,952)
Net rental and related income, excluding joint ventures		**22,801**	**22,171**
Share of net rental income in joint ventures		*3,273*	*3,257*
Net rental and related income, including joint ventures		*26,074*	*25,428*
Profit on disposal of investment property	11	**3,709**	**1,295**
Net valuation gain on investment property	11	**6,987**	**17,375**
Expenses			
Investment management fee	3	(3,391)	(3,227)
Valuers' and other professional fees		(1,256)	(1,247)
Administrators and accounting fee	3	(120)	(120)
Auditor's remuneration	6	(127)	(119)
Directors' fees	7	(180)	(197)
Other expenses	7	(356)	(594)
Total expenses		**(5,430)**	**(5,504)**
Net operating profit before net finance costs		**28,067**	**35,337**
Finance costs payable		(6,893)	(7,045)
Net finance costs		**(6,893)**	**(7,045)**
Share of net rental income in joint ventures	12	3,273	3,257
Share of valuation (loss)/gain in joint ventures	12	(1,603)	4,777
Profit before taxation		**22,844**	**36,326**
Taxation	8	–	(74)
Total profit and comprehensive income for the year attributable to the equity holders of the parent		**22,844**	**36,252**
Basic and diluted earnings per share	9	**4.4p**	**7.0p**

All items in the above statement are derived from continuing operations. The accompanying notes 1 to 24 form an integral part of the financial statements.

Financial Statements

Consolidated Statement of Financial Position

	Notes	31/03/2017 £000	31/03/2016 £000
Investment property	11	366,227	371,224
Investment in joint ventures	12	76,900	77,959
Non-current assets		**443,127**	**449,183**
Trade and other receivables	13	26,502	17,700
Cash and cash equivalents	14	20,127	12,763
Current assets		**46,629**	**30,463**
Total assets		**489,756**	**479,646**
Issued capital and reserves	15	359,042	349,058
Treasury shares	15	(26,452)	(26,452)
Equity		**332,590**	**322,606**
Interest-bearing loans and borrowings	16	148,266	147,994
Non-current liabilities		**148,266**	**147,994**
Trade and other payables	17	8,900	9,013
Taxation payable		–	33
Current liabilities		**8,900**	**9,046**
Total liabilities		**157,166**	**157,040**
Total equity and liabilities		**489,756**	**479,646**
Net Asset Value per Ordinary Share	18	64.1p	62.2p

The financial statements on pages 48 to 65 were approved at a meeting of the Board of Directors held on 23 May 2017 and signed on its behalf by:

Lorraine Baldry
Chairman

Stephen Bligh
Director

The accompanying notes 1 to 24 form an integral part of the financial statements.

Financial Statements

Consolidated Statement of Changes in Equity

	Notes	Share premium £000	Treasury share reserve £000	Revenue reserve £000	Total £000
Balance as at 31 March 2015		**219,090**	**(26,452)**	**106,576**	**299,214**
Total comprehensive income for the year		–	–	36,252	36,252
Dividends paid	10	–	–	(12,860)	(12,860)
Balance as at 31 March 2016		**219,090**	**(26,452)**	**129,968**	**322,606**
Total comprehensive income for the year		–	–	22,844	22,844
Dividends paid	10	–	–	(12,860)	(12,860)
Balance as at 31 March 2017		**219,090**	**(26,452)**	**139,952**	**332,590**

The accompanying notes 1 to 24 form an integral part of the financial statements.

Financial Statements

Consolidated Statement of Cash Flows

	31/03/2017 £000	31/03/2016 £000
Operating activities		
Profit for the year	22,844	36,252
Adjustments for:		
Profit on disposal of investment property	(3,709)	(1,295)
Net valuation gain on investment property	(6,987)	(17,375)
Share of profit of joint ventures	(1,670)	(8,034)
Net finance cost	6,893	7,045
Taxation	–	74
Operating cash generated before changes in working capital	**17,371**	**16,667**
(Increase)/decrease in trade and other receivables	(172)	2,487
(Decrease)/increase in trade and other payables	(113)	1,747
Cash generated from operations	**17,086**	**20,901**
Finance costs paid	(6,622)	(6,826)
Tax paid	(33)	(253)
Cash flows from operating activities	**10,431**	**13,822**
Investing Activities		
Proceeds from sale of investment property	15,485	2,200
Acquisition of investment property	–	(55,613)
Additions to investment property	(8,421)	(4,457)
Addition/acquisition of joint ventures	(544)	(390)
Net income distributed from joint ventures	3,273	3,257
Cash flows from/(used in) investing activities	**9,793**	**(55,003)**
Financing Activities		
Loan drawdown	–	20,500
Loan arrangement fees	–	(287)
Dividends paid	(12,860)	(12,860)
Cash flows (used in)/from financing activities	**(12,860)**	**7,353**
Net increase/(decrease) in cash and cash equivalents for the year	**7,364**	**(33,828)**
Opening cash and cash equivalents	**12,763**	**46,591**
Closing cash and cash equivalents	**20,127**	**12,763**

The accompanying notes 1 to 24 form an integral part of the financial statements.

1. Significant accounting policies

Schroder Real Estate Investment Trust Limited ("the Company") is a closed-ended investment company registered in Guernsey. The consolidated financial statements of the Company for the year ended 31 March 2017 comprise the Company, its subsidiaries and its interests in joint ventures (together referred to as the "Group").

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee.

The financial statements give a true and fair view and are in compliance with The Companies (Guernsey) Law, 2008, applicable legal and regulatory requirements and the Listing Rules of the UK Listing Authority.

Basis of preparation

The financial statements are presented in sterling, which is the Company's functional currency, rounded to the nearest thousand. They are prepared on the historical cost basis except that investment property and derivative financial instruments are stated at their fair value.

The accounting policies have been consistently applied to the results, assets, liabilities and cash flows of the entities included in the consolidated financial statements and are consistent with those of the previous year.

Going concern

The Directors have examined significant areas of possible financial risk including cash and cash requirements and the debt covenants, in particular the loan to value covenants and interest cover ratios on the loans with Canada Life and Royal Bank of Scotland. 80% of the Canada Life loan matures on 15 April 2028 and 20% matures on 15 April 2023. The Royal Bank of Scotland loan matures on 17 July 2019. The Directors have not identified any material uncertainties which would cast significant doubt on the Group's ability to continue as a going concern for a period of not less than twelve months from the date of the approval of the financial statements. The Directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future.

After due consideration, the Board believes it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The most significant estimates made in preparing these financial statements relate to the carrying value of investment properties, including those within joint ventures, which are stated at fair value. The Group uses external professional valuers to determine the relevant amounts. Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed in note 19.

Basis of consolidation

Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries drawn up to 31 March each year. Subsidiaries are those entities, including special purpose entities, controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where properties are acquired by the Group through corporate acquisitions but the acquisition does not meet the definition of a business combination, the acquisition has been treated as an asset acquisition.

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of profit or loss of jointly controlled entities on an equity accounted basis. When the Group's share of losses exceeds its interest in an entity, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or is making payments on behalf of an entity.

Transactions eliminated on consolidation

Intra-group balances and any gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Gains arising from transactions with joint ventures are eliminated to the extent of the Group's interest in the entity. Losses are eliminated in the same way as gains but only to the extent that there is no evidence of impairment.

Investment Property

Investment property is land and buildings held to earn rental income together with the potential for capital growth.

Acquisitions and disposals are recognised on unconditional exchange of contracts. Acquisitions are initially recognised at cost, being the fair value of the consideration given, including transaction costs associated with the investment property.

After initial recognition, investment properties are measured at fair value, with unrealised gains and losses recognised in profit and loss. Realised gains and losses on the disposal of properties are recognised in profit and loss in relation to carrying value. Fair value is based on the market valuations of the properties as provided by a firm of independent chartered surveyors, at the reporting date. Market valuations are carried out on a quarterly basis.

