**LONDONMETRIC PROPERTY PLC**
(“LondonMetric” or the “Group” or the “Company”)
**ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2020**
**SECTOR AND ASSET CALLS CONTINUE TO DELIVER INCOME GROWTH AND PORTFOLIO OUTPERFORMANCE**

LondonMetric today announces its annual results for the year ended 31 March 2020.

| Income Statement | 31 March 2020 | 31 March 2019 |
|---|---|---|
| Net rental income (£m)[1,2] | 115.9 | 93.8 |
| IFRS net rental income (£m) | 111.1 | 83.9 |
| EPRA Earnings (£m) [2] | 74.5 | 61.0 |
| EPRA EPS (p) [2] | 9.3 | 8.8 |
| Dividend per share (p) | 8.3 | 8.2 |
| IFRS Reported (Loss)/Profit (£m) | (5.7) | 119.7 |
| Reported Profit excluding exceptional acquisition costs[3] (£m) | 51.5 | 119.7 |

| Balance Sheet | 31 March 2020 | 31 March 2019 |
|---|---|---|
| IFRS net assets (£m) | 1,431.8 | 1,216.8 |
| EPRA NAV per share (p) [2] | 171.7 | 174.9 |
| IFRS NAV per share (p) | 171.0 | 174.7 |
| LTV (%)[1,2] | 35.9 | 32.2 |

1. Including share of Joint Ventures, excluding non-controlling interest
2. Further details on Alternative Performance Measures can be found in the Financial Review and definitions can be found in the Glossary
3. Comprising £48.3m of goodwill impairment and £8.9m of acquisition costs relating to the Mucklow acquisition

**Continued focus on income growth increases earnings and dividend**
- Contracted income up 37% to £123.3m
- Net rental income up 24% to £115.9m[1], on an IFRS basis net rental income increased 32%
- EPRA earnings up 22% to £74.5m, +6% on a per share basis
- Dividend progression of 1% to 8.3p, 112% covered, including Q4 dividend declared of 2.3p
- Rent collection strong at 93% with c. 1% rent forgiven

**Sector alignment and asset selection delivering resilient portfolio performance**
- Total Property Return of 5.1%, outperforming IPD All Property by 560bps
- Capital return flat (IPD All Property: -4.8%), regional and urban logistics best performing sectors
- EPRA NAV per share of 171.7p (2019: 174.9p) after 2.5p of costs incurred from Mucklow acquisition
- IFRS net assets increased 18% to £1,431.8m
- Total Accounting Return of 3.0%

**Investment activity increases urban logistics weighting to 35% and reduces big box exposure to 15%**
- £455m Mucklow acquisition underpinned increase in urban logistics portfolio to £831m (2019: £504m)
- £159m of additional logistics and long income acquisitions with a WAULT of 17 years
- £179m of disposals, largely mega and regional distribution, as well as two Mucklow offices and 26 flats
- PPE: long income and urban acquisitions of £15m with further £82m in legals/terms agreed

**130 asset management initiatives completed**
- Like for like income growth of 3.8%[2]
- £5.2m pa income uplift: lettings signed with WAULT of 11.6 years, urban logistics open market rent reviews +32%
- PPE: deals signed add £1.6m p.a. of income, including a 141,000 sq ft letting to Pets at Home as announced separately

**Resilient £2.3bn portfolio focused on long income and operationally light assets that can deliver income growth**
- WAULT of 11.2 years and occupancy increased to 98.6% (+80bps)
- Gross to net income ratio improved to 98.8% (+60bps) and contractual rental uplifts on 54.5% of income
- Greater income diversification and granularity with top 10 occupiers accounting for 36% of rent (2019: 51%)

**Balance sheet strengthened with further corporate efficiencies**
- LTV of 35.9% reduced to 30.9% on proforma basis following £120m equity raise post year end, providing firepower
- Continued balance sheet discipline with weighted average debt maturity of 5 years and 1.5% marginal debt cost
- EPRA cost ratio reduced further to 14.2% (-80bps)

*Andrew Jones, Chief Executive of LondonMetric, commented:*

"These are challenging times for everyone. At LondonMetric our near-term focus has been on protecting the existing portfolio, engaging with occupiers and enhancing the strength of our balance sheet.

"Whilst the timing and suddenness of the pandemic were unforeseeable, many trends that we are seeing play out were already in the system and are being accelerated as temporary behaviours become more permanent. We are seeing events that were expected to take years to emerge now happening in months or even weeks. As a result, real estate performances continue to polarise, with many distressed sectors being severely damaged whilst the winning sectors are likely to see a wider margin of victory.

"Our focus on owning the right assets in the winning sectors is delivering continued outperformance. Reliable, repetitive and growing income returns are the bedrock of future returns and underpin our progressive dividend. Our portfolio was materially enhanced by our activity in the year, particularly through the Mucklow acquisition which significantly grew our urban logistics platform. Notwithstanding the uncertainty from COVID-19, we remain excited by the outlook for the portfolio. Quality investment opportunities that are seldom available in a normalised market are presenting themselves and, thanks to the support for our recent equity raise, we are approaching this environment from a position of strength and transacting on a number of excellent opportunities."

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***Meeting and audio webcast***

A live audio webcast and conference call will be held at 8.30am today.
The conference call dial-in for the meeting is: +44 (0)330 330 336 9411 (Participant Passcode: 7026998).
For the live webcast see: https://webcasting.brrmedia.co.uk/broadcast/5e6660e59672d83b98777d63.

An on demand recording will be available shortly after the meeting from the same link and from:
http://www.londonmetric.com/investors/reports-and-presentations

**Notes to editors**

LondonMetric is a FTSE 250 REIT that owns one of the UK's leading listed logistics platforms alongside a diversified long income portfolio, with 16 million sq ft under management. It owns and manages desirable real estate that meets occupiers' demands, delivers reliable, repetitive and growing income-led returns and outperforms over the long term. Further information is available at www.londonmetric.com

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*Alternative performance measures: The Group financial statements are prepared in accordance with IFRS where the Group's interests in joint ventures and non-controlling interests are shown as single line items on the income statement and balance sheet. Management reviews the performance of the business principally on a proportionately consolidated basis, which includes the Group's share of joint ventures and excludes non-controlling interests on a line by line basis. Alternative performance measures are financial measures which are not specified under IFRS but are used by management as they highlight the underlying performance of the Group's property rental business and are based on the EPRA Best Practice Recommendations (BPR) reporting framework which is widely recognised and used by public real estate companies.*

# Chair’s statement

The disruption caused by the COVID-19 pandemic and the speed with which it has impacted our lives is truly unprecedented. The changes it has brought are certainly proving to be one of the most defining events of my career. It is putting enormous pressure on government deficits and corporate cash flows across the world. It is also further challenging many long established practices of modern day life.

Whilst there will be pain along the way and longer term economic consequences, I am in no doubt that the world will be able to ride the disruption and recover. Clearly, we can’t predict exactly how the recovery will play out but two themes I pointed to in my statement last year are likely to persist. Firstly, interest rates are unlikely to move significantly higher over the medium term from their unprecedented low levels which, together with significant cuts in corporate dividends and an ever ageing population, are intensifying the global search for income. Secondly, technological and behavioural change will continue to impact the way we live, work and socialise.

COVID-19 is serving to further accelerate structural trends that were already underway. This is having a profound impact on commercial property, with the outlook for certain sectors that were already facing disruption continuing to deteriorate and the polarisation of performances widening further.

It had been apparent to us for a long while that changes in consumer behaviour were going to significantly impact traditional retail property and, over the last year and particularly over recent months with ‘forced adoption’ of new living and shopping habits, this sub sector has seen materially adverse valuation movements and rental declines. Conversely, the supportive tailwinds for logistics and long income property have strengthened further and continue to validate our strategic decisions and actions to align the portfolio to these sectors.

Our successful acquisition of Mucklow in the year significantly advanced our ambition to grow our urban logistics exposure and we have been delighted by the performance to date of the Mucklow portfolio. Along with our other activity, the acquisition has helped to further strengthen our portfolio characteristics, income diversification and wider corporate capabilities.

Over the year, I’m pleased to report that our portfolio delivered further income growth, a robust valuation performance and significant outperformance of the IPD All Property benchmark. EPRA earnings per share increased by 5.6% and dividends per share rose by 1.2%, a fifth year of progression. As a measure of our longer term progress and performance, over the seven years since our merger, we have delivered a total shareholder return of 135% and significantly outperformed the FTSE 350 Real Estate Super Sector average of 34%.

Whilst we are not immune from current events, our portfolio continues to perform well. We enjoy excellent relationships with our stakeholders which, combined with long experience and continued balance sheet discipline and improvements, means that we are well placed. This was evident from our recent equity fundraise, which attracted overwhelming support from existing and new shareholders. The transaction is allowing us to execute on some high quality investment opportunities that will further strengthen our portfolio as well as support our long term progressive dividend policy whilst maintaining our conservatively positioned balance sheet.

We recognise that the success of the Company is reliant on our people and I would like to thank the Board and all our employees for their continued hard work. The Company has not only successfully integrated additional employees from the Mucklow acquisition but has also quickly adapted to a change in the way it works without interruption. This is a testament to the strong and committed team that we have and I am astonished, impressed and very grateful for the way the team has managed the business remotely during lockdown.

Looking forward, we continue to believe that the most attractive characteristic of real estate is its income compounding qualities over the longer term. The ability to generate reliable, repetitive and growing income returns makes certain property sectors a perfect asset class in which to deploy capital.

**Patrick Vaughan**
Chair

10 June 2020

# Chief Executive’s review

## Overview

We continue to live in a world of ongoing disruption, social change and economic uncertainty, all of which are having a profound effect on real estate.

This backdrop has been further impacted by the exogenous shock of COVID-19. Whilst the timing and suddenness of the pandemic were unforeseeable, many trends that we are seeing play out as a result of enforced distancing were already in the system. This pandemic may not in itself transform the world, but it is accelerating changes that were already underway as many temporary behaviours become more permanent. We are seeing changes that were expected to take years to emerge now happening in months or even weeks.

As a result, real estate performances continue to polarise, with many distressed sectors being severely damaged whilst the winning sectors are likely to see a wider margin of victory.

For many years, our portfolio composition has been influenced by the macro trends in the wider economy that affect real estate. We have, therefore, looked to pivot and tilt our portfolio to gain maximum benefit. During the year, we accelerated our conviction calls of investing into logistics and long income with these sectors now representing 94% of our portfolio. We observe the real estate market as it is, not as it was or how we want or hope it to be.

For us, it is not only the returns that we achieve that are important but also the returns weighed against the risks involved and stress incurred. Buying cheap assets is fine but buying good assets cheaply is better. Therefore, whilst the property market throws us lots of opportunities, we let most go, preferring to focus on quality investments that offer long term income, capital growth and downside protection from strong intrinsic values.

Investing in the best real estate assets in the right sectors is an extremely attractive proposition in a zero interest rate world. In this time of uncertainty, we are not only seeing more quality opportunities but also a much less crowded landscape, as competitors remain distracted. Whilst this crisis may destroy a number of companies and the majority will look to survive, it is only the best that will look to improve.

Overall, our portfolio continues to perform strongly and we have built up a collection of excellent assets let on long leases with high occupier appeal, that require limited operational management and which offer a reliable, predictable and growing income stream.

**Structural trends towards online and convenience are being accentuated**

The unprecedented shock from COVID-19 has caused a sudden and forced adoption of new habits by consumers and businesses. A recent study found that it takes 66 days to form a new habit and it is expected that many of the temporary habits formed are likely to take on more permanency and accelerate further.

In this crisis, consumers have relied almost exclusively on online, convenience and essential operators to fulfil their needs. In our view, this enforced way of shopping is simply increasing the speed of structural decline of traditional bricks and mortar retail with a corresponding shift online.

Whereas pre-crisis projections estimated UK online spend would rise from 23% to 28% of non-food retail within the next few years, the number once we fully emerge from the pandemic is likely to be significantly higher.

Part of the acceleration of trends is likely to be reflected in the future approach of many retailers. John Lewis reported recently that, since closing their stores in March, they had seen an 84% surge in online trade which helped to limit group sales decline to just 17% year on year. Furthermore, they expect the shift online to be sustained after lockdown ends. With the operational costs and capital intensity of running store estates and an unrivalled click and collect operation through Waitrose, it is no surprise they are comprehensively reviewing their estate.

History will be a poor indicator of how the recovery from the pandemic will play out. Consumers will emerge in a new economic and social reality, changing behaviours in profound ways. As ever, it is those retailers that are able to react that will successfully navigate these unchartered times. In the process, there is expected to be a consolidation of retailers which will fundamentally alter the competitive and partner landscape.

## Own desirable real estate

**Our portfolio has further aligned to urban logistics where there is strong rental growth**

The continual shift online is requiring companies to improve their logistics capabilities further, both to contend with faster and more accurate delivery demands from customers, as well as holding higher levels of inventory and managing returns.

There has been a marked increase in demand for distribution capacity over the last few months, notably within online food where internet penetration has historically been low, but where a 26% growth in online sales is now expected for 2020 compared to previous predictions of just 9% prior to the pandemic. This is creating a chronic shortage of capacity and, with new supply currently constrained, the demand/supply dynamics remain strong. This provides terrific certainty in an uncertain world and helps to ensure that the intrinsic value of warehousing continues to grow.

Over the year, our logistics platform increased from £1,339 million to £1,638 million, representing 69.8% of our portfolio. However, this 22% top line growth fails to reflect the changing shape of our distribution exposure.

In big box logistics, whilst we are still seeing rental growth, it is noticeably less than before. Occupier demand here has been matched by new supply and is tempering rental growth. This outlook and our tighter geographic focus has prompted us to sell a further £113.5 million of mega distribution, reducing our exposure to this segment from 23.1% to 14.9% of the portfolio.

In urban logistics, we continue to see the strongest rental growth where, in the right locations, there is a perfect condition of rising demand and falling supply due to strong competition from more valuable land use. It has been, and continues to be, our strong conviction call and one that prompted our strategic acquisition of Mucklow.

The purchase is delivering on our aspirations and enabled us to materially accelerate and improve our urban logistics platform that, at £831 million, now accounts for 35.4% of our portfolio, increasing over the year from £504 million and 27.3% respectively.

The strategic rationale of our conviction call is underpinned by the fact that it is only possible to service customer demands by distributing from a portfolio of warehouses located adjacent to major urban populations. Amazon continues to increase its domination of the UK with an ever growing network and DPD recently reported that it experienced record volumes for the time of the year, delivering to one million households on a single day, broadly equating to 1,400 deliveries per minute.

Urban logistics remains one of the few standout areas of the real estate market that we believe has strong long term growth prospects. Whilst we continue to see increased interest from consolidators, ownership remains fragmented which is providing further opportunity for us to scale up.

**Long income real estate continues to offer resilient and reliable income generating characteristics**
The other area of real estate which we continue to find attractive is long income. A property let on long leases, to a high quality counterparty with guaranteed income growth at a yield of at least 400bps higher than government bond yields, offers highly resilient and reliable income generating characteristics. We believe that these strong fundamentals remain underappreciated particularly when their index linked properties are factored in.

Our long income assets are focused on sectors that we believe are less susceptible to the migration of spend online and that benefit from the changes in the way people are shopping and living. They focus on convenience, discount, essential, trade and roadside services. During the year, including Mucklow properties, we acquired £161.6 million of long income assets let on long leases and with a high proportion of the income subject to contractual rental uplifts.