As disclosed in note 20, the Group leases out all owned properties on operating leases. A property held under an operating lease is classified and accounted for as an investment property where the Group holds it to earn rentals, capital appreciation, or both. Any such property leased under an operating lease is classified as an investment property and carried at fair value.

Financial instruments

Non-derivative financial instruments

Assets

Non-derivative financial instruments comprise trade and other receivables and cash and cash equivalents. These are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method less any impairment losses.

Cash and cash equivalents

Cash at bank and short-term deposits that are held to maturity are carried at cost. Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash in hand and short-term deposits at banks with a term of no more than three months.

Liabilities

Non-derivative financial instruments comprise loans and borrowings and trade and other payables.

Loans and borrowings

Borrowings are recognised initially at fair value of the consideration received, less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss over the period of the borrowings on an effective interest basis.

Trade and other payables

Trade and other payables are stated at amortised cost.

Share capital

Ordinary shares including treasury shares are classified as equity.

Dividends

Dividends are recognised in the period in which they are payable.

Impairment

Financial assets

A financial asset, other than those at fair value through profit and loss, is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in the profit and loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the profit and loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property but including joint ventures, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the profit and loss.

Provisions

A provision is recognised in the Consolidated Statement of Financial Position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Rental income

Rental income from investment properties is recognised on a straight-line basis over the term of ongoing leases and is shown gross of any UK income tax. Lease incentives are spread evenly over the lease term.

Surrender premiums and dilapidations are recognised in line with individual lease agreements when cash inflows are certain.

Finance expenses

Finance expenses comprise interest expense on borrowings that are recognised in profit and loss. Attributable transaction costs incurred in establishing the Group's credit facilities are deducted from the fair value of borrowings on initial recognition and are amortised over the lifetime of the facilities through profit and loss. Finance expenses are accounted for on an effective interest basis.

Expenses

All expenses are accounted for on an accruals basis. The costs recharged to occupiers of the properties are presented net of the service charge income as management consider that the property agent acts as principal in this respect.

Taxation

The Group elected to be treated as a UK REIT with effect from 1 May 2015. The UK REIT rules exempt the profits of the Group's UK property rental business from UK corporation and income tax. Gains on UK properties are also exempt from tax, provided they are not held for trading. The Group is otherwise subject to UK corporation tax.

As a REIT, the Company is required to pay Property Income Distributions equal to at least 90% of the Group's exempted net income. To remain a UK REIT there are a number of conditions to be met in respect of the principal company of the Group, the Group's qualifying activity and its balance of business. The Group continues to meet these conditions.

Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being property investment and in one geographical area, the United Kingdom. There is no one tenant that represents more than 10% of group revenues. SREIM acts as advisor to the board, who then make management decisions following their recommendations. As such the Board of Directors are considered to be the chief operating decision maker. A set of consolidated IFRS information is provided on a quarterly basis.

2. New standards and interpretations

Standards, interpretations and amendments to published standards that are effective for the first time

The following new standards, interpretations or amendments, which are relevant to the company's operations, became effective during the year:

- Annual improvements to IFRSs 2012-2014 Cycle (effective for accounting periods beginning on or after 1 January 2016)
- Amendments to IAS 16 and IAS 38 – Acceptable Methods of Depreciation and Amortisation (effective 1 January 2016)
- Amendments to IAS 1 Presentation of Financial Statements – Disclosure Initiative (effective for accounting periods beginning on or after 1 January 2016)
- Amendments to IFRS 10, IFRS 11, IFRS 12 and IAS 28 – Investment Entities (effective for accounting periods beginning on or after 1 January 2016)
- Amendments to IAS 27 Consolidated and Separate Financial Statements – Equity Method in Separate Financial Statements (effective for accounting periods beginning on or after 1 January 2016)

These amendments to the standards did not have a material impact on the financial statements.

Standards, interpretations and amendments to published standards that are not yet effective.

The following new standards, interpretations and amendments have been published and are mandatory for the company's accounting periods beginning on or after 1 April 2017 or later periods and have not been early adopted by the company:

- Amendment to IAS 7 – Cash Flow Statements (effective for accounting periods beginning on or after 1 January 2017)
- IFRS 15 Revenue from Contracts with Customers (effective for accounting periods beginning on or after 1 January 2018)
- IFRS 9 Financial Instruments (effective for accounting periods beginning on or after 1 January 2018)
- IFRS 16 – Leases (effective for accounting periods beginning on or after 1 January 2019)

There is an ongoing assessment and it is management's expectation that the amendments will have no material impact on the financial statements of the Group.

3. Material agreements

Schroder Real Estate Investment Management Limited is the Investment Manager to the Company. The Investment Manager is entitled to a fee together with reasonable expenses incurred in the performance of its duties. The fee is payable monthly in arrears and shall be an amount equal to one twelfth of the aggregate of 1.1% of the NAV of the Company. The Investment Management Agreement can be terminated by either party on not less than nine months written notice or on immediate notice in the event of certain breaches of its terms or the insolvency of either party. The total charge to profit and loss during the year was £3,391,000 (2016: £3,227,000). At the year end £216,000 (2016: £619,000) was outstanding.

During the year ended 31 March 2016, Schroder Real Estate Investment Management Limited was paid £200,000 for additional services in relation to the Company's conversion to a REIT in May 2015.

Northern Trust International Fund Administration Services (Guernsey) Limited is the Administrator to the Company. The Administrator is entitled to an annual fee equal to £120,000 (2016: £120,000) of which £30,000 (2016: £30,000) was outstanding at the year end. In addition to this £40,000 (2016: £40,000) was paid for depository fees of which £3,334 (2016: 3,334) was outstanding at year end.

4. Other income

	31/03/2017 £000	31/03/2016 £000
Dilapidations	847	413
Surrender premium	419	(38)
Miscellaneous income	17	8
	1,283	**383**

5. Property operating expenses

	31/03/2017 £000	31/03/2016 £000
Agents' fees	129	174
Repairs and maintenance	116	145
Advertising	166	31
Rates – vacant	1,062	1,075
Security	58	39
Service charge, insurance and utilities on vacant units	978	1,355
Ground rent	122	108
Bad debt	(78)	21
Other	8	4
	2,561	**2,952**

6. Auditor's remuneration

The total expected audit fees for the year are £114,000 (2016: £106,000) and £13,000 (2016: £13,000) for the half year review of the financial statements. There were no additional fees paid to the auditors during the year. (2016: £83,000 for transaction services work in relation to the Group's acquisition of St John's Centre (Bedford) Limited).

Notes to the Financial Statements continued

7. Other expenses

	31/03/2017 £000	31/03/2016 £000
Directors' and officers' insurance premium	11	13
Regulatory costs	22	22
Professional fees	166	99
Other expenses	157	460
	356	**594**

One off REIT conversion costs of £413,000 were incurred during the year ended 31 March 2016, which are included within other expenses in the note above.

Directors' fees

Directors are the only officers of the Company and there are no other key personnel.

The Directors' annual remuneration for services to the Group was £180,000 (2016: £197,000), as set out in the Remuneration Report on page 34.

8. Taxation

	31/03/2017 £000	31/03/2016 £000
Tax expense in year	–	74
Reconciliation of effective tax rate		
Profit before tax	22,844	36,326
Effect of:		
Income tax using UK income tax rate of 20%	4,569	7,265
Revaluation gain not taxable	(1,397)	(3,475)
Share of profit of associates and joint ventures not taxable	(334)	(1,607)
Profit on disposal of investment property not taxable	–	(259)
UK REIT exemption	(2,838)	–
Utilisation of capital allowance, effect of different tax rates in subsidiaries and other adjustments	–	(1,850)
Current tax expense in the year	**–**	**74**

The Company and its Guernsey registered subsidiaries have obtained exempt company status in Guernsey under the terms of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 so that they are exempt from Guernsey taxation on income arising outside Guernsey and on bank interest receivable in Guernsey. Each company is, therefore, only liable for a fixed fee of £1,200 per annum. The Directors intend to conduct the Group's affairs such that they continue to remain eligible for exemption.