## Generate income

**In a world of ongoing disruption, we continue to prioritise the quality of income from our occupiers**
The global search for income has intensified further as corporates across the board cut dividends and yields on government bonds fall to record lows. We believe that the macro environment is highly supportive for the right real estate that can generate income streams that are reliable, predictable and which are expected to grow.

The portfolio has performed strongly delivering a total property return of 5.1% driven entirely by income returns and outperforming IPD All Property by 560 bps. Our portfolio is well positioned with 98.6% occupancy and a WAULT of 11.2 years.

In this current disruptive environment, we continue to focus strongly on the credit strength, quality and sector diversity of our occupiers. The Mucklow acquisition, together with our other activity, has increased the scale and resilience of our portfolio and helped to grow our contracted income from £90 million to £123 million. It has also significantly improved the diversification and granularity of our income; our top ten occupiers now account for 36% of contracted rent, down from 51% in 2019, and we have a much broader and more diverse occupier base overall.

We continue to believe that there is more growth to come from the portfolio. Rents in urban logistics continue to recalibrate upwards and, despite a strong performance to date, we expect to leverage our enlarged urban portfolio for many years to come and capture the embedded rental growth. Furthermore, with contractual rental uplifts on 55% of our income we continue to have good visibility of rental growth on the other parts of our portfolio.

## Manage & enhance

**The performance of the business is strong with operational activity continuing to enhance our income metrics**
Like for like income growth was 3.8% and asset management added £5.2 million per annum of contracted rent in the year helped by a number of initiatives on the Mucklow assets.

Lettings and regears were signed on 2.1 million sq ft with a WAULT of 12 years and we undertook rent reviews on 3.4 million sq ft delivering a 12% rental uplift on a five yearly equivalent basis, with urban logistics open market reviews achieving a 32% uplift.

Since the year end, we have continued to see strong letting activity including distribution lettings in Stoke, Birmingham and Greenford of 141,000 sq ft, 38,000 sq ft and 34,000 sq ft respectively.

After successfully letting the first phase at our Bedford development, we have commenced the phased build out of a further 166,000 sq ft, whilst at Tyseley we are making good progress with lettings as well as pre-lets on future development.

We continue to embed sustainability and high ESG standards across our activities. Our GRESB score again improved over the year from 67% to 71%, maintaining our Green Star rating, and 78% of our developments completed or under construction in the year are BREEAM Very Good.

Despite the significant impact of COVID-19, our rent collection has been pleasing and we continue to experience minimal income interruption. We acted swiftly to counter attempts to withhold payment and this has paid off. Remarkably, it was some of the more financially robust occupiers that initially proved more problematic and we have been very clear that those that can afford to pay should pay. At the same time, we are actively assisting some occupiers that have experienced material near term challenges, providing them with proportionate and appropriate assistance, in some cases accompanied by value enhancing asset management deals.

We acknowledge that the operational backdrop is evolving quickly and that extrapolating success to date may be premature. However, with each month that passes, we continue to build a better picture of the resilience of our portfolio.

## Expertise & relationships

**We continue to benefit from our strong team and their relationships**
Our team's economic alignment to shareholders ensures a strong conviction to make the right property decisions.

We remain rational and disciplined and will always prefer to sell assets that don't meet our strict investment criteria and wait patiently until an attractive opportunity presents itself, even where this causes a short term disruption to our income flow.

As a result, we continue to benefit from our decisions, as well as some excellent execution and hard work across our investment and asset management teams. Similarly, our finance team has performed strongly, delivering on our debt strategy, working closely with the property team and helping to ensure that the integration of Mucklow was completed successfully and within a quick timeframe.

We have been delighted with the Mucklow acquisition and we are benefiting from the added depth it has brought to our team as well as the presence that we have established around Birmingham.

Our response to the COVID-19 pandemic has focused on keeping our people safe and working closely with our occupiers and other stakeholders. Our experienced team of 33 has successfully and seamlessly transitioned to remote working and operated highly effectively in what has been an intense period. It has been an amazing effort by all and reflects the strength and focus of our team.

## Outlook

**Our focus on owning the right assets in the winning real estate sectors is delivering reliable, repetitive and growing income led returns which is supporting our progressive dividend policy**
Our alignment to the right side of structural change ensures that our portfolio can continue to deliver long term income growth. This is in sharp contrast to the wider property market where the outlook for rental income is either flat or falling and where dividends are under significant pressure. As strong believers in the power of income compounding and that a covered dividend is the bedrock for attractive income returns, we will continue to ensure that the income we generate is passed into our shareholders' pockets.

In these challenging times, we have focused on protecting the existing portfolio, engaging with our occupiers and improving our balance sheet strength. In addition, market uncertainty is giving rise to quality investment opportunities that are seldom available in a normalised market.

Through our relationships and with the proceeds of our significantly oversubscribed equity raise, we are transacting on some excellent assets with £15 million acquired post year end and further deals agreed or in legals that total in excess of £80 million. Therefore, as we continue to stay alert and rational, we will be able to add more quality assets to our portfolio.

Notwithstanding the uncertainty from COVID-19, we remain excited by the outlook for the portfolio and believe that today's market has created an opportunity for experienced managers who can properly assess underlying real estate fundamentals to generate attractive returns through careful asset selection and diligent underwriting.

# Property review

We invest in real estate that can deliver repetitive, reliable and growing income returns. Our actions aim to further improve the quality of the portfolio and its income metrics.

**The acquisition of Mucklow dominated activity in the year**

It added a £455 million portfolio of highly complementary assets with 83% aligned to urban logistics and long income.

Other acquisitions totalled £159 million let for an average of 17.3 years, with 75% of income subject to contractual rental uplifts. These acquisitions related to long income as well as urban and regional distribution assets.

Disposals totalled £179 million and largely consisted of mega and regional distribution warehouses as well as 26 residential flats and two offices; the latter acquired through the Mucklow transaction and sold at a blended 7% premium to acquisition costs.

We will continue to patiently sell down the remaining nine Mucklow offices and five flats, all of which are non-core.

**Investment activity in the year** (including Mucklow)

| | **Acquired (£m)** | **Disposed[1] (£m)** |
|---|---:|---:|
| Urban logistics | 326.6 | 7.6 |
| Regional distribution | 49.4 | 28.4 |
| Mega distribution | - | 113.5 |
| Long income | 161.6 | 8.0 |
| Office, residential & other | 76.2 | 21.5 |
| **Total** | **613.8** | **179.0** |

[1] Excludes a £10.5 million regional disposal that exchanged last year but completed in the year, and includes £64.4 million of disposals, predominantly larger box distribution,that exchanged in the year and are expected to have completed by the end of June 2020.

**Our investment activity continues to improve the portfolio's composition**

Our logistics platform increased to £1,638 million, representing 69.8% of the portfolio. Within this, urban logistics rose from 27.3% to 35.4% of the portfolio, whilst mega distribution fell from 23.1% to 14.9%.

Long income also increased from 21.9% of the portfolio to 24.0%, with the remaining 6.2% of the portfolio predominantly in retail parks and offices.

The portfolio's composition will change further once we complete in full on £64 million of mainly larger box distribution sales that had exchanged prior to the year end and once we deploy the proceeds of the recent equity raise. Since the year end, we have acquired £15 million of urban logistics and long income assets with further deals agreed or in legals that total in excess of £80 million.

**£2.3 billion portfolio**

| | |
|---|---:|
| Urban Logistics | 35.4% |
| Regional Distribution | 19.5% |
| Mega Distribution | 14.9% |
| Long Income | 24.0% |
| Retail Parks | 3.6% |
| Offices & Residential | 2.6% |

**Our portfolio metrics continue to reflect our focus on generating long and growing income**

The portfolio's WAULT of 11.2 years continues to provide a high level of income security with only 7.1% of income expiring within three years and 47.1% within 10 years.

Occupancy increased from 97.8% to 98.6% and our gross to net income ratio improved from 98.2% to 98.8%, which continues to compare highly favourably against our peers and reflects the portfolio's low operational requirements.

In the year, we undertook 130 occupier initiatives generating £5.2 million per annum of additional rent and helping to deliver like for like income growth of 3.8%.

These initiatives consisted of:

- Contractual rental uplifts which apply to 55% of our income, 58% of which is index linked, where 30 reviews were settled delivering £0.7 million of increased rent at an average of 11% above passing on a five yearly equivalent basis;
- Open market rent reviews, predominantly on urban logistics, where 11 reviews were settled delivering £0.6 million of increased rent at an average of 28% above passing on a five yearly equivalent basis; and
- Leasing activity where we signed 89 new leases and regears, mostly on urban logistics, delivering £3.9 million of increased rent with a WAULT of 11.6 years.

Since the year end, we have continued to see strong distribution letting activity and, in total, have let a further 0.3 million sq ft, which, including rent reviews, has added a further £1.6 million per annum of rent.

**The Mucklow acquisition is delivering income growth**
One of our key focuses in the year was to use our more proactive asset management approach to lengthen and grow the income from Mucklow assets acquired. 57 of our 130 occupier initiatives in the year related to Mucklow assets and generated £1.1 million per annum of additional rent.

The Mucklow portfolio continues to offer good reversionary potential and is located in strong locations with 79% in the Midlands, predominantly around Birmingham, and 10% in London and the South East. As well as further development opportunities, there is also long term redevelopment potential to alternative and higher value uses.

**Improving our income diversification and granularity**
In this disruptive environment, we continue to focus strongly on the credit strength, quality and sector diversity of our occupiers.

Our investment and asset management actions, particularly through the Mucklow acquisition, have continued to increase the resilience of our portfolio by further improving our income diversification and granularity.

We have a diverse occupier base by type of business. Over the year, we materially reduced our income exposure to retailer logistics, falling from 34% of contracted income to 20%. Conversely, we have materially increased our exposure to business services and trade occupiers, rising from 18% to 36% of income, spread across a broad range of sectors.

Our top ten occupiers account for 36% of contracted income compared to 51% in 2019. There was a material reduction in income concentration across most occupiers, with a significant reduction for Dixons Carphone following our sale of their warehouse in Newark.

Our contracted income increased over the year from £89.7 million to £123.3 million which, following completion of sales that had exchanged but not completed by year end, will reduce slightly to £119.2 million.

**Valuation and total return performance**
Over the year, the portfolio delivered a strong total property return of 5.1%, significantly outperforming the IPD All Property index of -0.5%:

- Distribution delivered 8.5% with urban and regional seeing the strongest performance
- Long income delivered 1.8%
- Offices delivered 4.3% and retail parks delivered -9.2%

Outperformance was driven by capital returns, where the portfolio was flat compared to IPD All Property of -4.8%:

- Distribution delivered a 3.9% increase
- Long income was down 3.4%
- Offices and retail parks fell by 0.7% and 15.5% respectively

On a like for like basis, the equivalent yield across the portfolio increased by 7bps and ERV growth was 1.7%. ERV growth was highest in urban logistics at 2.2%, whilst regional increased 0.7% and mega was up 0.2%. The investment portfolio's EPRA topped up net initial yield is 5.0% and the equivalent yield is 5.5%.

**Impact of COVID-19 pandemic**
Unsurprisingly, the COVID-19 pandemic has created unprecedented short term disruption to many UK businesses and is putting pressure on the robustness and sustainability of their cash flows.

Despite this uncertainty, our rent collection during the pandemic has been strong with 93% of rent due by 1 April collected or being collected monthly and 94% of monthly rents due over the two month period to 25 May also collected, with total rental payments that we have forgiven or written off amounting to c.1% of rent due.

This resilience reflects our close relationships with our occupiers, our resolute response to non payment and, most significantly, the operational importance to occupiers of our distribution assets as well as the convenience and essential services that our other assets provide.

Whilst our occupiers have remained well capitalised through this crisis we are, however, providing appropriate and proportionate help to a small minority of customers that are being materially impacted and most in need of short term cash flow assistance.

The type of assistance we are providing to occupiers during the COVID-19 pandemic is as follows:

- Monthly rental payments - Concessions have resulted in an increase in the proportion of our rental income that is received monthly in advance instead of quarterly in advance. Monthly rents now account for 18% of our income compared to 13% prior to the pandemic
- Rental concessions with asset management upside - We have agreed compensatory asset management initiatives across 4% of our income. In return for near term rent concessions, we are agreeing on initiatives with occupiers which lengthen and strengthen the future income streams from our assets
- Rental deferrals - Short term rental deferments have been agreed on a further 2% of our rental income. The near term rent concessions will typically be recovered over the 12 subsequent months.

# Distribution

Our distribution warehouses provide critical infrastructure to occupiers and we invest in those assets with the best return prospects. Our distribution assets are spread across the urban, regional and mega subsectors with over half in urban.

Including developments, we increased distribution assets over the year from £1,339 million to £1,638 million, accounting for 69.8% of our overall portfolio. The average WAULT on these assets is 11 years with 59% of income subject to contractual income uplifts.

In the year, we acquired £327 million of urban logistics and £49 million of long-let regional distribution. Disposals totalled £150 million, mainly relating to larger box warehousing.

This investment activity has seen our distribution weighting towards London, the South East and the Midlands increase further to 83% and our North East and Yorkshire exposure more than halve to 4%.

**Increased alignment to urban logistics**

In urban 'last mile' logistics, we continue to see the strongest rental growth within the distribution sector. Severely restricted supply and strong occupier demand continues to generate highly favourable market dynamics, which are driving attractive income growth and returns.

Urban logistics has been our strong conviction call and one that prompted our strategic acquisition of Mucklow, which has materially improved and enlarged our urban platform. Over the year, this portfolio increased from £504 million to £831 million, accounting for 51% of our distribution assets.

Whilst urban logistics has a lower WAULT than our other distribution sectors, it benefits from higher alternative use values, low average rents of £6.50 psf and strong income growth potential. As a consequence, we prefer to have a lower proportion of leases subject to contractual rental uplifts.

**Further reduction in big box exposure**

In big box logistics, whilst there has been rental growth, it is not as pronounced as in previous years. Supply is able to react to occupier demand relatively easily and we believe that this is weakening the prospects for future organic rental growth.

Reflecting these dynamics as well as our efforts to improve geographic focus and income diversification, we sold a further £114 million of mega box warehousing, reducing our exposure to this segment over the year from 23.1% to 14.9% of the portfolio.

**Distribution Portfolio**

| As at 31 March 2020 | Urban | Regional | Mega |
|---|---|---|---|
| Typical warehouse size | Up to 100,000 sq ft | 100,000 to 500,000 sq ft | In excess of 500,000 sq ft |
| Value[1] | £830.8m | £457.6m | £349.6m |
| WAULT | 7.8 yrs | 13.9 yrs | 14.5 yrs |
| Average Rent (psf) | £6.50 | £6.20 | £5.70 |
| ERV (psf) | £7.10 | £6.50 | £5.60 |
| Topped up NIY | 4.8% | 4.3% | 4.3% |
| Contractual uplifts | 33.3% | 78.1% | 100% |
| Total Property Return in 2020 | 7.8% | 11.1% | 7.1% |

1 Includes developments

## Acquisitions (£376m)

**3.1m sq ft**

Urban warehousing acquired as part of the Mucklow acquisition. The assets were acquired at a NIY of c.5.6% and a WAULT of 5.7 years, with 87% located in the Midlands and around Birmingham.

**299,000 sq ft**

Regional warehouse let to John Wiley & Sons for 17 years, acquired for £17.8 million at a NIY of 9.0% with RPI linked rental uplifts.