9. Basic and diluted earnings per share

Earnings per share

The basic and diluted earnings per share for the Group is based on the net profit for the year of £22,844,000 (2016: £36,252,000) and the weighted average number of Ordinary Shares in issue during the year of 518,513,409 (2016: 518,513,409).

10. Dividends paid

In respect of	Ordinary Shares	Rate (pence)	31/03/2017 £000
Quarter 31 March 2016 dividend paid 31 May 2016	518.51 million	0.62	3,215
Quarter 30 June 2016 dividend paid 31 August 2016	518.51 million	0.62	3,215
Quarter 30 September 2016 dividend paid 02 December 2016	518.51 million	0.62	3,215
Quarter 31 December 2016 dividend paid 28 February 2017	518.51 million	0.62	3,215
		2.48	**12,860**

In respect of	Ordinary Shares	Rate (pence)	31/03/2016 £000
Quarter 31 March 2015 dividend paid 28 May 2015	518.51 million	0.62	3,215
Quarter 30 June 2015 dividend paid 28 August 2015	518.51 million	0.62	3,215
Quarter 30 September 2015 dividend paid 30 November 2015	518.51 million	0.62	3,215
Quarter 31 December 2015 dividend paid 29 February 2016	518.51 million	0.62	3,215
		2.48	**12,860**

A dividend for the quarter ended 31 March 2017 of 0.62 pence (£3.2 million) was declared on 26 April 2017 and will be paid on 31 May 2017.

11. Investment property

	Leasehold £000	Freehold £000	Total £000
Fair value as at 31 March 2015	**39,227**	**259,457**	**298,684**
Additions	256	59,814	60,070
Gross proceeds on disposals	–	(6,200)	(6,200)
Realised gain on disposals	–	1,295	1,295
Net valuation gain on investment property	2,582	14,793	17,375
Fair value as at 31 March 2016	**42,065**	**329,159**	**371,224**
Additions	3,031	5,390	8,421
Gross proceeds on disposals	(11,358)	(12,756)	(24,114)
Realised (loss)/gain on disposals	3,942	(233)	3,709
Net valuation (loss)/gain on investment property	(277)	7,264	6,987
Fair value as at 31 March 2017	**37,403**	**328,824**	**366,227**

Fair value of investment properties as determined by the valuer totals £390,745,000 (2016: £385,085,000). Of this amount £14,200,000 is in relation to the unconditional exchange of contracts for the sales of Bristol and Watford (2016: £4,000,000 New Malden). In addition to this £10,318,000 (2016: £9,861,000) is in connection with lease incentives is included within trade and other receivables.

The net valuation gain on investment property consists of unrealised gains of £12,418,000 (2016: £20,548,000) net of unrealised losses of £5,431,000 (2016: £3,173,000).

The fair value of investment property has been determined by Knight Frank LLP, a firm of independent chartered surveyors, who are registered independent appraisers. The valuation has been undertaken in accordance with the RICS Valuation – Professional Standards global January 2014 (revised April 2015), issued by the Royal Institution of Chartered Surveyors (the "Red Book") including the International Valuation Standards.

The properties have been valued on the basis of "Fair Value" in accordance with the RICS Valuation – Professional Standards VPS4(1.5) Fair Value and VPGA1 Valuations for

Inclusion in Financial Statements which adopt the definition of Fair Value used by the International Accounting Standards Board.

The valuation has been undertaken using appropriate valuation methodology and the Valuer's professional judgement. The Valuer's opinion of Fair Value was primarily derived using recent comparable market transactions on arm's length terms, where available, and appropriate valuation techniques (the Investment Method).

The properties have been valued individually and not as part of a portfolio.

All investment properties are categorised as Level 3 fair values as they use significant unobservable inputs. There have not been any transfers between Levels during the year. Investment properties have been classed according to their real estate sector. Information on these significant unobservable inputs per class of investment property is disclosed below:

Quantitative information about fair value measurement using unobservable inputs (Level 3) as at 31 March 2017

31 March 2017		Industrial[1]	Retail (incl retail warehouse)	Office	Other	Total
Fair value (£000)		110,700	140,100	125,800	14,150	390,750
Area ('000 sq ft)		1,711	603	619	145	3,078
Net passing rent per sq ft per annum	Range Weighted average	£0 – £8.82 £4.12	£8.40 – £38.50 £13.98	£0 – £25.72 £10.76	£9.88 N/A	£0 – £38.50 £7.66
Gross ERV per sq ft per annum	Range Weighted average	£3.50 – £10.83 £5.06	£7.40 – £38.50 £16.22	£9.50 – £27.50 £15.28	£9.60 N/A	£3.50-£38.50 £9.52
Net initial yield[1]	Range Weighted average	0% – 7.70% 5.88%	3.38% – 8.99% 5.32%	0.00%-15.35% 4.27%	9.49% N/A	0% – 15.35% 5.25%
Equivalent yield	Range Weighted average	5.25% – 8.65% 7.02%	4.37%-9.75% 6.14%	5.04%-10.27% 6.81%	8.61% N/A	4.37%-10.27% 6.69%

Quantitative information about fair value measurement using unobservable inputs (Level 3) as at 31 March 2016

31 March 2016		Industrial	Retail (incl retail warehouse)	Office	Leisure	Total
Fair value (£000)		103,120	150,750	117,355	13,860	385,085
Area ('000 sq ft)		1,711	626	637	145	3,119
Net passing rent per sq ft per annum	Range Weighted average	£0 – £8.82 £3.85	£0 – £38.50 £14.65	£0 – £25.72 £11.95	£7.64 N/A	£0-£38.50 £7.85
Gross ERV per sq ft per annum	Range Weighted average	£3.50 – £10.00 £4.94	£7.40-£49.50 £16.66	£9.00 – £27.50 £14.96	£9.64 N/A	£3.50-£49.50 £9.55
Net initial yield[1]	Range Weighted average	0% – 7.51% 5.99%	0% – 8.04% 5.70%	0.00%-15.89% 6.08%	7.49% N/A	0% – 15.89% 5.96%
Equivalent yield	Range Weighted average	5.65% – 8.57% 7.29%	4.35%-9.79% 6.03%	5.49%-9.68% 6.99%	8.68% N/A	4.35%-9.68% 6.75%

Notes:

(1) Yields based on rents receivable after deduction of head rents, but gross of non-recoverables

Sensitivity of measurement to variations in the significant unobservable inputs

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the Group's property portfolio, together with the impact of significant movements in these inputs on the fair value measurement, are shown below:

Unobservable input	Impact on fair value measurement of significant increase in input	Impact on fair value measurement of significant decrease in input
Passing rent	Increase	Decrease
Gross ERV	Increase	Decrease
Net initial yield	Decrease	Increase
Equivalent yield	Decrease	Increase

There are interrelationships between the yields and rental values as they are partially determined by market rate conditions.

The sensitivity of the valuation to changes in the most significant inputs per class of investment property are shown below:

Estimated movement in fair value of investment properties at 31 March 2017	Industrial £000	Retail £000	Office £000	Other £000	Total £000
Increase in ERV by 5%	5,002	6,405	5,765	271	17,442
Decrease in ERV by 5%	(4,832)	(5,882)	(5,009)	(198)	(15,921)
Increase in net initial yield by 0.25%	(4,454)	(5,952)	(6,032)	(363)	(16,553)
Decrease in net initial yield by 0.25%	4,844	6,505	6,672	383	18,086

Estimated movement in fair value of investment properties at 31 March 2016	Industrial £000	Retail £000	Office £000	Other £000	Total £000
Increase in ERV by 5%	4,330	6,617	4,126	240	15,313
Decrease in ERV by 5%	(4,265)	(5,880)	(3,830)	(190)	(14,165)
Increase in net initial yield by 0.25%	(4,134)	(6,336)	(4,636)	(448)	(15,554)
Decrease in net initial yield by 0.25%	4,494	6,918	5,033	479	16,924

12. Investment in joint ventures

	£000
Closing balance as at 31 March 2015	**72,792**
Purchase of interest in City Tower Unit Trust	390
Share of profit for the year	8,034
Distribution received	(3,257)
Closing balance as at 31 March 2016	**77,959**
Purchase of interest in City Tower Unit Trust	544
Share of profit for the year	1,670
Distribution received	(3,273)
Closing balance as at 31 March 2017	**76,900**

Summarised joint venture financial information not adjusted for the Group's share	31/03/2017 £000	31/03/2016 £000
Total assets	238,171	241,757
Total liabilities[1]	1,749	1,135
Revenues for year	10,550	10,726
Total comprehensive income	20,688	27,062
Net asset value attributable to Group	76,900	77,959
Total comprehensive income attributable to the Group	**1,670**	**8,034**

(1) Liabilities that are non-recourse to the Group

13. Trade and other receivables

	31/03/2017 £000	31/03/2016 £000
Rent receivable	933	1,699
Other debtors and prepayments	25,569	16,001
	26,502	**17,700**

Other debtors and prepayments includes £10,318,000 (2016: £9,861,000) in respect of lease incentives. A further £12,629,000 relates to Bristol and Watford (2016: £4,000,000 relating to New Malden), that had both unconditionally exchanged but had not completed prior to the year end.

14. Cash and cash equivalents

As at 31 March 2017, the group had £20.1 million (2016: £12.8 million) in cash of which £0.2 million is proceeds from dilapidations held within the Canada Life security pool. £1.0 million (2016: £0.9 million) is held in respect of tenant deposits (see note 17).

15. Issued capital and reserves

Share capital

The share capital of the Company is represented by an unlimited number of Ordinary Shares of no par value. As at the date of this Report, the Company has 565,664,749 ordinary shares in issue of which 47,151,340 ordinary shares are held in treasury. The total number of voting rights of the Company is 518,513,409.

Treasury capital

47,151,340 Ordinary Shares which represent 8.3% of the Company's total issued share capital are held in treasury.

Revenue Reserve

This reserve represents an accumulated amount of the Group's prior earnings, net of dividends.

16. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see note 19.

	31/03/2017		31/03/2016	
	£000	£000	£000	£000
Non-current liabilities				
Loan facility		150,085		150,085
Less: Finance costs incurred	(2,091)		(2,311)	
Add: Amortised finance costs	272	(1,819)	220	(2,091)
		148,266		**147,994**

The Group entered into a £129.6 million loan facility with Canada Life on 16 April 2013 that has 20% of the loan maturing on 15 April 2023 and with the balance of 80% maturing on 15 April 2028, with a fixed interest rate of 4.77%.

On 17 July 2015 the Company entered into a four year, £20.5 million revolving credit facility with the Royal Bank of Scotland ("RBS") for the purpose of acquiring, Millshaw Park Industrial Estate. The interest rate is based on the loan to value ratio as below:

– LIBOR + 1.60% if loan to value is less than or equal to 60%

– LIBOR + 1.85% if loan to value is greater than 60%

During both the current and prior year the loan to value has remained less than 60%. Since this loan has variable interest, an interest rate cap for 100% of the loan was entered into, which comes into effect if GPB 3 month LIBOR reaches 1.5%.

As at 31 March 2017 the group has a loan balance of £150.1 million and £1.8 million of unamortised arrangement fees. (31 March 2016: £150.1 million and £2.1 million of unamortised arrangement fees).

The Canada Life facility has a first charge security over all the property assets in the ring fenced Security Pool (the 'Security Pool') which at 31 March 2017 contained properties valued at £349.8 million (this includes Bristol and Watford) together with £0.2 million cash. Various restraints apply during the term of the loan although the facility has been designed to provide significant operational flexibility. The RBS facility has a first charge security over all the property assets held in SREIT No.2 Limited, which at 31 March 2017 contained properties valued at £41.0 million (2016: £38.8 million).

The principal covenants for Canada Life and RBS are that the loan should not comprise more than 65% of the value of the assets in the Security Pool nor should estimated rental and other income arising from assets in the Security Pool, calculated on any interest payment date and one year projected from any interest payment date, comprise less than 185% of the interest payments. For the RBS facility, the forward looking interest cover covenant is 250%.

As at the Interest Payment Date, the Canada Life interest cover calculated in accordance with the ICR covenant was 311% (2016: 327%) and the forward looking interest cover was 300% (2016: 297%), with the Loan to value ratio of 38.6% (33.2% net of all cash) (2016: 38.1%, 33.0% net of all cash). The RBS interest cover calculated in accordance with the ICR covenant was 463% (2016: 591%) with the Loan to value ratio of 50.1% (2016: 52.8%).

17. Trade and other payables

	31/03/2017 £000	31/03/2016 £000
Rent received in advance	4,854	5,035
Rental deposits	982	861
Interest payable	1,391	1,391
Other trade payables and accruals	1,673	1,726
	8,900	**9,013**

18. NAV per Ordinary Share

The NAV per Ordinary Share is based on the net assets of £332,590,000 (2016: £322,606,000) and 518,513,409 (2016: 518,513,409) Ordinary Shares in issue at the reporting date.

Notes to the Financial Statements continued

19. Financial instruments, properties and associated risks

Financial risk factors

The Group holds cash and liquid resources as well as having debtors and creditors that arise directly from its operations. The Group uses interest rate contracts when required to limit exposure to interest rate risks, but does not have any other derivative instruments.

The main risks arising from the Group's financial instruments and properties are market price risk, credit risk, liquidity risk and interest rate risk. The Group is only directly exposed to sterling and hence is not exposed to currency risks. The Board regularly reviews and agrees policies for managing each of these risks and these are summarised below:

Market price risk

Rental income and the market value for properties are generally affected by overall conditions in the economy, such as changes in gross domestic product, employment trends, inflation and changes in interest rates. Changes in gross domestic product may also impact employment levels, which in turn may impact the demand for premises. Furthermore, movements in interest rates may also affect the cost of financing for real estate companies.

Both rental income and property values may also be affected by other factors specific to the real estate market, such as competition from other property owners, the perceptions of prospective tenants of the attractiveness, convenience and safety of properties, the inability to collect rents because of bankruptcy or the insolvency of tenants, the periodic need to renovate, repair and release space and the costs thereof, the costs of maintenance and insurance, and increased operating costs.

The Directors monitor the market value of investment properties by having independent valuations carried out quarterly by a firm of independent chartered surveyors. Note 11 sets out the sensitivity analysis on the market price risk. Concentration risk, based on industry and geography, is set out in the tables on page 13.

Included in market price risk is interest rate risk which is discussed further below.

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group. In the event of default by an occupational tenant, the Group will suffer a rental income shortfall and incur additional costs, including legal expenses, in maintaining, insuring and re-letting the property. The Investment Manager reviews reports prepared by Dun & Bradstreet, or other sources, to assess the credit quality of the Group's tenants and aims to ensure there is no excessive concentration of risk and that the impact of any default by a tenant is minimised.

In respect of credit risk arising from other financial assets, which comprise cash and cash equivalents, exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. In order to mitigate such risks, cash is maintained with major international financial institutions with high quality credit ratings. During the year and at the reporting date the Group maintained relationships with branches and subsidiaries of HSBC. HSBC Credit Rating is AA negative (provided by Standard and Poor).

The maximum exposure to credit risk for rent receivables at the reporting date by type of sector was:

	31 March 2017 Carrying amount £000	31 March 2016 Carrying amount £000
Office	193	358
Industrial	448	1,085
Retail	292	256
	933	**1,699**

Rent receivables which are past their due date, but which were not impaired at the reporting date were:

	31 March 2017 Carrying amount £000	31 March 2016 Carrying amount £000
0-30 days	569	1,245
31-60 days	6	21
61-90 days	50	2
91 days plus	308	431
	933*	**1,699***

* Net of bad debt provisions of £nil (2016: £124,000).