**232,000 sq ft**

Regional warehouse forward funded development pre-let to Croda for 20 years, acquired for £24.0 million at a yield on cost of 5.2% with RPI linked rental uplifts.

**35,000 sq ft**

Urban warehouse let to Mega Marble for 15 years, acquired for £5.7 million at a NIY of 5.0% with RPI linked rental uplifts.

**26,000 sq ft**

Urban warehouse let to Harrow Green for 17 years, acquired for £4.2 million at a reversionary yield of 6.0%.

**£8.4 million**

Increase in ownership of two warehouses at a NIY of 5.9%, arising from the upweight in our DFS Joint Venture equity holding from 45% to 82%.

## Disposals (£150m)

**726,000 sq ft**

Mega warehouse in Newark sold for £80.8 million, at a NIY of 5.1%. The asset was acquired in 2014 for £68.5 million and is let to Dixons Carphone for a further 14 years at a rent of £6.00 psf.

**330,000 sq ft & 176,000 sq ft**

Two warehouses in Doncaster sold for £51.2 million (£47.9 million at share), reflecting a NIY of 6.2%. They comprised a mega warehouse that was acquired in 2015 for £29.0 million and is let to Next for a further four years at a rent of £6.60 psf, and a regional warehouse acquired in 2013 for £16.6 million and let to DFS for a further ten years at a rent of £7.00 psf.

**152,000 sq ft**

Regional distribution warehouse in Rotherham sold for £13.3 million at a NIY of 5.0%. The warehouse was acquired in 2014 for £10.3 million and is let to Royal Mail for a further eight years.

**84,000 sq ft**

Urban warehouse in Doncaster sold for £5.9 million at a NIY of 7.0% let to Croda for a further two years.

**22,000 sq ft**

Urban warehouse in Nottingham sold for £2.0 million (£1.6 million at share) at a NIY of 5.5% let to DFS for a further ten years.

**Post year end investment activity**

Post year end, we acquired a 14,000 sq ft urban logistics warehouse for £3.2 million let to Royal Mail in Epsom and sold a small warehouse in Hemel Hempstead for £3.6 million. We also have terms agreed on a further £11 million of acquisitions.

## Distribution asset management

We continue to grow our distribution income through our occupier-led asset management and development activity.

**Distribution lettings and regears**

Distribution lettings and regears in the year were signed on 1.7 million sq ft. These deals added £4.0 million per annum of income, with a WAULT of ten years and incentives equivalent to under six months' rent free.

New lettings were signed on 0.4 million sq ft adding £3.2 million per annum of rent and mostly related to completed developments:

- At our Bedford Link development, we let three warehouses totalling 188,000 sq ft to L3 Macdonald Humfrey, Workstories and Larson Juhl. This completed the letting of phase one of the development, achieving a WAULT of 16 years

- At Crawley, we let 36,000 sq ft to Amazon and 46,000 sq ft to International Logistics, also completing the letting of that development
- At Tyseley, 58,000 sq ft was let to Decora Blinds

Regears were signed across 1.3 million sq ft with occupiers including XPO, John Wiley, Ceva Logistics, Dixons Carphone and Siemens. These deals generated additional income of £0.8 million per annum, which represents an uplift on previous passing rent of 12% and increased the WAULT from three years to ten years.

Post year end, we have signed a further 0.3 million sq ft of lettings and regears, which, including rent reviews, has added a further £1.6 million per annum of rent. The WAULT on these transactions is over eight years, which include:

- 141,000 sq ft at our Stoke development, where we have let the second warehouse to Pets at Home
- c.50,000 sq ft in Fareham, where we have regeared the lease and settled a rent review
- 38,000 sq ft at Stargate in Birmingham, where we have let the warehouse to Network Rail
- 34,000 sq ft at Greenford, where we have let a recently refurbished unit to a fast growing online pharmacy

**Distribution rent reviews**

Distribution rent reviews in the year were settled across 17 assets representing 3.0 million sq ft and adding £1.0 million per annum of income at 12% above passing on a five yearly equivalent basis:

- 12 urban logistics reviews accounted for just over half of the rental uplift and these were settled at an average of 24% above previous passing rent on a five yearly equivalent basis, with open market reviews achieving 32% uplifts on average
- Five mega and regional reviews delivered £0.5 million of rental uplift in the year. These were all contractual uplifts and settled at an average of 9% above previous passing rent on a five yearly equivalent basis

# Long income

Our portfolio offers long dated income with income growth. It is aligned to structurally supported sectors of convenience, roadside, trade and essential/discount shopping.

Our long income assets are typically single tenant assets with low operational requirements. They are assets that we believe are benefiting from the changes in the way people live and shop, insulated from structural dislocation, namely; convenience food, wholesale, roadside services, discount and essential retail, bulky goods as well as trade and DIY.

Our long income portfolio offers long dated and predominantly index linked income. It has grown to £563 million, representing 24% of our total portfolio.

The assets have a WAULT of 13.3 years, are 100% let to strong occupiers at affordable average rents of £14.70 psf and are valued at an attractive topped up NIY of 5.6%.

The average lot size is c.£5 million with 57% of income subject to contractual uplifts.

**Investment activity**

In the year, we were a significant net acquirer of long income assets, purchasing £161.6 million and disposing of £8.0 million.

£62.4 million was acquired through Mucklow and included high quality assets let predominantly to Costco, Booker, Wickes, Waitrose, Dunelm and Safestore. A further £99.2 million was acquired at a blended NIY of 6.1%, with a WAULT of 17.4 years and contractual rental uplifts on 70% of income.

Post year end, we acquired a further £12 million of long income assets let to Kwik Fit and Euro Garages. Furthermore, we are currently in legals on acquiring a £60 million sale and leaseback portfolio of five assets let to a convenience/online operator and have terms agreed on an £11 million acquisition relating to a roadside portfolio.

**Asset management**

Our letting activity continues to focus on lengthening and strengthening our income. In the year, we signed 22 leases and regears with a WAULT of 14.5 years, occupier incentives of nine months and rents in line with passing.

Rent reviews settled in the year generated an uplift of £0.2 million at 13% above previous passing on a five yearly equivalent basis. These reviews were mostly related to convenience and leisure assets with RPI or fixed uplifts.

**Long Income portfolio**

| As at 31 March 2020 | Convenience, Roadside & Leisure | NNN Retail | Trade, DIY & Other |
|---|---|---|---|
| Value[1] | £251.0m | £176.6m | £135.4m |
| WAULT | 16.7 years | 9.9 years | 13.6 years |
| Average Rent (psf) | £16.20 | £20.80 | £9.10 |
| Topped up NIY | 4.9% | 6.7% | 5.6% |
| ERV growth | 10.0% | -1.1% | 2.6% |
| Contractual uplifts | 93% | 23% | 56% |
| Total Property Return in 2020 | 5.0% | -0.5% | -1.1% |

1 Includes developments

## Convenience, Roadside & Leisure

Convenience food and wholesale discount stores form over half of this portfolio. The remaining assets are split broadly evenly between roadside assets and five well located and modern Odeon cinemas.

Our roadside portfolio has grown to over £55 million and consists of convenience stores with an attached petrol filling station (PFS), drive through coffee outlets as well as automated car washes located in high density urban areas.

**Activity in year**

£44.3 million was acquired through the Mucklow transaction, principally let to Booker, Costco and Waitrose. A further £32.7 million was acquired in separate acquisitions including seven convenience stores with an attached PFS, as well as a number of IMO car washes. Disposals totalled £7.2 million.

Five regears were signed with Co-op (x2), Booker, Waitrose and Odeon, extending the WAULT from 12 years to 18 years.

| Key occupiers | |
|---|---|
| Aldi | Euro Garages |
| Lidl | Odeon |
| M&S Simply Food | Waitrose |
| Costco | Co-op |

## NNN Retail

These assets consist primarily of properties let to discount, essential, electrical and home retail occupiers. They are typically single tenanted assets with very low operational requirements.

Over half of the assets are located in London and the South East with the largest located in New Malden, London, and benefit from high alternative use values.

Most of the properties in our MIPP joint venture are held within the NNN Retail segment.

**Activity in year**
£36.5 million of acquisitions were transacted. These related to the upweight in our DFS Joint Venture ownership of eight stores and the acquisition, through Mucklow, of a Dunelm and Halford store. Disposals totalled £0.8 million.

15 lettings and regears were signed with a WAULT of 13 years including key deals with the Range, Argos, Halfords, Currys PC World, DFS and Pets at Home.

| Key occupiers | |
|---|---|
| DFS | The Range |
| Currys PC World | Smyths |
| B&M | Pets at Home |
| Dunelm | Argos |

## Trade, DIY & Other

Through our occupier relationships we have been able to build up a portfolio of other properties that have strong long income characteristics let to good covenants with high occupier contentment.

C.60% of this segment consists of assets that are trade/DIY focused. A recent addition to this portfolio has been prominent roadside service centres concentrated around the South/East, let at low rents to Kwik Fit, with high alternative use values.

**Activity in year**
£48.1 million of acquisitions were transacted. These consisted of two assets acquired through Mucklow let to Wickes and Safestore, a sale and leaseback portfolio of 21 Kwik Fit service centres, two buildings let to Meggitt and National Express and a forward funding of a pre-let trade development let to Howdens and MKM.

Two regears were signed with B&Q and Selco, extending the WAULT from seven years to 13 years.

| Key occupiers | |
|---|---|
| Wickes | Selco |
| Safestore | Kwik Fit |
| B&Q | Howdens |
| Jewson | National Express |

# Developments

In the year, we completed 436,000 sq ft of developments that are expected to generate £3.5 million of additional rent reflecting an anticipated yield on cost of 6.5%. We have another 425,000 sq ft under construction and up to a further 834,000 sq ft of pipeline developments.

| Completed in the year | Area sq ft ’000 | Additional rent £m | Yield on cost % |
|---|---|---|---|
| Bedford (Phase 1) | 188 | 1.4 | 6.4 |
| Tyseley (Phase 1a) | 58 | 0.4 | 7.0 |
| Tyseley (Phase 1b)[1] | 77 | 0.6 | 7.0 |
| Durham (funding) | 58 | 0.8 | 5.4 |
| Swindon (extension) | 55 | 0.3 | 7.8 |
| **Total** | **436** | **3.5** | **6.5** |
| **Under construction at year end** | | | |
| Croda, Goole (funding) | 232 | 1.3 | 5.2 |
| Bedford (Phase 2a)[1] | 166 | 1.2 | 6.7 |
| Weymouth[1] | 27 | 0.6 | 6.3 |
| **Total** | **425** | **3.1** | **6.0** |
| **Pipeline developments** | | | |
| Bedford (Phase 2b)[1] | c.350 | 2.3 | c.7.3 |
| i54 Wolverhampton | up to 210 | tbc | tbc |
| Tyseley (Phase 2)[1] | up to 195 | 1.3 | c. 7.0 |
| New Malden[1] | 57 | 0.4 | 4.7 |
| Wallingford (funding) | 22 | 0.3 | 5.0 |
| **Total** | **up to 834** | | |

1 Anticipated yield on cost and rents

**Croda funding**
232,000 sq ft distribution warehouse pre-let to Croda for 20 years which we agreed to forward fund in the year, and which is expected to complete in Q3 2020.

**Bedford**
On site with a phased distribution development of 166,000 sq ft with good levels of occupier interest. There is a further 350,000 sq ft of distribution development potential.

**Weymouth**
19,000 sq ft convenience development in Weymouth let to Aldi that completed in June 2020. Offers have been received on the letting of three small pods totalling a further 8,000 sq ft, where development is conditional on planning.

**Tyseley**
In the year, we completed 135,000 sq ft of distribution development at our Tyseley site which was acquired through the Mucklow transaction. Over half of the warehousing is let and there is strong occupier interest on the remainder. There is further development potential which is conditional on planning and occupier commitment:

- Up to 180,000 sq ft of distribution warehousing development where we are in advanced discussions with potential occupiers
- Up to 15,000 sq ft of roadside service and convenience food development

**i54**
Up to 210,000 sq ft of distribution development potential through our i54 site option in Wolverhampton which we acquired through Mucklow.

**Wallingford funding**
Forward funding of a 22,000 sq ft trade counter development in Wallingford pre-let to MKM and Howdens with a WAULT of 18 years. Construction has commenced with completion expected by the end of the year.

**New Malden**
Extension to and modification of an existing NNN Retail asset which is expected to be let for 15 years to Dixons, Lidl and several other convenience food occupiers. Construction remains conditional on planning.

## Sustainability and ESG

We continue to improve the quality of our assets through development and asset management. 78% of developments that completed in the year or that were under construction at the year end are expected to be certified BREEAM Very Good.

Furthermore, we continue to engage with our occupiers on energy efficiency initiatives, including solar PV installations, LED lighting upgrades and improving the environmental performance of our buildings, particularly across our distribution portfolio.

These activities, together with other responsible business and sustainability actions, have contributed to a continued improvement in ESG related surveys and benchmark scores.

In the year, we further improved our GRESB score from 67 to 71, which allowed us to maintain our Green Star. We also maintained our EPRA Gold star and further improved our FTSE4Good score from 3.1 to 3.4, consolidating our position in that index.

Our targets set for 2021 will see us look to include a net zero carbon ambition as well as extend personal ESG related targets more widely across the Company.

# Financial review

While we have not been immune from the impact of COVID-19, which only affected the last month of the financial year we are reporting on, our portfolio has remained resilient and our rent collection for the first quarter of 2021 has been very strong.

We have utilised our close relationships with customers and have helped those in need by negotiating short term concessions and asset management initiatives which suit both parties.

Our financial results for the year to 31 March 2020 are once again strong. We have benefited from the corporate acquisition of the A&J Mucklow Group in June last year, which added 64 complementary assets valued at £454.7 million to our balance sheet.

EPRA earnings per share increased 5.6% to 9.3p, driven by a 23.6% increase in net rental income. We have continued to grow and pay our dividend despite the recent economic challenges and have declared a fourth quarter dividend of 2.3p payable on 22 July 2020. Our dividend for the year of 8.3p is 1.12 times covered by EPRA earnings and represents a 1.2% increase over the previous year.

Our portfolio is well positioned to weather the disruption caused by the pandemic, with 94% of our assets in the structurally supported distribution and long income sectors. However, there is naturally a heightened degree of uncertainty surrounding our year end property valuation, and our three external valuers have included material uncertainty clauses in their valuation reports which is in line with the RICS guidance. Our property valuation fell by 0.5%, and the resulting revaluation deficit of £12.0 million or 1.5p per share including our share of joint ventures, contributed to the IFRS reported loss this year of £5.7 million.

EPRA net asset value per share fell by 3.2p to 171.7p, primarily due to the one off costs relating to the acquisition of A&J Mucklow, of 2.5p per share. The consideration paid generated a surplus of £48.3 million over the fair value of assets acquired. This goodwill was created predominantly by the strong performance of the LondonMetric share price up to the final offer price being determined and has therefore been fully impaired in the period and charged to the income statement, along with our transaction costs of £8.9 million.

Our financial position was strengthened by a new £75 million unsecured revolving credit facility signed with HSBC in March, which increased our headroom to £220 million at the year end, and provides security and optionality in these unprecedented times. Other financing metrics remain strong, with average cost of debt falling to 2.9% (March 2019: 3.1%) and loan to value of 35.9% (2019: 32.2%) after completing sales that exchanged in the year.

Post year end, we have successfully raised £120 million through an equity placing that was significantly oversubscribed and has, in the short term, reduced our LTV to 30.9%. We intend to deploy the proceeds into new and attractive investment opportunities, the majority of which have been identified and are already in solicitors' hands.