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting obligations associated with its financial obligations.

The Group's investments comprise UK commercial property. Property and property related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the valuation date. Investments in property are relatively illiquid; however the Group has tried to mitigate this risk by investing in properties that it considers to be good quality.

In certain circumstances, the terms of the Group's debt facilities entitle the lender to require early repayment and in such circumstances the Group's ability to maintain dividend levels and the net asset value could be adversely affected. The Investment Manager prepares cash flows on a rolling basis to ensure the Group can meet future liabilities as and when they fall due.

The following table indicates the maturity analysis of the financial liabilities.

As at 31 March 2017	Carrying amount £000	Expected Cash flows £000	6 mths or less £000	6 mths – 2 years £000	2-5 years £000	More than 5 years £000
Financial liabilities						
Interest-bearing loans and borrowings and interest	149,657	219,008	3,297	9,892	39,147	166,672
Trade and other payables	2,655	2,655	1,673	–	–	982
Total financial liabilities	**152,312**	**221,663**	**4,970**	**9,892**	**39,147**	**167,654**

As at 31 March 2016	Carrying amount £000	Expected Cash flows £000	6 mths or less £000	6 mths – 2 years £000	2-5 years £000	More than 5 years £000
Financial liabilities						
Interest-bearing loans and borrowings and interest	149,385	225,724	3,316	9,947	39,607	172,854
Trade and other payables	2,587	2,587	2,587	–	–	–
Total financial liabilities	**151,972**	**228,311**	**5,903**	**9,947**	**39,607**	**172,854**

Interest rate risk

Exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations and to interest earned on cash balances. As interest on the Group's long-term debt obligations is payable on a fixed-rate basis, the Group is not exposed to interest rate risk, but is exposed to changes in fair value of long-term debt obligations driven by interest rate movements. As at 31 March 2017 the fair value of the Group's £129.6 million loan with Canada Life was £143.9 million (2016: £140.2 million). The RBS revolving credit facility is a low margin flexible source of funding with a margin of 1.6% above 3 month LIBOR and it is considered by management that the carrying value is equal to fair value.

A 1% increase or decrease in short-term interest rates would increase or decrease the annual income and equity by £201,300 based on the cash balance as at 31 March 2017.

Fair values

The fair values of financial assets and liabilities are not materially different from their carrying values, unless disclosed below, in the financial statements.

The fair value hierarchy levels are as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities
- 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); and
- Level 3 – inputs for the assets or liability that are not based on observable market data (unobservable inputs).

There have been no transfers between Levels 1, 2 and 3 during the year (2016: none).

The following summarises the main methods and assumptions used in estimating the fair values of financial instruments and investment property.

Investment property – level 3

Fair value is based on valuations provided by an independent firm of chartered surveyors and registered appraisers. These values were determined after having taken into consideration recent market transactions for similar properties in similar locations to the investment properties held by the Group. The fair value hierarchy of investment property is level 3. See Note 11 for further details.

Interest bearing loans and borrowings – level 2

Fair values are based on the present value of future cash flows discounted at a market rate of interest. Issue costs are amortised over the period of the borrowings. As at 31 March 2017 the fair value of the Group's £129.6 million loan with Canada Life was £143.9 million.

Trade and other receivables/payables – level 2

All receivables and payables are deemed to be due within one year and as such the notional amount is considered to reflect the fair value.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The objective is to ensure that it will continue as a going concern and to maximise return to its equity shareholders through appropriate level of gearing.

The Company's debt and capital structure comprises the following:

	31/03/2017 £000	31/03/2016 £000
Debt		
Fixed rate loan facility	150,085	150,085
Equity		
Called-up share capital	192,638	192,638
Reserves	139,952	129,968
Total equity	**332,590**	**322,606**
Total debt and equity	**482,675**	**472,691**

There were no changes in the Group's approach to capital management during the year.

20. Operating leases

The Group leases out its investment property under operating leases. At 31 March 2017 the future minimum lease receipts under non-cancellable leases are as follows:

	31/03/2017 £000	31/03/2016 £000
Less than one year	24,155	23,531
Between one and five years	78,401	80,483
More than five years	79,626	91,136
	182,182	**195,150**

The total above comprises the total contracted rent receivable as at 31 March 2017.

The Group has entered into leases on its property portfolio. The commercial property leases typically have lease terms between 5 and 15 years and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Some leases contain options to break before the end of the lease term.

Notes to the Financial Statements continued

21. List of Subsidiary and Joint Venture Undertakings

The companies listed below are those which were part of the group at 31 March 2017 and 31 March 2016:

Undertaking	Category	Country of Incorporation	Ultimate Ownership
SREIT No.2 Ltd	Subsidiary	Guernsey	100%
SREIT Holdings No.2 Ltd	Subsidiary	Guernsey	100%
SREIT Holdings Ltd	Subsidiary	Guernsey	100%
SREIT Property Ltd	Subsidiary	Guernsey	100%
SREIT (Portergate) Ltd	Subsidiary	Guernsey	100%
SREIT (Victory) Ltd	Subsidiary	Guernsey	100%
SREIT (Uxbridge) Ltd	Subsidiary	Guernsey	100%
SREIT (City Tower) Ltd	Subsidiary	Guernsey	100%
SREIT (Store) Ltd	Subsidiary	Guernsey	100%
SREIT (Bedford) Ltd	Subsidiary	Guernsey	100%
St John's Centre (Bedford) Ltd	Subsidiary	UK	100%
Lunar Partnership (Brentford) Ltd*	Subsidiary	Guernsey	100%
LP (Brentford) Ltd*	Subsidiary	Guernsey	100%
City Tower Unit Trust	Joint Venture	Jersey	25%
Store Unit Trust	Joint Venture	Jersey	50%

* Companies put into liquidation post year ended 31 March 2017.

22. Related party transactions

Material agreements are disclosed in note 3. Transactions with Directors and the Investment Manager are disclosed in note 7. Transactions with joint ventures are disclosed in note 12.

23. Capital commitments

As at 31 March 2017 the Group had capital commitments of £4.9 million (2016: £nil).

24. Post balance sheet events

Since the year end, the Group has completed on the sale of one property, Augustine's Courtyard, Bristol on the 7 April 2017 for £11,750,000.

EPRA Performance Measures (unaudited)

As recommended by EPRA (European Public Real Estate Association), EPRA performance measures are disclosed in the section below.

EPRA performance measures: Summary Table

	31/03/2017 Total £000	31/03/2016 Total £000
EPRA earnings	13,751	13,130
EPRA earnings per share	2.7	2.5
EPRA NAV	322,590	322,606
EPRA NAV per share	64.1	62.2
EPRA NNNAV	316,486	313,600
EPRA NNNAV per share	61.0	60.5
EPRA Net Initial Yield	5.2%	5.2%
EPRA topped-up Net Initial Yield	5.3%	5.3%
EPRA Vacancy Rate	6.2%	8.9%
EPRA Cost Ratios – including direct vacancy costs	31.3%	31.9%
EPRA Cost Ratios – excluding direct vacancy costs	25.6%	25.3%

a. EPRA earnings and EPS

Total comprehensive income excluding realised and unrealised gains/losses on investment property, share of profit on joint venture investments and changes in fair value of financial instruments, divided by the weighted average number of shares.

	31/03/2017 £000	31/03/2016 £000
IFRS profit after tax	22,844	36,252
Adjustments to calculate EPRA Earnings:		
Profit on disposal of investment property	(3,709)	(1,295)
Net valuation gain on investment property	(6,987)	(17,375)
Finance costs: interest rate cap	–	325
Share of valuation (loss)/gain in associates and joint ventures	1,603	(4,777)
EPRA earnings	**13,751**	**13,130**
Weighted average number of Ordinary shares	518,513,409	518,513,409
IFRS earnings per share (pence per share)	**4.4**	**7.0**
EPRA earnings per share (pence per share)	**2.7**	**2.5**

EPRA Performance Measures (unaudited) continued

b. EPRA NAV per share

The Net Asset Value adjusted to exclude assets or liabilities not expected to crystallise in a long-term investment property model, divided by the number of shares in issue.