Looking forward we continue to focus on the safety of our team and the needs of our stakeholders. Our past investment decisions, driven by changing consumer spending habits and technological change, positions us well to deal with the challenges ahead.

**Presentation of financial information**

The Group financial statements have been prepared in accordance with IFRS. Management monitors the performance of the business principally on a proportionately consolidated basis, which includes the Group's share of joint ventures and excludes any non-controlling interest on a line by line basis. The figures and commentary in this review are presented on a proportionately consolidated basis, consistent with our management approach, as we believe this provides a meaningful analysis of overall performance. These measures are alternative performance measures, as they are not defined under IFRS.

The Group uses alternative performance measures based on the European Public Real Estate Association ('EPRA') Best Practice Recommendations ('BPR') to supplement IFRS, in line with best practice in our sector, as they highlight the underlying performance of the Group's property rental business. These are adopted throughout this report and are key business metrics supporting the level of dividend payments and for the variable elements of the Executive Directors' remuneration arrangements. We note that EPRA has updated its definitions of EPRA NAV and, in accordance with their guidance, we will adopt them next year.

Further details, definitions and reconciliations between EPRA measures and the IFRS financial statements can be found in note 8 to the financial statements, Supplementary notes i to vii and in the Glossary.

## Income statement

EPRA earnings for the Group and its share of joint ventures are detailed as follows:

| For the year to 31 March | Group £m | JV £m | Non-controlling interest £m | 2020 £m | Group £m | JV £m | 2019 £m |
|---|---|---|---|---|---|---|---|
| Gross rental income | **112.3** | **6.3** | **(1.3)** | **117.3** | 85.1 | 10.4 | 95.5 |
| Property costs | **(1.2)** | **(0.2)** | **–** | **(1.4)** | (1.2) | (0.5) | (1.7) |
| Net rental income | **111.1** | **6.1** | **(1.3)** | **115.9** | 83.9 | 9.9 | 93.8 |
| Management fees | **1.1** | **(0.5)** | **–** | **0.6** | 1.7 | (0.8) | 0.9 |
| Administrative costs | **(15.8)** | **(0.1)** | **–** | **(15.9)** | (13.7) | – | (13.7) |
| Net finance costs | **(24.9)** | **(1.5)** | **0.3** | **(26.1)** | (18.1) | (2.1) | (20.2) |
| Other[1] | **(0.2)** | **–** | **0.2** | **–** | 0.2 | – | 0.2 |
| **EPRA earnings** | **71.3** | **4.0** | **(0.8)** | **74.5** | 54.0 | 7.0 | 61.0 |

1 Other items include the tax charge attributable to the non-controlling interest

**Net rental income**

Delivering growth in earnings and a progressive dividend over the longer term continues to be our primary focus and strategic aim. This is driven by growth in our underlying net rental income, which increased by 23.6% in the year to £115.9 million. This was largely due to the Mucklow portfolio contributing £20.5 million in the nine months since acquisition.

Movements in net rental income are reflected in the table below.

| | £m |
|---|---|
| Net rental income 2019 | 93.8 |
| Net rent from existing properties[1] | 0.7 |
| Contribution from developments[1] | 1.9 |
| Surrender premiums received | (1.7) |
| Net rent from acquisitions[1] | 28.9 |
| Net rent lost from disposals[1] | (8.0) |
| Property cost reduction | 0.3 |
| **Net rental income 2020** | **115.9** |

1 Properties held, developments completed, acquisitions and disposals in 2019 and 2020

Income from lettings, rent reviews and regears of our existing portfolio and completed developments generated additional income of £2.6 million this year. Surrender premiums received were £1.7 million lower than last year and income from net acquisitions of £20.9 million included the Mucklow contribution of £20.5 million.

Property costs have decreased by £0.3 million reflecting lower vacant unit costs and our property cost leakage has seen a corresponding reduction to 1.2% (March 2019: 1.8%).

Rent is usually payable on a quarterly basis, although we have in the past agreed that some tenants can pay monthly to assist with cashflow management. March quarterly and April monthly rents were the first to be impacted by the COVID-19 disruption and some of our tenants requested assistance with payments. We spent time liaising and agreeing concessions where necessary to help and suit both parties, and increased the proportion of our annual rent payable monthly from 13% before the pandemic, to 18%. We have collected or are collecting monthly 93% of rents due by 1 April and have agreed short term rental concessions with compensatory asset management initiatives on a further 4% and short term deferrals on another 2%. As at the date of this report, we have also collected 94% of the monthly rents due over the two month period to 25 May. We have assessed the recoverability of our year end debtor balance taking into account the latest rent collection rates and have increased our provision to £0.4 million this year (2019: £0.2 million) as reflected in note 11 to the financial statements.

**Administrative costs**

Administrative costs have increased by £2.2 million to £15.9 million and are stated after capitalising staff costs of £2.1 million (2019: £1.9 million) in respect of time spent on development projects in the year. Employee headcount has increased to 33 at the year end from 28 last year, following the Mucklow acquisition which contributed £0.7 million towards the increase in overhead. Annualised administrative cost savings of the combined group post acquisition are approximately £1.8 million.

**EPRA cost ratio**

| | 2020<br>% | 2019<br>% |
|---|---|---|
| EPRA cost ratio including direct vacancy costs | **14.2** | 15.0 |
| EPRA cost ratio excluding direct vacancy costs | **13.3** | 14.1 |

We continue to measure our effective management of costs by the EPRA cost ratio, which at 14.2% remains one of the lowest in our sector, having fallen 80 bps during the year. The full calculation is shown in Supplementary note iv.

**Net finance costs**

Net finance costs, excluding the costs associated with repaying debt and terminating hedging arrangements on sales and refinancing in the year, were £26.1 million, an increase of £5.9 million over last year.

This reflected additional interest charges on the Mucklow £60 million SWIP debt facility of £1.6 million and on increased borrowings needed primarily to fund the acquisition. Gross debt increased £348.6 million over the year to £974.8 million.

In addition, the average interest rate payable over the year was higher than the previous year, as we replaced part of our cheaper RCF borrowings with longer dated private placement debt. However, the average cost of debt at the year end was 20bps lower than last year at 2.9% as we had drawn a higher proportion of unsecured borrowing at floating rates.

Further detail is provided in notes 5 and 10 to the financial statements.

**Share of joint ventures**

EPRA earnings from joint venture investments were £4.0 million, a decrease of £3.0 million over last year as reflected in the table below.

| For the year to 31 March | 2020<br>£m | 2019<br>£m |
|---|---|---|
| Metric Income Plus Partnership (MIPP) | **4.0** | 4.6 |
| LMP Retail Warehouse JV (DFS) | **0.1** | 2.4 |
| LSP London Residential Investments (Moore House) | **(0.1)** | – |
| **EPRA earnings** | **4.0** | 7.0 |

The decrease in earnings from our MIPP joint venture was due to the receipt last year of surrender income of £0.7 million.

In April 2019, the Group increased its interest in the DFS joint venture from 45% to 82% by acquiring its partner's interest and repaying the external debt facility with M&G. As a result, we were required to consolidate our interest in the Group accounts and reflect our remaining partner's 18% share as a non-controlling interest. In total, DFS contributed £5.1 million to EPRA earnings in the year compared with £2.4 million last year.

In addition, the Group received net management fees of £0.6 million for acting as property advisor to each of its joint ventures (2019: £0.9 million) which have fallen as a result of the Group's increased share of DFS costs, and property sales reducing fees.

**IFRS reported profit**

| For the year to 31 March | Group<br>£m | JV<br>£m | Non-controlling interest<br>£m | 2020<br>£m | Group<br>£m | JV<br>£m | 2019<br>£m |
|---|---|---|---|---|---|---|---|
| EPRA earnings | **71.3** | **4.0** | **(0.8)** | **74.5** | 54.0 | 7.0 | 61.0 |
| Revaluation of investment property | **(3.8)** | **(10.2)** | **2.0** | **(12.0)** | 75.9 | (11.5) | 64.4 |
| Fair value of derivatives | **(3.2)** | **(0.4)** | **–** | **(3.6)** | (4.4) | (0.3) | (4.7) |
| (Loss)/profit on disposal | **(4.9)** | **(2.3)** | **–** | **(7.2)** | 0.6 | (1.6) | (1.0) |
| Debt and hedging early close out costs[1] | **(0.2)** | **–** | **–** | **(0.2)** | – | – | – |
| Impairment of goodwill | **(48.3)** | **–** | **–** | **(48.3)** | – | – | – |
| Acquisition costs | **(8.9)** | **–** | **–** | **(8.9)** | – | – | – |
| **IFRS reported profit/(loss)** | **2.0** | **(8.9)** | **1.2** | **(5.7)** | 126.1 | (6.4) | 119.7 |

1 Cancellation on acquisition of Mucklow bank facility with HSBC

Management principally monitors the Group's EPRA earnings, as they highlight the underlying performance of the Group's property rental business and exclude property and derivative valuation movements, profits and losses on disposal of properties, financing break costs, goodwill and acquisition costs, all of which may fluctuate considerably from year to year.

A full reconciliation between EPRA earnings and IFRS reported profit is given in note 8(a) to the financial statements and is summarised in the table above.

The Group's reported loss for the year was £5.7 million compared with a profit of £119.7 million last year. The £125.4 million reduction was primarily due to exceptional goodwill and acquisition costs of £57.2 million and a property revaluation deficit of £12.0 million this year compared to a gain of £64.4 million in 2019. Reported profit before exceptional goodwill and acquisition costs was £51.5 million.

Sales of 26 flats at Moore House generated a loss on sale of £2.4 million. Three further flats were sold at Moore House post year end, reducing the number now held to just five, two of which are currently under offer. Group sales generated a further loss of £4.9 million, primarily in relation to the disposal of our mega warehouse in Newark let to Dixons Carphone. The total profit over original cost of all sales in the year was £12.1 million, representing a return of 10.4%. Disposals are discussed in detail in the Property review.

**Taxation**

As the Group is a UK REIT, any income and capital gains from our qualifying property rental business are exempt from UK corporation tax. Any UK income that does not qualify as property income within the REIT regulations, principally management fees and interest receivable, is subject to UK tax in the normal way.

The A&J Mucklow Group previously operated as a UK REIT. Their activities have been incorporated into the LondonMetric Group REIT since acquisition.

The Group's tax strategy is compliance oriented; to account for tax on an accurate and timely basis and meet all REIT compliance and reporting obligations. We seek to minimise the level of tax risk and to structure our affairs based on sound commercial principles. We strive to maintain an open dialogue with HMRC with a view to identifying and resolving issues as they arise.

We continue to monitor and comfortably comply with the REIT balance of business tests and distribute as a Property Income Distribution ('PID') 90% of REIT relevant earnings to ensure our REIT status is maintained. The Group paid the required PID for the year to 31 March 2019 by 31 March 2020 and has already paid a large part of its expected PID for the year to 31 March 2020. The balance is expected to be paid in July as part of the fourth quarterly dividend. In accordance with REIT regulations, £5.5 million was withheld from distributions and paid directly to HMRC in the year.

Our strategy was updated and approved by the Board in the year and can be found on our website at www.londonmetric.com.

## Balance sheet

EPRA net assets for the Group and its share of joint ventures are as follows:

| **As at 31 March** | **Group £m** | **JV £m** | **Non-controlling interest £m** | **2020 £m** | Group £m | JV £m | 2019 £m |
|---|---|---|---|---|---|---|---|
| Investment property | **2,273.6** | **92.4** | **(14.9)** | **2,351.1** | 1,688.0 | 158.2 | 1,846.2 |
| Trading property | **1.1** | **–** | **–** | **1.1** | – | – | – |
| | **2,274.7** | **92.4** | **(14.9)** | **2,352.2** | 1,688.0 | 158.2 | 1,846.2 |
| Gross debt | **(932.7)** | **(42.1)** | **–** | **(974.8)** | (565.0) | (61.2) | (626.2) |
| Cash | **81.8** | **5.1** | **(0.8)** | **86.1** | 20.6 | 3.5 | 24.1 |
| Other net liabilities | **(34.3)** | **(0.6)** | **8.6** | **(26.3)** | (24.1) | (1.3) | (25.4) |
| **EPRA net assets** | **1,389.5** | **54.8** | **(7.1)** | **1,437.2** | 1,119.5 | 99.2 | 1,218.7 |
| Derivatives | **(4.7)** | **(0.7)** | **–** | **(5.4)** | (1.6) | (0.3) | (1.9) |
| **IFRS net assets** | **1,384.8** | **54.1** | **(7.1)** | **1,431.8** | 1,117.9 | 98.9 | 1,216.8 |

EPRA net asset value is a key measure of the Group's overall performance, reflecting both income and capital returns. It excludes the fair valuation of derivative instruments that are reported in IFRS net assets. A reconciliation between IFRS and EPRA net assets is detailed in the table above and in note 8 to the financial statements.

IFRS reported net assets have increased 17.7% in the year to £1,431.8 million, mainly due to the acquisition of Mucklow which added net assets of £364.7 million but reduced cash reserves by £129.4 million as reflected in note 15 to the financial statements.

On a per share basis, both IFRS and EPRA net assets decreased in the year, largely due to the exceptional costs of the Mucklow acquisition of 2.5p per share and also due to the fall in value of investment properties. EPRA net assets per share fell by 3.2p to 171.7p in the year as reflected in the table below.

The goodwill arising on acquisition includes Mucklow transaction costs of £6.5 million and fair value adjustments as reflected in note 15 to the financial statements, reducing net assets per share by 1.3p.

| | £m | p |
|---|---|---|
| EPRA NAV at 1 April 2019 | 1,218.7 | 174.9 |
| EPRA earnings | 74.5 | 9.3 |
| Dividends[2] | (64.2) | (8.0) |
| Property revaluation | (12.0) | (1.5) |
| Acquisition of Mucklow | | |
| Issue of new shares | 283.6 | – |
| Goodwill | (48.3) | (1.3) |
| Acquisition costs | (9.1) | (1.2) |
| Other movements[1] | (6.0) | (0.5) |
| **EPRA NAV at 31 March 2020** | **1,437.2** | **171.7** |

1 Other movements include loss on sales (£7.2 million), debt break costs (£0.2 million) and share based awards (£4.3 million), offset by scrip share issue savings (£5.8 million)

2 Dividend per share is based on the weighted average number of shares in the year. The actual dividend paid in the year was 8.4p as reflected in note 7 to the financial statements

Total accounting return is another important measure of our performance and a component of the variable element of Directors' remuneration arrangements. It reflects EPRA net asset value growth plus dividends paid in the year. Our return this year of 3.0% is lower than last year but compares favourably on a three year basis with many of our peers at 30.6%. The full calculation can be found in Supplementary note viii.

**Dividend**

The Company has continued to declare quarterly dividends and has offered shareholders a scrip alternative to cash payments.

In the year to 31 March 2020, the Company paid the third and fourth quarterly dividends for 2019 and the first two quarterly dividends for 2020 at a total cost of £64.2 million or 8.4p per share as reflected in note 7 to the financial statements.

The Company issued 2.9 million ordinary shares in the year under the terms of the Scrip Dividend Scheme, which reduced the cash dividend payment by £5.8 million to £58.4 million.

The first two quarterly payments for the year to 31 March 2020 of 2.0p per share were paid as Property Income Distributions ('PIDs') in the year. The third quarterly payment of 2.0p was paid as a PID in April 2020 and the Company has approved a fourth quarterly payment of 2.3p in July 2020, of which 0.75p per share will be a PID. The total dividend payable for 2020 has increased 1.2% to 8.3p, comprising a PID of 6.75p and an ordinary dividend of 1.55p.

The Board took the following into account when considering its dividend payments:

- Its REIT obligations to distribute 90% of property rental business profits
- Its desire to pay a sustainable, covered and progressive return to shareholders
- Its EPRA earnings for 2020
- The outlook for 2021 and uncertainties associated with the COVID-19 pandemic

At the year end the Company had distributable reserves of £836.8 million, providing substantial cover for the dividend payable for the year. When required and at least six monthly, the Company receives dividends from its subsidiaries which increase distributable reserves.

**Portfolio valuation**

The Mucklow acquisition dominated our investment activity this year, growing the portfolio by 64 complementary assets worth £454.7 million on acquisition and enabling us to pivot further into urban logistics, which now represents 35.4% of our overall portfolio. The assets acquired included £13.6 million of Mucklow developments.

Our segmental reporting in note 2 to the financial statements and in the table below has been amended following the acquisition to reflect a new though comparatively small office sector and to combine convenience, leisure and long income assets as one long income category.

**Property portfolio by sector**

| | **2020** | | 2019 | |
|---|---|---|---|---|
| **As at 31 March** | **£m** | **%** | £m | % |
| Distribution | **1,593.7** | **67.9** | 1,292.6 | 70.0 |
| Long income | **552.5** | **23.5** | 389.5 | 21.2 |
| Retail Parks | **83.3** | **3.6** | 87.0 | 4.7 |
| Offices | **55.1** | **2.4** | – | – |
| **Investment portfolio** | **2,284.6** | **97.4** | 1,769.1 | 95.9 |
| Residential | **4.9** | **0.2** | 17.3 | 0.9 |
| Development[1] | **57.0** | **2.4** | 59.8 | 3.2 |
| **Property portfolio value** | **2,346.5** | **100.0** | 1,846.2 | 100.0 |
| Head lease and right of use assets | **5.7** | | – | – |
| | **2,352.2** | | 1,846.2 | |

1 Represents regional distribution £38.1 million (1.6%), urban logistics £6.2 million (0.3%), long income £10.5 million (0.5%), office £1.1 million and other land £1.1 million at 31 March 2020. Split of prior year comparatives was regional distribution £22.6 million (1.2%), urban logistics £23.9 million (1.3%), long income £13.3 million (0.7%)

Our distribution exposure continues to dominate and represented 69.8% of our portfolio including distribution developments at the year end. Further sales of 26 flats at Moore House have reduced our residential exposure to just 0.2% of our portfolio. Our development exposure remains modest at 2.4% of the portfolio and includes the remaining site at Bedford, our forward funded development in Goole, a pre-let convenience development in Weymouth and the Tyseley development site acquired as part of the Mucklow portfolio.

Phase 1 of our developments at Bell Farm, Bedford and Tyseley completed on schedule in the year, along with our forward funded development at Durham. These completed developments have been substantially let.

Our property portfolio, including the share of joint venture assets, grew by £500.3 million in the year to £2.3 billion. The movement in the portfolio is reflected in the table below and also in supplementary note vii.

**Portfolio movement in the year**

| | **Group £m** | **JV £m** | **Non-controlling interest £m** | **2020 Portfolio value £m** | 2019 Portfolio value £m |
|---|---|---|---|---|---|
| Opening valuation | 1,688.0 | 158.2 | – | **1,846.2** | 1,842.0 |
| Acquisitions[1,2] | 635.3 | (41.2) | (17.0) | **577.1** | 156.3 |
| Developments[3] | 43.1 | – | – | **43.1** | 34.3 |
| Capital expenditure[4] | 10.2 | 0.3 | (0.2) | **10.3** | 15.0 |
| Disposals | (113.4) | (15.1) | 0.3 | **(128.2)** | (258.8) |
| Revaluation | (3.8) | (10.2) | 2.0 | **(12.0)** | 64.4 |
| Lease incentives[5] | 9.6 | 0.4 | – | **10.0** | (7.0) |
| **Property valuation** | **2,269.0** | **92.4** | **(14.9)** | **2,346.5** | 1,846.2 |
| Head lease and ROU assets | 5.7 | – | – | **5.7** | – |
| **Closing valuation** | **2,274.7** | **92.4** | **(14.9)** | **2,352.2** | 1,846.2 |

1 Group acquisitions in the year include £634.2 million completed investment properties as reflected in note 9 and trading property of £1.1 million

2 DFS upweight from 45% to 82% has been reflected in this table as an acquisition by the Group and offset as a disposal by the joint venture

3 Group developments include acquisitions and capital expenditure on properties under development as reflected in note 9

4 Capital expenditure on completed properties

5 Comprises incentives and rent frees of £15.4 million (2019: £9.2 million) less amounts written off on disposal of £5.4 million (2019: £16.2 million)

Property values in the second half of the year fell by £28.6 million leading to an overall deficit for the year of £12.0 million or 0.5%. The portfolio has delivered a total property return of 5.1% this year compared to the IPD All Property index of -0.5%. Our distribution sector delivered a return of 8.5%, with urban and regional seeing the strongest performance.

Alongside the Mucklow corporate acquisition, the Group spent a further £136.0 million in the year acquiring £29.1 million of distribution and £71.2 million of long income assets and increased its investment in DFS assets by £35.7 million.

We completed 15 commercial property disposals along with the 26 residential flat sales in the period generating net proceeds of £126.4 million at share and reducing the book value of property by £133.6 million (including the cost of lease incentives written off of £5.4 million). The largest disposal was our mega warehouse in Newark, which was sold in January 2020 for £80.8 million.

One disposal in Wakefield that exchanged last year completed in the period, generating proceeds of £10.5 million and has been accounted for in these financial statements. We also exchanged to sell a further four assets in the year for £64.4 million at share with delayed completions. These disposals will complete and be accounted for next year.

At the year end, the Group had capital commitments of £28.9 million as reported in note 9 to the financial statements, relating primarily to our forward funded development in progress at Goole.

Further detail on property acquisitions, sales, asset management and development can be found in the Property review.

## Financing

The key performance indicators used to monitor the Group's debt and liquidity position are shown in the table below. The Group and joint venture split is shown in Supplementary note iii.

| As at 31 March | **2020 £m** | 2019 £m |
|---|---|---|
| Gross debt | **974.8** | 626.2 |
| Cash | **86.1** | 24.1 |
| Net debt | **888.7** | 602.1 |
| Loan to value[1] | **35.9%** | 32.2% |
| Cost of debt[2] | **2.9%** | 3.1% |
| Undrawn facilities | **133.8** | 373.5 |
| Average debt maturity | **4.7 years** | 6.4 years |
| Hedging[3] | **67%** | 73% |

1 LTV at 31 March 2020 includes the impact of sales that completed post year end of £64.4 million within cash and investment properties, and excludes the fair value debt adjustment of £2.7 million

2 Cost of debt is based on gross debt and includes amortised costs but excludes commitment fees

3 Based on the notional amount of existing hedges and total debt facilities

Net debt has increased £286.6 million in the year, primarily to fund the cash offer for Mucklow and transaction costs of £135 million, incorporate its SWIP £60 million loan and repay its £20 million HSBC facility in full. Further debt was drawn to fund other acquisitions and development expenditure in the year, increasing our LTV to 35.9%, which includes the completion of sales that had exchanged in the year. It remains our intention to keep this below 40% over the longer term.

As reported last year, we repaid our DFS joint venture's secured debt facility with M&G in April 2019, at the same time as increasing our equity holding to 82%.

Mucklow's £60 million fixed rate loan was reflected at its fair value on acquisition in accordance with IFRS 3, increasing debt by £2.9 million. This premium is released on a straight-line basis to finance costs over the remaining term of the facility. In the period since acquisition we have released £0.2 million to finance costs and decreased the fair value adjustment to £2.7 million.

In March 2020, we entered into a new £75 million unsecured revolving credit facility with HSBC, which diversified and increased our firepower to provide further operational flexibility. At the year end, we had available undrawn facilities of £133.8 million and cash balances of £86.1 million, providing security and optionality and ample headroom to cover the Group's £28.9 million of contractual capital commitments as disclosed in note 9 to the financial statements. Our post year end equity raise increased our firepower by £120 million to c.£340 million.

Our key financial ratios remain strong with average debt cost reducing to 2.9% (March 2019: 3.1%) and average maturity of 4.7 years (March 2019: 6.4 years).

Of our total facilities of £1.1 billion, 54% or £594 million are unsecured revolving credit facilities, providing operational flexibility at low average costs. At 31 March 2020 debt drawn under these facilities represented 47% of debt drawn compared with 25% last year. This has contributed to a shorter debt maturity at the year end of 4.7 years (March 2019: 6.4 years) and offsets the positive impact of our new SWIP and private placement debt facilities, which have an average maturity period of 11.1 years, and has also contributed to our lower average cost of debt as the marginal cost of drawing under the revolving credit facilities is only 1.5%.

The Group has comfortably complied throughout the year with the financial covenants contained in its debt funding arrangements and has substantial levels of headroom. Covenant compliance is regularly stress tested for changes in capital values and income. The Group's unsecured facilities and private placement loan notes, which together account for 76% of debt drawn at the year end, contain gearing and interest cover financial covenants.

At 31 March 2020 and after adjusting for the equity raise, the Group's gearing ratio as defined within these funding arrangements was 56% which is significantly lower than the maximum limit of 125%, and its interest cover ratio was 4.3 times, comfortably higher than the minimum level of 1.5 times. Property values would have to fall by 37% and rents by 58% before banking covenants are breached.

The Group's policy is to de-risk the impact of movements in interest rates by entering into hedging arrangements. At 31 March 2020, 67% of our exposure to interest rate fluctuations was hedged by way of swaps and caps assuming existing debt facilities are fully drawn (2019: 73%). Since the year end, we have cancelled £350 million interest rate swaps that hedged our unsecured facilities and were due to expire in 2022, reducing the proportion of debt hedged to 36%, mainly through our fixed coupon private placement and SWIP debt. This will contribute to interest cost savings of c. £2.3 million per annum in an environment where we expect rates to remain lower for longer and has reduced our average cost of debt to 2.7%.

We are advised by Chatham Financial and continue to monitor our hedging profile in light of forecast interest rate movements.

## Cash flow

During the year, the Group's cash balances increased by £61.2 million as reflected in the table below.

| **As at 31 March** | **2020 £m** | 2019 £m |
|---|---|---|
| Cash flows from operations | **84.7** | 69.6 |
| Changes in working capital | **(16.0)** | 0.4 |
| Finance costs and taxation | **(24.0)** | (15.8) |
| Cash flows from operating activities | **44.7** | 54.2 |
| Cash flows from investing activities | **(199.2)** | 83.2 |
| Cash flows from financing activities | **215.7** | (143.0) |
| **Net increase/(decrease) in cash** | **61.2** | (5.6) |

The net cash inflow from operating activities of £44.7 million is stated after charging exceptional acquisition costs paid in the period of £15.6 million as reported in note 15. After adjusting for these one off costs, cash flows from operating activities were £60.3 million, representing an increase of £6.1 million or 11.3% compared to last year.

The Group spent £304.8 million acquiring property and subsidiaries in the year and received net cash proceeds of £112.2 million from property disposals and £15.4 million from joint ventures. Capital expenditure on asset management and development activities cost the Group £22.0 million.

Cash inflows from financing activities reflect net new borrowings of £283.8 million, offset by cash dividend and distribution payments of £58.8 million, financing costs of £2.1 million and share purchases of £7.2 million.

Further detail is provided in the Group cash flow statement.

# Risk management

Risk management is critical for reducing the negative impact that risk could have on the Company's strategic objectives and for safeguarding stakeholders' interests.

The Board has overall responsibility for establishing and maintaining a risk management framework which is critical to its decision making process and key to the long term success and growth of the business. This framework is designed to give the Board confidence that risks with the potential to cause material harm to its operations and stakeholders are identified and mitigated as far as possible. The Board has a low risk appetite in respect of these objectives but acknowledges that no system can eliminate the inherent risk in running the business entirely.

A culture of risk awareness is embedded in the Company and within decision making processes supported by robust systems for the identification and management of risk. At each meeting the Board considers risk via a high level dashboard which enables material issues to be monitored and new and emerging risks to be identified early with appropriate action taken to remove or reduce their likelihood and impact.

The Audit Committee has a key oversight and assurance role and assists the Board. The Committee annually scrutinises the Company's risk register and seeks comfort that the principal risks facing the Company have been carefully identified, assessed and mitigated and continue to be monitored. The Committee also reviews the effectiveness of the Group's internal controls including all material financial, operational and compliance controls which form part of the risk mitigation framework. It does this by reviewing an annual internal control evaluation report completed by the Finance Director and through the audit process which includes an assessment of controls. Both the risk register and the internal control evaluation report were last considered by the Audit Committee at its March 2020 meeting. In addition, the Committee also received a cyber security update from the Finance Director at that meeting, which described the penetration, social engineering and disaster recovery testing undertaken in the year to ensure that the Company's IT infrastructure and systems continue to be robust and fit for purpose.

Based on its review and assessment, the Audit Committee is satisfied that no significant weaknesses were identified in the Group's internal control structure during the year and that an effective risk management system is in place. The Committee's findings have been reported to the Board.

The Senior Leadership Team is comprised of individuals with a breadth of skills and experience from across the Company. It is responsible for ongoing risk identification and the design, implementation and maintenance of a robust system of internal controls in light of the risks identified. Short reporting lines and low staff numbers facilitate the early identification of risks and the development of appropriate mitigation strategies based on an assessment of the impact and likelihood of a risk occurring.

The risk register is comprehensively reviewed and updated at least annually by the Company Secretary assisted by members of the Senior Leadership Team. Within the risk register, specific risks are identified and their probability rated by management as having either a high, medium or low impact. A greater weighting is applied the higher the significance and probability of a risk. These weightings are then mathematically combined to produce an overall gross risk rating which is colour coded using a traffic light system. Risk specific safeguards are identified, detailed in the register and rated as strong, medium or weak. The stronger the safeguard, the greater the weighting applied. The gross risk rating and strength of the safeguards against that risk are then combined to produce a resultant overall net risk. Consideration is given to the implementation of further action to reduce risk where necessary. Finally, every risk is allocated an owner and details of how the safeguards are evidenced are noted.

## Principal risks

Our principal risks and uncertainties are identified and reported on below. These risks have the potential to cause material harm to our operations and stakeholders and could impact our ability to execute our strategic priorities or exceed the Board's risk appetite.

## Identifying emerging risk

Senior Leadership Team members are closely involved in day to day matters and have a breadth of experience across corporate and regulatory, property, banking, finance and risk management matters. Each member, within their field of specialism, considers emerging risks that have the potential to adversely impact the business or its stakeholders. These risks are evaluated and monitored at regular meetings held by the Senior Leadership Team, with appropriate mitigation measures implemented as required. Significant emerging risks are raised and discussed at Board level.

Senior management within the property team have strong relationships, particularly within retail, and regularly meet with occupiers to understand their needs and to gain insights into their businesses. Management also have strong banking relationships and more broadly, regularly meet industry representatives, shareholders and analysts. These relationships are one of the key tools used to identify emerging risks. Reports are also commissioned and briefings arranged on wide ranging pertinent topics to understand changes within the real estate sector and the wider economic outlook.