	31/03/2017 £000	31/03/2016 £000
IFRS NAV per financial statements	332,590	322,606
EPRA NAV	332,590	322,606
Shares in issue at end of year	518,513,409	518,513,409
IFRS NAV per share	**64.1**	**62.2**
EPRA NAV per share	**64.1**	**62.2**

c. EPRA NNNAV per share

The EPRA NAV adjusted to include the fair value of debt, divided by the number of shares in issue.

	31/03/2017 £000	31/03/2016 £000
EPRA NAV	332,590	322,606
Adjustments to calculate EPRA NNNAV:		
Fair value of debt	(16,104)	(12,706)
EPRA NNNAV	**316,486**	**309,900**
EPRA NNNAV per share	**61.0**	**59.8**

d. EPRA Net Initial Yield

Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the grossed up market value of the complete property portfolio. The EPRA "topped up" NIY is the EPRA NIY adjusted for unexpired lease incentives.

	31/03/2017 £000	31/03/2016 £000
Investment property – wholly owned	376,545	385,085
Investment property – share of joint ventures and funds	76,925	77,488
Complete property portfolio	**453,470**	**462,573**
Allowance for estimated purchasers' costs	26,301	26,829
Gross up completed property portfolio valuation	**479,771**	**489,402**
Annualised cash passing rental income	27,227	28,235
Property outgoings	(2,561)	(2,952)
Annualised net rents	**24,666**	**25,283**
Notional rent expiration of rent free periods[1]	1,188	812
Topped-up net annualised rent	**25,854**	**26,095**
EPRA NIY	**5.1%**	**5.2%**
EPRA "topped-up" NIY	**5.4%**	**5.3%**

(1) The period over which rent free periods expire is 2 years (2016: 1 year)

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e. EPRA cost ratios

Administrative and operating costs as a percentage of gross rental income calculated including and excluding direct vacancy costs.

	31/03/2017 £000	31/03/2016 £000
Administrative/property operating expense line per IFRS income statement	7,991	8,456
Share of joint venture expenses	653	552
Ground rent costs	(122)	(108)
EPRA Costs (including direct vacancy costs)	**8,522**	**8,900**
Direct vacancy costs	(1,539)	(1,843)
EPRA Costs (excluding direct vacancy costs)	**6,983**	**7,057**
Gross Rental Income less ground rent costs	23,957	24,632
Share of Joint Ventures income less ground rent costs	3,273	3,257
Gross Rental Income	**27,230**	**27,889**
EPRA Cost Ratio (including direct vacancy costs)	**31.3%**	**31.9%**
EPRA Cost Ratio (excluding direct vacancy costs)	**25.6%**	**25.3%**
EPRA Vacancy Rate	**6.2%**	**8.9%**

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EPRA Sustainability Reporting Performance Measures (unaudited)

The Company reports environmental data in accordance with EPRA Best Practice Recommendations on Sustainability Reporting 2014, 2nd Edition for the 2016 calendar year presented with comparison against 2015.

The reporting boundary has been defined to where the Company has operational control: managed properties where the Company is responsible for payment of utility invoices and/or arrangement of waste disposal contracts. In 2015 there were 29 such managed assets within the portfolio. In 2016, this dropped to 23 managed assets, reflecting four sales and two assets where operational responsibility was transferred to the tenant.

The data provided in these tables has been collated on the Company's behalf by appointed third parties and has not been subject to formal assurance.

Total Energy Consumption

The table below sets out total landlord obtained energy consumption from the Company's managed portfolio by sector.

	Total electricity consumption (kWh)		Total fuel consumption (kWh)		Building energy intensity (kWh/m2)	
Sector	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Retail High Street	4,082	1,135				
Coverage	*3/3*	*1/1*				
Retail Warehouse	14,999	22,254				
Coverage	*1/1*	*1/1*				
Retail Shopping Centre	298,080	255,822	21,119	788		
Coverage	*2/2*	*2/2*	*1/1*	*1/1*		
Office	3,887,841	3,816,961	2,434,621	2,014,435	152	141
Coverage	*16/16*	*12/12*	*15/15*	*12/12*	*11/16*	*7/12*
Industrial Distribution Warehouse	180,131	166,821	6,074	24,747		
Coverage	*5/5*	*5/5*	*4/4*	*3/3*		
Leisure	301,858	294,961	269,964	187,936	200	173
Coverage	*1/1*	*1/1*	*1/1*	*1/1*	*1/1*	*1/1*
Mixed use	2,823,224	2,715,630			196	188
Coverage	*1/1*	*1/1*			*1/1*	*1/1*
Total	**7,510,215**	**7,273,582**	**2,731,778**	**2,227,906**		
Total Electricity and Fuel	**10,241,993**	**9,501,488**				
Coverage	***29/29***	***23/23***	***21/21***	***17/17***		

- Consumption data relates to the managed portfolio only:
  - Retail High Street, Warehouses & Shopping Centres; Industrial Distribution Warehouses; Leisure; common parts and/or outdoor areas
  - Offices and Mixed use: whole building.
- Mixed use relates to 25% of energy consumption at City Tower
- 13% of Electricity and 42% of Gas data has been estimated through pro-rating or invoice estimates.
- Coverage relates to number of managed assets for which data is reported.

EPRA Sustainability Reporting Performance Measures (unaudited) continued

Like for like energy consumption

The table below sets out the like for like landlord obtained energy consumption from the Company's managed portfolio by sector.

	Total like for like electricity consumption (kWh)			Total like for like fuel consumption (kWh)		
Sector	**2015**	**2016**	**Change**	**2015**	**2016**	**Change**
Retail High Street						
Coverage						
Retail Warehouse						
Coverage						
Retail Shopping Centre	20,304	16,997	(16%)			
Coverage	*1/1*	*1/1*				
Office	1,330,085	1,521,610	14%	1,079,570	1,017,118	(6%)
Coverage	*7/7*	*7/7*		*7/7*	*7/7*	
Industrial Distribution Warehouse	175,144	160,487	(8%)	5,924	5,124	(14%)
Coverage	*3/3*	*3/3*		*1/1*	*1/1*	
Leisure	301,858	294,961	(2%)	269,964	187,936	(30%)
Coverage	*1/1*	*1/1*		*1/1*	*1/1*	
Mixed use	2,823,224	2,715,630	(4%)			
Coverage	*1/1*	*1/1*				
Total	**4,650,615**	**4,709,685**	**(1%)**	**1,355,459**	**1,210,177**	**(11%)**
Total Electricity and Fuel	**6,006,074**	**5,919,862**	**(1%)**			
Coverage	***13/13***	***13/13***		***9/9***	***9/9***	

- Like for like excludes assets that were purchased, sold or under refurbishment during the two years reported.
  - Consumption data relates to the managed portfolio only
  - Retail High Street, Warehouse & Shopping Centres; Industrial Distribution Warehouses; Leisure: common parts and/or outdoor areas
  - Offices and Mixed use: Whole building.
- Mixed Use reflects 25% of energy consumption at City Tower, Manchester.
- 13% of Electricity and 42% of Gas data has been estimated through pro-rating or invoice estimates.
- Coverage relates to number of managed assets for which data is reported.

EPRA Sustainability Reporting Performance Measures (unaudited) continued

Greenhouse gas emission

The table below sets out the Company's green house gas emissions by sector.