## Changes in risk factors

**COVID-19**

COVID-19 has been introduced as a new principal risk factor. The disruption from COVID-19 and the risk of a prolonged, severe economic downturn is such that this risk is inextricably interlinked with other principal risk categories.

At this stage it is too early to predict COVID-19's full impact on the business. The impact on the macro-economy and therefore tenants is the greatest challenge facing the Company and dominates management's and the Board's time. It is also however creating opportunities. We continue to operate against this unprecedented economic and social backdrop which is accelerating a number of trends that were already in the system. This is having a profound effect on real estate as performances across sectors continue to polarise. The structural trends towards online and convenience that have underpinned our conviction calls into logistics and long income are set to accelerate, as many temporary changes from the pandemic are set to become permanent with changes that were expected to take years now occurring within months.

Against this backdrop, our portfolio remains well positioned and has continued to perform strongly as borne out by our high rent collection and continued dividend payments. These uncertain times are starting to give rise to quality investment opportunities that are seldom available in a normalised market. Through our occupier relationships we have identified some excellent assets, at attractive pricing, which would further strengthen our portfolio's long term income characteristics. Not only do we expect to see further opportunities arise but also we expect competition to be less intense than before with pricing reflective of this.

Whilst COVID-19 is creating an economic shock the Board believes that the Company is well placed to deal with the current disruption and opportunities it may bring. It remains focused on keeping its people safe, working closely with occupiers, suppliers and other stakeholders, continuing to maintain a strong financial position and looking at ways of helping its communities.

**International trade negotiations following Brexit**

On 31 January 2020, the UK left the EU but substantial uncertainty remains over its relationship with the EU and other nations and the shape of future trade deals which are still to be finalised. This has the potential to further negatively impact the macro-economic environment, in addition to the impact from COVID-19 and could affect the Company's investment and occupier market. The Board still ultimately believes that the profound structural changes described above, which are being accelerated by COVID-19, will be more important than the outcome of the international trade negotiations on the business longer term.

**Climate change**

The risks to companies from climate change are under ever greater scrutiny and we have, for the first time, provided a statement in the Responsible Business review that attempts to adhere to the Task Force on Climate related Financial Disclosure (TCFD).

Whilst we believe that we own resilient assets, we started to assess the impact of climate change on our properties, both in terms of the risk of transitioning to a low carbon economy and also the physical risks resulting from climate change, as part of our initial TCFD considerations during the year. The Board's primary consideration at this stage has been assessing the impact that climate change risk could have on the liquidity of our assets. We have therefore commissioned WSP, our environmental due diligence advisor, to undertake a desktop flood risk review across our entire portfolio, to analyse the key risk of flooding. We expect to receive their report back shortly. This analysis will continue to be updated at least annually. We have also increased the scrutiny of the environmental credentials of our buildings, attaching an environmental risk rating to each asset.

# Principal risks - Corporate risks

## 1. Strategy

| Risk | Impact | Mitigation | Commentary | Appetite | Change |
|---|---|---|---|---|---|
| Strategic objectives may be:<br>• Inappropriate for the current economic climate or market cycle<br>• Not achieved due to poor implementation | • Suboptimal returns for shareholders<br>• Missed opportunities<br>• Ineffective threat management<br>• Wrong balance of skills and resources for ongoing success | • Strategy and objectives are regularly reviewed by the Board to adapt to change<br>• Strong occupier and property relationships shape portfolio decisions<br>• Retail and logistics related research is commissioned to assist strategic decision making<br>• The portfolio is UK based with the UK a world leader in the online shopping market<br>• Regular and rigorous portfolio reviews take into consideration sector weightings, tenant and geographical concentrations, perceived threats and market changes, the balance of income to non-income producing assets and asset management opportunities<br>• The three year forecast is regularly flexed and reported<br>• A Senior Leadership Team comprises of departmental heads from all key business functions with diverse skills and experience<br>• Our organisational structure is relatively flat making it easier to identify market changes and monitor operations<br>• Senior management are the Company's eighth largest shareholder, their interests aligned with external investors | • We have significantly increased our weighting to our preferred, structurally supported sectors. 70% of the portfolio is now aligned to distribution, underpinned by modern shopping habits and 24% in long income in a market searching for yield<br>• We have reduced our mega distribution exposure in the year from 23% to 15% where a supply side response to demand is tempering rental growth. This will reduce further when more sales complete in June<br>• 35% of our portfolio is in urban logistics, up from 27% last year. This is our largest sector exposure and one where demand is rising but supply is severely restricted<br>• Net rental income has increased by 24% in the year, predominantly through our acquisition of A&J Mucklow<br>• Dependency on our top ten occupiers has reduced from 51% to 36% and the granularity of our income has been further improved | The Board view the Company's strategic priorities as fundamental to its business and reputation. | **Decreased risk**<br>Our investment activity reduced this risk in the year as we pivoted further into our preferred, structurally supported sectors which offer superior growth prospects.<br>The probability of this risk reducing further over the next 12 months has increased. We have an expectation of being able to source further high quality investment opportunities. |

## 2. COVID-19

| Risk | Impact | Mitigation | Commentary | Appetite | Change |
|---|---|---|---|---|---|
| Global health and economic crisis leading to a severe downturn. | • Suboptimal returns for shareholders<br>• Occupier demand and solvency may be impacted<br>• Asset liquidity may reduce<br>• Debt markets may be impacted | • We are working closely with and providing help to our primary occupational partners who are sincere in their need for assistance. This includes entering into a small number of deferral deals and 'win-win' asset management initiatives<br>• We are heavily focused on working capital and capital allocation and have put some discretionary expenditure on hold<br>• We have limited exposure to development and development supply chains at present<br>• We are maintaining significant shareholder engagement during the lockdown period<br>• We invested in additional IT to enable all staff to work from home before the government lockdown was initiated for their safety<br>• The Senior Leadership Team meet remotely twice weekly to discuss key operational and financial aspects integral to the management of the business. This facilitates communication between the different teams. Other departmental committees also meet remotely regularly each week<br>• The Executive Directors keep the Board informed through remote briefings between Board meetings | • The macro environment is highly supportive of the right real estate that can generate long and strong income. We are actively executing on attractive long term investment opportunities alongside a high expectation of finding additional and compelling opportunities in the near term<br>• COVID-19 is accelerating structural shifts which are likely to become permanent. Within a two month period, for example, Tesco have doubled their online capacity to 1.2 million weekly slots<br>• At the year end we had £220 million in cash and undrawn facilities which provide flexibility and optionality. £75 million was from a new, three year revolving credit facility from HSBC completed in March. In March we also substituted assets into our secured Helaba facility so that it could be fully redrawn<br>• In May 2020 we raised £120 million through an equity placing to fund a pipeline of existing and potential investment opportunities<br>• In April we cancelled £350 million of interest rate swaps to provide additional earnings headroom<br>• All staff have worked remotely and uninterrupted through the lockdown period and a number of transactions have been executed including a £120 million equity placing, post year end acquisitions of £15 million, sales of £13 million and transactions agreed or in legals in excess of £80 million | COVID-19 and its economic impact are outside the Company's control. We continue to focus on what we can control within the business. Our weighting in structurally supported sectors make us well-placed to continue to flourish in a recovery. | **New principal risk**<br>The timing and trajectory of the economic recovery is highly uncertain meaning this remains a high risk. |

| | | | | | |
|---|---|---|---|---|---|
| | | • The Chief Executive provides weekly lockdown updates to keep all staff informed and maintain team spirit | | | |

## 3. Economic and political factors

| Risk | Impact | Mitigation | Commentary | Appetite | Change |
|---|---|---|---|---|---|
| Economic and political factors may lead to a market downturn or specific sector turbulence.<br>Adverse outcome of international trade negotiations following Brexit. | • Suboptimal returns for shareholders<br>• Occupier demand and solvency may be impacted<br>• Asset liquidity may reduce<br>• Debt markets may be impacted | • We commission economic and market research to better understand the potential impact of economic factors on our tenants and preferred sectors<br>• Our strong occupier relationships provide market intelligence and help us better understand our tenants needs<br>• The majority of our portfolio is in resilient asset classes with sustained demand for logistics, convenience retail and long income<br>• We regularly monitor tenant and contractor covenant strength<br>• We limit speculative development exposure and letting risk<br>• We maintain a high weighted average unexpired lease term reducing reletting risk<br>• We have a low vacancy rate<br>• Income granularity reduces the impact of single tenant risk<br>• We have flexible funding arrangements with significant headroom in covenant levels | • We remain focused on fit for purpose distribution and long income assets, including convenience and discount retail, that allow us to take a longer term investment horizon to deliver reliable, repetitive and growing income<br>• Our portfolio metrics continue to be strong with occupancy at 99% and an average unexpired lease length of 11.2 years. Only 7% of rent expires within three years<br>• We increased contracted rent in the year from £90 million to £123 million<br>• We have further diversified our tenant base this year predominantly through the acquisition of A&J Mucklow<br>• At 31 March 2020 and after adjusting for the equity raise, the Group's gearing ratio for its unsecured and private placement debt facilities, which represent 76% of debt drawn, was 56% and significantly lower than the maximum limit of 125%, and its interest cover ratio was 4.3 times, significantly higher than the minimum level of 1.5 times<br>• 54% of the Group's total debt facilities are flexible unsecured revolving credit facilities | The Board monitor political and economic developments which are outside of its control. Focus remains on building and maintaining a robust 'all weather' portfolio. | **Increased risk**<br>Uncertainty remains over the outcome of international trade negotiations following the UK's exit from the EU. These could further negatively impact the economy in addition to the severe economic shock from COVID-19. We believe however that profound structural shifts in the retail landscape, accelerated by COVID-19, will be more important than the outcome of the trade negotiations in the medium to long term. |

## 4. Human resources

| Risk | Impact | Mitigation | Commentary | Appetite | Change |
|---|---|---|---|---|---|
| There may be an inability to attract, motivate and retain high calibre employees. | The business may lack the skill set to establish and deliver strategy and maintain a competitive advantage. | • Our staffing plan focuses on experience and expertise necessary to deliver strategy<br>• Our organisational structure has clear responsibilities and reporting lines<br>• Executive Directors and senior managers are incentivised in a similar manner. Both have significant unvested share awards in the Company. These incentivise long term performance and retention, providing stability in the management structure<br>• Remuneration arrangements are designed to attract and retain high quality staff<br>• Annual appraisals identify training requirements and assess performance<br>• Specialist support is contracted where appropriate<br>• Staff satisfaction surveys are undertaken and staff turnover levels are low<br>• There is a phased refreshment plan for Non Executive Directors | • Our Executive Board was reduced in the year making it more reflective of Company size. Valentine Beresford and Mark Stirling stepped down at the AGM but remain as Investment Director and Asset Director respectively. Both are members of the Senior Leadership Team which is responsible for implementing strategy and running day to day operations<br>• Succession planning remains high on the Board's agenda for the coming year<br>• Our designated workforce Non Executive Director met a group of employees in the year to hear their views and concerns<br>• Flexible working was rolled out to all employees<br>• Ex-Mucklow staff share a similar ethos and have been successfully integrated into the Company | The Board believes it is vitally important that the Company has the appropriate level of leadership, expertise and experience to deliver its objectives and adapt to change. | **No significant change**<br>There was no significant change in perceived risk during the year.<br>We do not anticipate this risk factor will change significantly in the next 12 months. |

## 5. Regulatory and tax framework

| Risk | Impact | Mitigation | Commentary | Appetite | Change |
|---|---|---|---|---|---|
| Non-compliance with legal or regulatory obligations. | • Reputational damage<br>• Potential loss of REIT status<br>• Increased costs<br>• Reduced access to debt and capital markets<br>• Fines, penalties, sanctions | • We monitor regulatory changes that impact our business with specialist support from lawyers and consultants<br>• We consider the impact of legislative changes on strategy<br>• We have allocated responsibility for specific obligations to individuals within the Senior Leadership Team<br>• Our health and safety handbook is regularly updated and audits are carried out on developments to monitor compliance<br>• Our procurement and supply chain policy sets standards for areas such as labour, human rights, pollution risk and community<br>• Staff training is provided on wide ranging issues<br>• External tax specialists provide advice<br>• Our REIT compliance is monitored | • The 2018 Code now applies to the Company<br>• A company-wide anti-bribery, anti-corruption, money laundering and corporate culture seminar was held in the year<br>• We continued to undertake health and safety site audits on our developments through an external specialist consultancy. These included our smaller developments at Swindon and Liskeard this year. Feedback has been positive and no significant issues were identified<br>• We moved the residency of our legacy offshore subsidiaries onshore to simplify the Group structure and operations | The Board has no appetite where non-compliance risks injury or damage to its broad range of stakeholders, assets and reputation. | **No significant change**<br>The Board considers this risk to have remained broadly consistent during the year. New regulations and evolving best practice will continue to impact the business.<br>We do not anticipate this risk factor will change significantly in the next 12 months. |

## 6. Responsible business approach

| Risk | Impact | Mitigation | Commentary | Appetite | Change |
|---|---|---|---|---|---|
| Non-compliance with responsible business practices. | • Reputational damage<br>• Suboptimal returns for shareholders<br>• Asset liquidity may be impacted<br>• Reduced access to debt and capital markets<br>• Poor relationships with stakeholders | • We monitor changes in law, stakeholder sentiment and best practice in relation to responsible business practices such as sustainability, environmental matters and our societal impact, and receive advice and support from specialist consultants<br>• We consider the impact of changes on strategy<br>• We give proper consideration to the needs of our occupiers and shareholders by maintaining a high degree of engagement. We also consider our impact on the environment and local communities<br>• Responsibility for specific obligations is allocated to Senior Leadership Team members<br>• A Responsible Business Working Group meets at least three times a year and reports to the Board<br>• Staff training is provided<br>• EPC rating benchmarks are set to ensure compliance with Minimum Energy Efficiency Standards ('MEES') that could otherwise impact the quality and desirability of our assets leading to higher voids, lost income and reduced liquidity<br>• We consider environmental and climate change risk relating to our assets<br>• We work with our occupiers to improve the resilience of our assets to climate change and a low carbon economy<br>• Sustainability targets are set, monitored and reported<br>• Contractors are required to conform to our responsible development requirements | • We continue to meet with a large number of investors, seeing over 250 in the year<br>• We liaised with key A&J Mucklow investors as part of the corporate acquisition<br>• We sought investor views on changes to the Remuneration Policy and made adjustments based on feedback<br>• A COVID-19 Communities and Charity Committee is providing community and NHS assistance funded in part through the Board and key employees waiving 20% of their salary and fees for three months<br>• We have not drawn on any of the government's COVID-19 financial support measures<br>• Company-wide ESG training has been arranged<br>• We continue to score well in ESG benchmarks, such as maintaining our GRESB Green star and a GRESB score of 71% (up from 67% last year)<br>• 78% of developments completed or underway in the year are expected to achieve a BREEAM Very Good rating<br>• We continue to improve the environmental credentials of our buildings such as installing LED lighting (Primark) and expect to install 1.5MW of solar PV capacity in 2021<br>• We are undertaking a flood risk review of our entire portfolio and are looking at other climate related risks that could impact our portfolio including all material physical and transactional risks | The Board has a low tolerance for non-compliance with risks which impact reputation and stakeholder sentiment towards the Company. | **Increased risk**<br>ESG significance continues to increase for stakeholders, particularly in relation to climate change.<br>We anticipate that ESG risk, particularly climate change risk, will continue to increase over the next 12 months. |

## 7. Systems, processes and financial management

| Risk | Impact | Mitigation | Commentary | Appetite | Change |
|---|---|---|---|---|---|
| Controls for safeguarding assets and supporting strategy may be weak. | • Compromised asset security<br>• Suboptimal returns for shareholders<br>• Decisions made on inaccurate information | • The Company has a strong controls culture<br>• We have IT security systems in place with back up supported and tested by a specialist advisor<br>• Our business continuity plan is regularly updated<br>• Our property assets are safeguarded by appropriate insurance<br>• We have safety and security arrangements in place on our developments, multi-let and vacant properties<br>• Appropriate data capture procedures ensure the accuracy of the property database and financial reporting systems<br>• We maintain appropriate segregation of duties with controls over financial systems<br>• Management receive timely financial information for approval and decision making<br>• Cost control procedures ensure expenditure is valid, properly authorised and monitored | • Our IT systems have allowed us to remain fully operational during the COVID-19 shutdown<br>• Penetration, social engineering and disaster recovery testing was undertaken in the year. No significant issues were identified<br>• An integrated sales ledger invoicing system has been implemented<br>• Following our acquisition of A&J Mucklow we upgraded their IT infrastructure and successfully integrated their property and accounting records onto our systems<br>• Our corporate forecast model has been fully reviewed and rebuilt by BDO LLP to incorporate A&J Mucklow and to streamline its updating and flexing capacity | The Board's appetite for such risk is low and management continually strives to monitor and improve processes. | **No significant change**<br>There was no significant change in perceived risk during the year.<br>We anticipate cyber risk may rise over the next 12 months as criminals look to exploit increased home working in response to COVID-19. |

# Principal risks - Property risks

## 8. Investment risk

| Risk | Impact | Mitigation | Commentary | Appetite | Change |
|---|---|---|---|---|---|
| We may be unable to source affordable investment opportunities. | Ability to implement strategy and deploy capital into value and earnings accretive investments is at risk. | • Management's extensive experience and their strong network of relationships provide insight into the property market and opportunities | • We continue to build on our strong occupier, developer and industry relationships and attract off market opportunities through these<br>• COVID-19 is presenting opportunities to invest in high quality assets not generally available in a normalised market<br>• COVID-19 will impact the operational performance of some competitors and their ability to make investments in the near-term<br>• We remain disciplined and selective | The Board continues to focus on having the right people and funding in place to take advantage of opportunities as they arise. | **Decreased risk**<br>Our investment activity, particularly the acquisition of A&J Mucklow, enabled us to pivot further into our preferred sectors.<br>We anticipate this risk may reduce further over the next 12 months as a result of increased opportunities coupled with potentially less competition. |

## 9. Development risk

| Risk | Impact | Mitigation | Commentary | Appetite | Change |
|---|---|---|---|---|---|
| • Excessive capital may be allocated to activities with development risk<br>• Developments may fail to deliver expected returns due to inconsistent timing with the economic and market cycle, adverse letting conditions, increased costs, planning or construction delays resulting from contractor failure or supply chain interruption | • Poorer than expected performance<br>• Reputational damage | • We only undertake short cycle and relatively de-risked developments on a pre-let basis or where there is high occupier demand<br>• Development exposure as a percentage of our total portfolio is limited with larger projects, such as Bedford Link and Tyseley, phased<br>• Development sites are acquired with planning consent whenever possible<br>• Management have significant experience of complex development<br>• We use standardised appraisals and cost budgets and monitor expenditure against budget to highlight potential overruns early<br>• External project managers are appointed<br>• Our procurement process includes tendering and the use of highly regarded firms with proven track records<br>• We review and monitor contractor covenant strength | • Our development exposure is small at 2.4% of the portfolio<br>• We work with a limited number of contractors which helps us to stay close to their operations. All have managed their cashflows and COVID-19 risks well to date<br>• The majority of sites have remained open or have reopened and are implementing COVID-19 social distancing measures which adhere to government guidelines<br>• Only one small development has a longstop date expiring within 12 months but is expected to complete before then<br>• Limited speculative development is planned in the foreseeable future<br>• Only 15% of our developments that completed in the year remain unlet and we have strong interest on the remaining units<br>• Phase I at Bedford Link is now fully let at an average rent ahead of budget<br>• No developments completing in the year were delayed or over budget<br>• Development budgets and cost monitoring procedures are fully integrated with the accounting system | The Board is willing to take on limited new speculative development following letting progress made during the year. | **No significant change**<br>There was no significant change in perceived risk during the year.<br>Contractor insolvency risk and supply chain disruption may increase as a result of the impact of COVID-19 over the next 12 months. The Company has however limited exposure to development. |

## 10. Valuation risk

| Risk | Impact | Mitigation | Commentary | Appetite | Change |
|---|---|---|---|---|---|
| Investments may fall in value. | Pressure on NAV growth and potentially loan covenants. | • Our portfolio is pivoted towards structurally supported sectors.<br>• Our focus is on sustainable income with lettings to high quality tenants within a diversified portfolio of well located assets with a high weighted average unexpired lease term. This reduces the risk of negative movements in a downturn<br>• The property cycle is continually monitored with investment and divestment decisions made strategically in anticipation of changing conditions<br>• Property portfolio performance is regularly reviewed and benchmarked on an asset by asset basis<br>• The majority of our assets are single let and operationally light with little or no cost leakage<br>• We monitor tenant covenants and trading performance | • Our year end coincided with the commencement of the Government instigated COVID-19 lockdown and increasing economic uncertainty<br>• Our preferred sector assets have performed well and maintained or increased in value with urban logistics providing the strongest valuation contribution<br>• Certain sectors of the retail market have seen material valuation falls and we expect values to weaken further. Our three remaining retail parks represent just 3.6% of the portfolio and delivered a total property return of -9.2%<br>• 55% of our income has contractual uplifts, 58% of which is inflation linked<br>• Asset management initiatives added £5 million to contracted rent including lettings on 2 million sq ft on average lease lengths of 12 years<br>• Rent reviews on 3 million sq ft delivered a 12% uplift on a five yearly equivalent basis, with urban logistics achieving average uplifts of 24% | There is no certainty that property values will be realised. This is an inherent risk in the industry. | **Increased risk**<br>The impact of COVID-19 on the macro-economy has increased this risk. The majority of our portfolio remains strategically aligned to structurally supported sectors where the prospects for value preservation and growth are significantly higher than sectors which are not. |

## 11. Transaction and tenant risk

| Risk | Impact | Mitigation | Commentary | Appetite | Change |
|---|---|---|---|---|---|
| • Property purchases and asset management initiatives may be inconsistent with strategy<br>• Due diligence may fail to highlight risks<br>• Lettings may be made to inappropriate tenants<br>• Tenant failure risk | Pressure on NAV, earnings and potentially loan covenants. | • We undertake thorough due diligence on all acquisitions including legal and property, tenant covenant strength and trading performance<br>• Tenant concentration within the portfolio is considered for all acquisitions and leasing transactions<br>• We have a diversified tenant base and limited exposure to occupiers in bespoke properties<br>• Asset management initiatives undergo cost benefit analysis prior to implementation<br>• External advisors benchmark lease transactions and advise on acquisition due diligence<br>• Our experienced asset management team work closely with tenants to offer them real estate solutions that meet their business objectives. This proactive management approach helps to reduce vacancy risk<br>• We monitor rent collection closely to identify potential issues | • Our tenant default rate within the industry is low and we have no significant arrears<br>• Rent collection has been strong despite the challenging economic backdrop of COVID-19. As at the date of this report, 93% of rent due by 1 April has been received or is due to be collected monthly. Short term rental deferrals have been agreed on a further 2% and short term rental concessions with compensatory asset management initiatives on an additional 4%<br>• 18% of our rent is now paid monthly compared to 13% before the COVID-19 pandemic. As at the date of this report, we have collected 94% of monthly rent due over the two month period to 25 May | The Board has no appetite for risk arising out of poor due diligence processes on acquisitions, disposals and lettings. A degree of tenant covenant risk and lower unexpired lease terms are accepted on urban logistics assets where there is high occupational demand, redevelopment opportunity or alternative site use. | **Increased risk**<br>The impact of COVID-19 has increased tenant failure risk. |

## Principal risks - Financing risk

## 12. Capital and finance risk

| Risk | Impact | Mitigation | Commentary | Appetite | Change |
|---|---|---|---|---|---|
| The Company has insufficient funds and available credit. | Strategy implementation is at risk. | • We maintain a disciplined investment approach with competition for capital. Assets are considered for sale when they have achieved target returns and strategic asset plans<br>• Cash flow forecasts are closely monitored<br>• Relationships with a diversified range of lenders are nurtured and loan facilities regularly reviewed. The availability of debt and the terms on which it is available is considered as part of the Company's long term strategy<br>• Loan facilities incorporate covenant headroom, appropriate cure provisions and flexibility<br>• Headroom and non-financial covenants are monitored<br>• A modest level of gearing is maintained<br>• The impact of disposals on secured loan facilities covering multiple assets is considered as part of the decision making process<br>• Interest rate derivatives are used to fix or cap exposure to rising rates. Chatham Financial provide specialist hedging advice | • We inherited a £60 million SWIP loan on our acquisition of A&J Mucklow fixed at 3.51% until 2031<br>• In March we entered into a 3 year loan with HSBC for £75 million on similar terms and pricing as our existing revolving credit facility. This diversifies our lender base ahead of refinancing the main facility within the next 18 months<br>• In May 2020 we extended Santander's participation in our main revolving credit facility by a year so that it matches that of the majority of syndicate members<br>• Our debt maturity at the year end was 4.7 years<br>• We have substantial headroom under our financial loan covenants. Loan to value is 35.9% (37.7% excluding disposals with delayed completion) and the interest cover on unsecured facilities is 4.3 times | The Board has no appetite for imprudently low levels of available headroom in its reserves or credit lines. The Board has some appetite for interest rate risk and loans are not fully hedged. This follows cost benefit assessment and takes into account that not all loans are fully drawn all the time. | **No significant change**<br>There was no significant change in perceived risk during the year.<br>We do not anticipate this risk factor will change significantly in the next 12 months. |

# Viability Statement

In accordance with the 2018 UK Corporate Governance Code, the Board has assessed the prospects of the Group over a period longer than the 12 months required by the 'Going Concern' provision. The Directors conducted this review taking account of the Group's financial position, business strategy, principal risks and outlook.

**Assessment of viability review period**

The Board has determined that the three year period to 31 March 2023 is an appropriate period over which to assess the Group's viability, as in previous years, for the following reasons:

- The Group's financial business plan and detailed budgets cover a rolling three year period;
- It is a reasonable approximation of the typical time it takes from committing funds to development projects to practical completion. The average length of the Group's developments that completed in the year at Bedford, Tyseley and Durham was ten months; and
- Three years is considered to be the optimum balance between long term property investment and the difficulty in accurately forecasting ahead given the cyclical nature of property investment.

This period is reviewed and challenged annually to ensure it remains appropriate.

In addition to the three year viability assessment period, the Board considered a number of other factors when assessing the Group's longer term prospects, including:

- The weighted average unexpired lease length of 11.2 years;
- The longer term nature of some debt facilities and a weighted average debt maturity of 4.7 years; and
- The longer term investment horizon and nature of the property cycle.

**Assessment of prospects**

The Group's strategy is reviewed by the Board at each meeting and extensively at one meeting or lunch each year. The business plan is structured around the Group's strategy and consists of a rolling three year profit and cash flow forecast, which factors in deals under offer, committed developments and also reinvestment plans. The business plan considers capital commitments, dividend cover, loan covenants and REIT compliance metrics. The Senior Leadership Team provides regular strategic input to the financial forecasts covering investment, divestment and development plans and capital allocation. Forecasts are updated at least monthly, and are reviewed against actual performance and reported quarterly to the Board. The corporate model has been enhanced and rebuilt this year by BDO LLP following the acquisition of A&J Mucklow.

When assessing longer term prospects, the Board is mindful of the following:

- Income certainty, with 55% of the Group's rental income benefiting from contractual uplifts and an average unexpired lease length of 11.2 years;
- A proven track record of executing transactions, making good sector choices and growing income;
- Substantial liquidity with undrawn debt facilities and cash of £220 million;
- Headroom under loan covenants; and
- Past experience of raising debt and equity finance, including the recent £120 million equity raise.

**Assessment of viability**

The business plan was stress tested to validate its resilience to a combination of adverse movements in its principal risks including:

- Changes to macro-economic conditions including the impact of the COVID-19 pandemic, affecting rental income levels, property values, transactions and developments;
- Challenges in the retail environment including tenant failures impacting occupancy levels and lettings;
- Changes in the availability of funds and interest rates; and
- Changes in property market conditions impacting reinvestment assumptions.

The sensitivity analysis involved modelling a downside scenario reducing both property values and rental income by 15%, removing uncommitted capital expenditure and asset sales that had exchanged or were in legals and assuming no new debt facilities were entered into but existing revolving facilities were renewed.

Throughout this downside scenario, the Group had sufficient reserves to continue in operation and remain compliant with its banking covenants.

Property values would need to fall by approximately 37% and rental income fall by 58% to breach the gearing and interest cover covenants under the Group's unsecured and private placement debt facilities, that together account for 76% of the Groups borrowing including its share of joint ventures.

This scenario testing, when combined with the Group's strong financial position, March quarter rent collection evidence, and mitigation actions available including deferring non committed capital expenditure and selling assets, supports the Group's ability to weather the current economic uncertainties caused by the COVID-19 pandemic and over the longer term viability period.

**Conclusion**

Based on the results of their review, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment.

# Directors' responsibility statement

The Directors are responsible for preparing the Annual 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 the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and have elected to prepare the Company financial statements in accordance with Financial Reporting Standard 101 ('FRS101') 'Reduced Disclosure Framework'. Under Company law the Directors must not approve the accounts unless they are satisfied that they 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 the Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether applicable FRS101 'Reduced Disclosure Framework' has been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- Make an assessment of the Company's ability to continue as a going concern

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

## Responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- The Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy

By order of the Board

**Martin McGann**
Finance Director

10 June 2020

**Andrew Jones**
Chief Executive

10 June 2020

# Group income statement

**For the year ended 31 March**

| | Note | **2020 £m** | 2019 £m |
|---|---|---|---|
| **Gross revenue** | 3 | **113.4** | 86.8 |
| Gross rental income | | **112.3** | 85.1 |
| Property operating expenses | | **(1.2)** | (1.2) |
| **Net rental income** | | **111.1** | 83.9 |
| Property advisory fee income | | **1.1** | 1.7 |
| **Net income** | | **112.2** | 85.6 |
| Administrative costs | 4 | **(15.8)** | (13.7) |
| Impairment of goodwill on acquisition of subsidiaries | 15 | **(48.3)** | – |
| Acquisition costs | 15 | **(8.9)** | – |
| (Loss)/profit on revaluation of investment properties | 9 | **(3.8)** | 75.9 |
| (Loss)/profit on sale of investment properties | | **(4.9)** | 0.6 |
| Share of losses of joint ventures | 10 | **(8.9)** | (6.4) |
| **Operating profit** | | **21.6** | 142.0 |
| Finance income | | **0.7** | 0.4 |
| Finance costs | 5 | **(29.0)** | (22.9) |
| **(Loss)/profit before tax** | | **(6.7)** | 119.5 |
| Taxation | 6 | **(0.2)** | 0.2 |
| **(Loss)/profit for the year and total comprehensive income** | | **(6.9)** | 119.7 |
| Attributable to: | | | |
| Equity shareholders | | **(5.7)** | 119.7 |
| Non-controlling interest | 20 | **(1.2)** | – |

| | | | |
|---|---|---|---|
| **Earnings per share** | | | |
| Basic | 8 | **(0.7)p** | 17.2p |
| Fully diluted | 8 | **(0.7)p** | 17.1p |
| **EPRA earnings per share** | | | |
| Basic | 8 | **9.3p** | 8.8p |
| Fully diluted | 8 | **9.2p** | 8.7p |

All amounts relate to continuing activities.