	Absolute emissions (tonnes CO2e)		Like for like emissions (tonnes CO2e)			Intensity (kg CO2e/m2)	
Sector	**2015**	**2016**	**2015**	**2016**	**Change**	**2015**	**2016**
Retail High Street							
Scope 1							
Scope 2	1.9	0.5					
Coverage	*3/3*	*1/1*					
Retail Warehouse							
Scope 1							
Scope 2	7	9					
Coverage	*1/1*	*1/1*					
Retail Shopping Centre							
Scope 1	55	47					
Scope 2	138	105	9	7	(25%)		
Coverage	*2/2*	*2/2*	*1/1*	*1/1*			
Office						53	47
Scope 1	449	371	199	187			
Scope 2	1,797	1,573	615	627	2%		
Coverage	*16/16*	*12/12*	*7/7*	*7/7*		*11/16*	*7/12*
Industrial Distribution Warehouse							
Scope 1	1.1	4.6	1.1	0.9	(14%)		
Scope 2	83	69	81	66	(18%)		
Coverage	*5/5*	*5/5*	*3/3*	*3/3*			
Leisure						69	60
Scope 1	50	35	50	35	(31%)		
Scope 2	140	122	140	122	(13%)		
Coverage	*1/1*	*1/1*	*1/1*	*1/1*		*1/1*	*1/1*
Mixed use						98	85
Scope 1							
Scope 2	1,305	1,119	1,305	1,119	(14%)		
Coverage	*1/1*	*1/1*	*1/1*	*1/1*		*1/1*	*1/1*
Total Scope 1	**504**	**410**	**250**	**223**	**(11%)**		
Total Scope 2	**3,471**	**2,997**	**2,150**	**1,941**	**(10%)**		
Total Scope 1 & 2	**3,975**	**3,407**	**2,400**	**2,163**	**(10%)**		
Coverage	***29/29***	***23/23***	***13/13***	***13/13***			

Methodology: The Company's greenhouse gas inventory has been developed using the GHG Protocol Corporate Accounting and Reporting Standard and GHG emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2016. Emissions from electricity (Scope 2) are reported according to the 'location-based' approach. Mixed Use reflects 25% emissions of City Tower, Manchester Mixed Use reflects 25% emissions of City Tower, Manchester.

EPRA Sustainability Reporting Performance Measures (unaudited) continued

Water

The table below sets out water consumption for assets managed by the Company.

	Total water consumption (m^3)		Like for like water consumption (m^3)			Intensity (m^3/m^2)	
Sector	**2015**	**2016**	**2015**	**2016**	**Change**	**2015**	**2016**
Retail Shopping Centre	5283	788					
Coverage	*2/2*	*2/2*					
Office	12,844	14,355	5,620	5,012	(11%)	0.4	0.4
Coverage	*10/10*	*8/8*	*4/4*	*4/4*		*9/10*	*4/8*
Leisure	286	315	286	315	10%	0.1	0.1
Coverage	*1/1*	*1/1*	*1/1*	*1/1*		*1/1*	*1/1*
Mixed use	6,243	5,629	6,243	5,629	(10%)	0.4	0.4
Coverage	*1/1*	*1/1*	*1/1*	*1/1*			
Total	**24,657**	**21,087**	**12,150**	**10,956**	**(10%)**		
Coverage	***14/14***	***12/12***	***6/6***	***6/6***			

Consumption data relates to the managed portfolio only:

Retail Shopping Centres and Leisure: Common parts

Offices and Mixed use: Whole building.

Mixed Use reflects 25% of water at City Tower, Manchester.

Energy and water consumption data is reported according to automatic meter reads, manual meter reads or invoice estimates. Where required consumption has been estimated by pro-rating data from other periods.

Coverage relates to the number of managed assets for which data is reported.

EPRA Sustainability Reporting Performance Measures (unaudited) continued

Waste

The table below sets out waste managed by the Company by disposal route and sector.

	Absolute weight (tonnes)				Like for like weight (tonnes)				
Sector	**2015**	**%**	**2016**	**%**	**2015**	**%**	**2016**	**%**	**Change**
Retail Shopping Centre									
Direct to MRF	144.9	69	80.0	63					
Incineration (with energy recovery)	52.7	25	46.4	37	36.2	100	37.0	100	2%
Landfill	11.6	6	0.2	0					
Coverage	*2/2*		*2/2*		*1/1*		*1/1*		
Office									
Direct to MRF	62.1	47	79.5	39	51.1	44	38.9	36	(24%)
Incineration (with energy recovery)	63.3	48	122.6	61	57.3	50	69.1	64	20%
Landfill	6.6	5			6.6	6			(100%)
Coverage	*9/9*		*10/10*		*7/7*		*7/7*		
Leisure									
Direct to MRF	224.6	61	246.6	59	224.6	61	246.7	59	10%
Incineration (with energy recovery and anaerobic digestion)	145.4	39	174.2	41	145.4	39	174.2	41	20%
Landfill									
Coverage	*1/1*		*1/1*		*1/1*		*1/1*		
Mixed use									
Direct to MRF	6.8	11	7.4	13	6.8	11	7.4	13	9%
Incineration (with energy recovery)	56.8	89	49.8	87	56.8	89	49.8	87	(12%)
Landfill									
Coverage	*1/1*		*1/1*		*1/1*		*1/1*		
Totals									
Direct to MRF	**438.3**	**57**	**413.5**	**51**	**282.4**	**48**	**293.0**	**47**	**4%**
Incineration (with energy recovery and anaerobic digestion)	**318.3**	**41**	**393.1**	**49**	**295.7**	**51**	**330.1**	**53**	**12%**
Landfill	**18.3**	**2**	**0.2**	**0**	**6.6**	**1**		**0**	**(100%)**
Coverage	***13/13***		***14/14***		***10/10***		***10/10***		

MRF is a Materials Recovery Facility.

The Company has no waste management responsibilities for Retail High Street, Retail Warehouse and Industrial Distribution Warehouse sectors.

Mixed Use reflects 25% waste of City Tower, Manchester.

Coverage relates to number of managed assets for which data is reported.

EPRA Sustainability Reporting Performance Measures (unaudited) continued

Sustainability Certification: Energy Performance Certificates

Energy Performance Certificate Rating	Portfolio by floor area (%)
A	0%
B	4%
C	29%
D	25%
E	11%
F	7%
G	3%
Exempt	3%
Coverage	*82%*

Energy Performance Certificate records for the Company are provided as at May 2017 against portfolio floor area, including all of City Tower, Manchester, as at 31 March 2017.

Report of the Depositary to the Shareholders

Northern Trust (Guernsey) Limited has been appointed as Depositary to Schroder Real Estate Investment Trust Limited (the "Company") in accordance with the requirements of Article 36 and Articles 21(7), (8) and (9) of the Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (the "AIFM Directive").

We have enquired into the conduct of Schroder Real Estate Investment Management Limited (the "AIFM") for the year ending 31 March 2017, in our capacity as Depositary to the Company.

This report including the review provided below has been prepared for and solely for the Shareholders in the Company. We do not, in giving this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown.

Our obligations as Depositary are stipulated in the relevant provisions of the AIFM Directive and the relevant sections of Commission Delegated Regulation (EU) No 231/2013 (collectively the "AIFMD legislation").

Amongst these obligations is the requirement to enquire into the conduct of the AIFM and the Company and their delegates in each annual accounting period.

Our report shall state whether, in our view, the Company has been managed in that period in accordance with the AIFMD legislation. It is the overall responsibility of the AIFM to comply with these provisions. If the AIFM or their delegates have not so complied, we as the Depositary will state why this is the case and outline the steps which we have taken to rectify the situation.

The Depositary and its affiliates is or may be involved in other financial and professional activities which may on occasion cause a conflict of interest with its roles with respect to the Company. The Depositary will take reasonable care to ensure that the performance of its duties will not be impaired by any such involvement and that any conflicts which may arise will be resolved fairly and any transactions between the Depositary and its affiliates and the Company shall be carried out as if effected on normal commercial terms negotiated at arm's length and in the best interests of Shareholders.

Basis of Depositary Review

The Depositary conducts such reviews as it, in its reasonable discretion, considers necessary in order to comply with its obligations and to ensure that, in all material respects, the Company has been managed (i) in accordance with the limitations imposed on its investment and borrowing powers by the provisions of its constitutional documentation and the appropriate regulations and (ii) otherwise in accordance with the constitutional documentation and the appropriate regulations. Such reviews vary based on the type of Company, the assets in which a Company invests and the processes used, or experts required, in order to value such assets.

Review

In our view, the Company has been managed during the year, in all material respects:

(i) in accordance with the limitations imposed on the investment and borrowing powers of the Company by the constitutional document; and by the AIFMD legislation; and

(ii) otherwise in accordance with the provisions of the constitutional document; and the AIFMD legislation.

For and on behalf of
Northern Trust (Guernsey) Limited

Financial Statements

Glossary

Articles means the Company's articles of incorporation, as amended from time to time.

Companies Law means The Companies (Guernsey) Law, 2008.

Company is Schroder Real Estate Investment Trust Limited.

Directors means the directors of the Company as at the date of this document whose names are set out on page 26 of this document and "Director" means any one of them.

Disclosure Guidance and Transparency Rules means the disclosure guidance and transparency rules contained within the FCA's Handbook of Rules and Guidance.

Earnings per share ("EPS") is the profit after taxation divided by the weighted average number of shares in issue during the period. Diluted and Adjusted EPS per share are derived as set out under NAV.

Estimated rental value ("ERV") is the Group's external valuers' reasonable opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

EPRA is European Public Real Estate Association.

EPRA NNNAV is EPRA Triple Net Asset Value, being the NAV calculated under IFRS adjusted to reflect the fair value of financial instruments, debt and deferred taxation.

FCA is the UK Financial Conduct Authority.

Gearing is the Group's net debt as a percentage of adjusted net assets.

Group is the Company and its subsidiaries.

Initial yield is the annualised net rents generated by the portfolio expressed as a percentage of the portfolio valuation.

Interest cover is the number of times Group net interest payable is covered by Group net rental income.

Listing Rules means the listing rules made by the FCA under Part VII of the UK Financial Services and Markets Act 2000, as amended.

Market Abuse Regulation means regulation (EU) No.596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse.

MSCI (formerly Investment Property Databank or 'IPD') is a Company that produces an independent benchmark of property returns.

Net Asset Value or **NAV** is shareholders' funds divided by the number of shares in issue at the period end.

NAV total return is calculated on a daily basis taking into account the timing of dividends, share buy backs and issuance.

Net rental income is the rental income receivable in the period after payment of ground rents and net property outgoings.

REIT is Real Estate Investment Trust.

Reversionary yield is the anticipated yield, which the initial yield will rise to once the rent reaches the estimated rental value.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at 31 Gresham Street, London, EC2V 7QA on 8 September 2017 at 10 am.

Resolution on Form of Proxy	Agenda
	1. To elect a Chairman of the Meeting.
	To consider and, if thought fit, pass the following Ordinary Resolutions:
Ordinary Resolution 1	2. To receive, consider and approve the Consolidated Annual Report and Financial Statements of the Company for the year ended 31 March 2017.
Ordinary Resolution 2	3. To approve the Remuneration Report for the year ended 31 March 2017.
Ordinary Resolution 3	4. To re-elect Ms Lorraine Baldry as a Director of the Company.
Ordinary Resolution 4	5. To re-elect Mr Stephen Bligh as a Director of the Company.
Ordinary Resolution 5	6. To re-elect Mr Alastair Hughes as a Director of the Company.
Ordinary Resolution 6	7. To re-elect Mr Keith Goulborn as a Director of the Company.
Ordinary Resolution 7	8. To re-elect Mr Graham Basham as a Director of the Company.
Ordinary Resolution 8	9. To re-appoint KPMG Channel Islands Limited as Auditor of the Company until the conclusion of the next Annual General Meeting.
Ordinary Resolution 9	10. To authorise the Board of Directors to determine the Auditor's remuneration.
Ordinary Resolution 10	11. To receive and approve the Company's Dividend Policy which appears on page 32 of the Annual Report.
	To consider and, if thought fit, pass the following Special Resolutions:
Special Resolution 1	11. That the Company be authorised, in accordance with section 315 of The Companies (Guernsey) Law, 2008, as amended (the "Companies Law"), to make market acquisitions (within the meaning of section 316 of the Companies Law) of ordinary shares in the capital of the Company ("ordinary shares"), provided that: a) the maximum number of ordinary shares hereby authorised to be purchased shall be 14.99% of the issued ordinary shares on the date on which this resolution is passed; b) the minimum price which may be paid for an ordinary share shall be £0.01; c) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall be the higher of (i) 105% of the average of the mid-market value of the ordinary shares for the five business days immediately preceding the date of the purchase; and (ii) that stipulated by the regulatory technical standards adopted by the European Union pursuant to the Market Abuse Regulation; d) such authority shall expire at the conclusion of the annual general meeting of the Company to be held in 2018 unless such authority is varied, revoked or renewed prior to such date by ordinary resolution of the Company in general meeting; and e) the Company may make a contract to purchase ordinary shares under such authority prior to its expiry which will or may be executed wholly or partly after its expiration and the Company may make a purchase of ordinary shares pursuant to any such contract.
Special Resolution 2	12. That the Directors of the Company be and are hereby empowered to allot ordinary shares of the Company for cash as if the pre-emption provisions contained under Article 13 of the Articles of Incorporation did not apply to any such allotments and to sell ordinary shares which are held by the Company in treasury for cash on a non-pre-emptive basis provided that this power shall be limited to the allotment and sales of ordinary shares: a) up to such number of ordinary shares as is equal to 10% of the ordinary shares in issue (including treasury shares) on the date on which this resolution is passed;

b) at a price of not less than the net asset value per share as close as practicable to the allotment or sale;

provided that such power shall expire on the earlier of the conclusion of the annual general meeting of the Company to be held in 2018 or on the expiry of 15 months from the passing of this Special Resolution, except that the Company may before such expiry make offers or agreements which would or might require ordinary shares to be allotted or sold after such expiry and notwithstanding such expiry the Directors may allot or sell ordinary shares in pursuance of such offers or agreements as if the power conferred hereby had not expired.

Close of Meeting.

By Order of the Board

For and on behalf of
Northern Trust International Fund Administration Services (Guernsey) Limited
Secretary
23 May 2017

Notes

1. To be passed, an ordinary resolution requires a simple majority of the votes cast by those shareholders voting in person or by proxy at the AGM (excluding any votes which are withheld) to be voted in favour of the resolution.
2. To be passed, a special resolution requires a majority of at least 75% of the votes cast by those shareholders voting in person or by proxy at the AGM (excluding any votes which are withheld) to be voted in favour of the resolution.
3. A member who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to exercise all or any of their rights to attend and, on a poll, speak or vote instead of him or her. A proxy need not be a member of the Company. More than one proxy may be appointed provided that each proxy is appointed to exercise the rights attached to different shares held by the member.
4. A form of proxy is enclosed for use at the meeting. The form of proxy should be completed and sent, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, so as to reach the Company's Registrars, Computershare Investor Services (Guernsey) Limited, at The Pavilions, Bridgwater Road, Bristol, BS99 6ZY at least 48 hours before the time of the AGM.
5. Completing and returning a form of proxy will not prevent a member from attending in person at the meeting and voting should he or she so wish.
6. To have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a member may cast on a poll) a member must have his or her name entered on the register of members not later than 48 hours before the time of the AGM.
7. Changes to entries in the register after that time shall be disregarded in determining the rights of any member to attend and vote at such meeting.

Corporate information

Registered Address

PO Box 255
Trafalgar Court
Les Banques
St. Peter Port
Guernsey GY1 3QL

Directors (all Non-executive)

Lorraine Baldry (Chairman)
Keith Goulborn
Stephen Bligh
Graham Basham
Alastair Hughes

Investment Manager and Accounting Agent

Schroder Real Estate Investment Management Limited

31 Gresham Street
London
EC2V 7QA

Secretary and Administrator

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