# Group balance sheet

**As at 31 March**

| | Note | **2020 £m** | 2019 £m |
|---|---|---|---|
| **Non current assets** | | | |
| Investment properties | 9 | **2,273.6** | 1,688.0 |
| Investment in equity accounted joint ventures | 10 | **54.1** | 98.9 |
| Other tangible assets | | **0.4** | 0.4 |
| | | **2,328.1** | 1,787.3 |
| **Current assets** | | | |
| Trading properties | | **1.1** | – |
| Trade and other receivables | 11 | **7.8** | 5.8 |
| Cash and cash equivalents | 12 | **81.8** | 20.6 |
| | | **90.7** | 26.4 |
| **Total assets** | | **2,418.8** | 1,813.7 |
| **Current liabilities** | | | |
| Trade and other payables | 13 | **42.6** | 36.4 |
| **Non current liabilities** | | | |
| Borrowings | 14 | **926.7** | 558.9 |
| Derivative financial instruments | 14 | **4.7** | 1.6 |
| Lease liabilities | 16 | **5.9** | – |
| | | **937.3** | 560.5 |
| **Total liabilities** | | **979.9** | 596.9 |
| **Net assets** | | **1,438.9** | 1,216.8 |
| **Equity** | | | |
| Called up share capital | 17 | **84.2** | 70.0 |
| Share premium | 18 | **106.3** | 100.8 |
| Capital redemption reserve | 18 | **9.6** | 9.6 |
| Other reserve | 18 | **488.4** | 221.7 |
| Retained earnings | 18 | **743.3** | 814.7 |
| **Equity shareholders' funds** | | **1,431.8** | 1,216.8 |
| Non-controlling interest | | **7.1** | – |
| **Total equity** | | **1,438.9** | 1,216.8 |
| **Net asset value per share** | 8 | **171.0p** | 174.7p |
| **EPRA net asset value per share** | 8 | **171.7p** | 174.9p |

The financial statements were approved and authorised for issue by the Board of Directors on 10 June 2020 and were signed on its behalf by:

**Martin McGann**
Finance Director

Registered in England and Wales, No 7124797

# Group statement of changes in equity

**For the year ended 31 March**

| | Note | Share capital £m | Share premium £m | Capital redemption reserve £m | Other reserve £m | Retained earnings £m | Equity shareholders' funds £m | Non-controlling interest £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| At 1 April 2019 | | **70.0** | **100.8** | **9.6** | **221.7** | **814.7** | **1,216.8** | **–** | **1,216.8** |
| Loss for the year and total comprehensive income | | **–** | **–** | **–** | **–** | **(5.7)** | **(5.7)** | **(1.2)** | **(6.9)** |
| Share issue on acquisition | 15 | **13.9** | **–** | **–** | **269.5** | **–** | **283.4** | **–** | **283.4** |
| Purchase of shares held in trust | | **–** | **–** | **–** | **(7.2)** | **–** | **(7.2)** | **–** | **(7.2)** |
| Vesting of shares held in trust | | **–** | **–** | **–** | **4.4** | **(4.4)** | **–** | **–** | **–** |
| Share based awards | | **–** | **–** | **–** | **–** | **2.9** | **2.9** | **–** | **2.9** |
| Investment from non-controlling interest | | **–** | **–** | **–** | **–** | **–** | **–** | **8.7** | **8.7** |
| Distribution to non-controlling interest | | **–** | **–** | **–** | **–** | **–** | **–** | **(0.4)** | **(0.4)** |
| Dividends | 7 | **0.3** | **5.5** | **–** | **–** | **(64.2)** | **(58.4)** | **–** | **(58.4)** |
| **At 31 March 2020** | | **84.2** | **106.3** | **9.6** | **488.4** | **743.3** | **1,431.8** | **7.1** | **1,438.9** |

| | Note | Share capital £m | Share premium £m | Capital redemption reserve £m | Other reserve £m | Retained earnings £m | Equity shareholders' funds £m | Non-controlling interest £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| At 1 April 2018 | | 69.7 | 96.1 | 9.6 | 222.5 | 751.6 | 1,149.5 | – | 1,149.5 |
| Profit for the year and total comprehensive income | | – | – | – | – | 119.7 | 119.7 | – | 119.7 |
| Purchase of shares held in trust | | – | – | – | (4.8) | – | (4.8) | – | (4.8) |
| Vesting of shares held in trust | | – | – | – | 4.0 | (3.7) | 0.3 | – | 0.3 |
| Share based awards | | – | – | – | – | 2.7 | 2.7 | – | 2.7 |
| Dividends | 7 | 0.3 | 4.7 | – | – | (55.6) | (50.6) | – | (50.6) |
| At 31 March 2019 | | 70.0 | 100.8 | 9.6 | 221.7 | 814.7 | 1,216.8 | – | 1,216.8 |

# Group cash flow statement

**For the year ended 31 March**

| | 2020<br>£m | 2019<br>£m |
|---|---|---|
| **Cash flows from operating activities** | | |
| (Loss)/profit before tax | **(6.7)** | 119.5 |
| **Adjustments for non cash items:** | | |
| Loss/(profit) on revaluation of investment properties | **3.8** | (75.9) |
| Loss/(profit) on sale of investment properties | **4.9** | (0.6) |
| Share of post tax loss of joint ventures | **8.9** | 6.4 |
| Movement in lease incentives | **(5.7)** | (5.0) |
| Impairment of goodwill on acquisition | **48.3** | – |
| Share based payment | **2.9** | 2.7 |
| Net finance costs | **28.3** | 22.5 |
| **Cash flows from operations before changes in working capital** | **84.7** | 69.6 |
| Change in trade and other receivables | **(3.0)** | 0.4 |
| Change in trade and other payables | **(13.0)** | – |
| **Cash flows from operations** | **68.7** | 70.0 |
| Interest received | **0.2** | 0.1 |
| Interest paid | **(24.0)** | (16.2) |
| Tax (paid)/received | **(0.2)** | 0.3 |
| **Cash flows from operating activities** | **44.7** | 54.2 |
| **Investing activities** | | |
| Purchase of subsidiary undertakings net of cash acquired | **(119.6)** | – |
| Purchase of investment properties | **(185.2)** | (159.0) |
| Capital expenditure on investment properties | **(18.1)** | (27.6) |
| Lease incentives paid | **(3.9)** | (3.2) |
| Sale of investment properties | **112.2** | 261.0 |
| Investments in joint ventures | **(0.3)** | (5.1) |
| Distributions from joint ventures | **15.7** | 17.5 |
| Purchase of tangible assets | **–** | (0.4) |
| **Cash flows from investing activities** | **(199.2)** | 83.2 |
| **Financing activities** | | |
| Dividends paid | **(58.4)** | (50.6) |
| Distribution to non-controlling interest | **(0.4)** | – |
| Purchase of shares held in trust | **(7.2)** | (4.8) |
| Vesting of shares held in trust | **–** | 0.3 |
| New borrowings and amounts drawn down | **304.9** | 360.0 |
| Repayment of loan facilities | **(21.1)** | (445.0) |
| Financial arrangement fees and break costs | **(2.1)** | (2.9) |
| **Cash flows from financing activities** | **215.7** | (143.0) |
| **Net increase/(decrease) in cash and cash equivalents** | **61.2** | (5.6) |
| Opening cash and cash equivalents | **20.6** | 26.2 |
| **Closing cash and cash equivalents** | **81.8** | 20.6 |

# Notes forming part of the Group financial statements

**For the year ended 31 March 2020**

## 1 Significant accounting policies

The financial information set out herein does not constitute the Company's statutory accounts for the years ended 31 March 2020 or 31 March 2019, but is derived from those accounts. Statutory accounts for the years ended 31 March 2020 and 31 March 2019 have been reported on by the independent auditor. The independent auditor's reports on the Annual Report and financial statements for 2020 and 2019 were unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

Statutory accounts for the year ended 31 March 2019 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 March 2020 will be delivered to the Registrar following the Company's Annual General Meeting.

The financial information set out in this results announcement has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively Adopted IFRSs). The accounting policies adopted in this results announcement are consistent with those used in preparing the financial statements for the year ended 31 March 2020, which are the same as those used in the financial statements for the year ended 31 March 2019 with the exception of the adoption of IFRS 16 'Leases' from 1 April 2019.

**a) General information**

LondonMetric Property Plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is One Curzon Street, London, W1J 5HB. The principal activities of the Company and its subsidiaries ('the Group') and the nature of the Group's operations are set out in the Strategic report.

**b) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

**c) Going concern**

Given the significant impact of COVID-19 on the global economy in which the Group is operating, the Board has paid particular attention to the appropriateness of the going concern basis in preparing these financial statements.

The going concern assessment considers the principal risks and uncertainties facing the Group's activities, future development and performance and are discussed in detail in the Risk Management section.

A key consideration is the Group's financial position, cash flows and liquidity, including its continued access to debt facilities and its headroom under financial loan covenants. As reported in the Viability Statement, the Group's unsecured facilities and private placement loan notes, which together represent 76% of total Group borrowings including its share of joint ventures, contain gearing and interest cover covenants. At 31 March 2020, the Group had substantial headroom within these covenants. After adjusting for the equity raise, gearing was 56%, substantially lower than the maximum limit of 125% and its interest cover ratio was 4.3 times, comfortably higher than the minimum level of 1.5 times. Property values would have to fall by 37% and rents by 58% before banking covenants are breached.

Group borrowings, undrawn facilities and hedging are described in note 14 and in the Financial review.

In May 2020, the Group successfully completed an equity raise of £120 million, strengthening the balance sheet and financial position.

The Directors have reviewed the current and projected financial position of the Group, making reasonable assumptions about future trading performance including the impact of COVID-19 which is explained in detail in the Viability Statement. Key assumptions included in the sensitivity analysis are as follows:

- rents decline by 15% across the portfolio
- capital values fall by 15% across the portfolio
- there are no new developments or uncommitted capital expenditure
- asset sales that have exchanged or are in legals do not complete
- no new financing is assumed

Throughout this downside scenario the Group has sufficient cash reserves to continue in operation and remain compliant with banking covenants. On the basis of this review, together with available market information and the Directors' experience and knowledge of the portfolio, they have a reasonable expectation that the Company and the Group has adequate resources to continue in operational existence for the foreseeable future.

Accordingly, they continue to adopt the going concern basis in preparing the financial statements for the year to 31 March 2020.

**d) Basis of preparation**

The financial statements are prepared on a going concern basis, as explained above.

The functional and presentational currency of the Group is sterling. The financial statements are prepared on the historical cost basis except that investment and development properties and derivative financial instruments are stated at fair value.

The accounting policies have been applied consistently in all material respects except for the adoption of new and revised standards as noted below.

***i) Significant accounting 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 accounting policies and the reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period. If the revision affects both current and future periods, the change is recognised over those periods.

The accounting policies subject to significant judgements and estimates are considered by the Audit Committee and are as follows:

***Significant areas of estimation uncertainty***

***Property valuations***

The valuation of the property portfolio is a critical part of the Group's performance. The Group carries the property portfolio at fair value in the balance sheet and engages professionally qualified external valuers to undertake six monthly valuations.

The determination of the fair value of each property requires, to the extent applicable, the use of estimates and assumptions in relation to factors such as future lease income, lease incentives, current market rental yields, future development costs and the appropriate discount rate. In addition, to the extent possible, the valuers make reference to market evidence of transaction prices for similar properties.

The fair value of a development property is determined by using the 'residual method', which deducts all estimated costs necessary to complete the development, together with an allowance for development risk, profit and purchasers' costs, from the fair valuation of the completed property.

Note 9(b) to the financial statements includes further information on the valuation techniques and inputs used to determine the fair value of the property portfolio.

The COVID-19 pandemic has led to a heightened degree of uncertainty surrounding our year end valuations and our three external valuers have included material uncertainty clauses in their valuation reports which is in line with the RICS guidance.

***Significant transactions***

Some property transactions are large or complex and require management to make judgements when considering the appropriate accounting treatment. These include acquisitions of property through corporate vehicles, which could represent either asset acquisitions or business combinations under IFRS 3. There is a risk that an inappropriate approach could lead to a misstatement in the financial statements.

The acquisition of A&J Mucklow Group on 27 June 2019 has been treated as a business combination in accordance with IFRS 3 using the acquisition method.

The cost of the acquisition is measured as the fair value of the consideration paid for the business. Acquisition costs are recognised in the income statement as incurred. Any excess of the cost over the Group's interest in the fair value of the identifiable net assets acquired is treated as goodwill, which is initially recognised as an asset at cost and subsequently tested for impairment. Further information is provided in note 15.

### *ii) Adoption of new and revised standards*

*Standards and interpretations effective in the current period*

During the year, the following new and revised Standards and Interpretations have been adopted and have not had a material impact on the amounts reported in these financial statements. The Group and Company accounting policies were amended following the adoption of IFRS 16 as discussed further below.

| Name | Description |
|---|---|
| IFRS 16 | Leases |
| IFRS 9 (amendments) | Financial instruments |
| IAS 28 (amendments) | Long term Interests in Associates and Joint Ventures |
| IAS 19 (amendments) | Plan Amendment, Curtailment or Settlement |
| Annual Improvements to IFRSs: 2015 – 2017 cycle | Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 |

**IFRS 16 Leases**

IFRS 16 was issued in January 2016 and became effective for the Group from 1 April 2019. It has been adopted retrospectively in accordance with the transition provisions of the standard, with the cumulative effect of initially applying the new standard recognised on 1 April 2019. Comparatives have not been restated.

The standard requires lessees to recognise assets (the right to use the leased item) and liabilities (a financial liability to pay rentals) on the balance sheet for most leases. The accounting for lessors under IFRS 16 is substantially unchanged from its predecessor, IAS 17.

As a lessee, the Group holds two types of operating leases:

- Head leases – a limited number of investment properties owned by the Group are situated on land held through leasehold arrangements where ground rent is payable by the Group as lessee
- Office leases – the lease of the Group's head office in London

The impact of adopting IFRS 16 has been to recognise at 31 March 2020 a £5.9 million non current lease liability and £5.7 million right of use asset included in investment property as a non current asset.

### *iii) Standards and interpretations in issue not yet adopted*

The IASB and the International Financial Reporting Interpretations Committee have issued the following standards and interpretations that are mandatory for later accounting periods and which have not been adopted early.

| Name | Description |
|---|---|
| IFRS 17 | Insurance contracts |
| IFRS 3 (amendments) | Definition of a Business |
| IAS 1 & IAS 8 (amendments) | Definition of Material |
| IFRS 7, IFRS 9 & IAS 39 (amendments) | Interest Rate Benchmark Reform |
| IAS 1 (amendments) | Classification of Liabilities as Current or Non Current |
| Amendments to References to the Conceptual Framework in IFRS Standards | Amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37 and IAS 38 |

## e) Basis of consolidation

### *i) Subsidiaries*

The consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are those entities controlled by the Group. Control is assumed when the Group:

- Has the power over the investee
- Is exposed, or has rights, to variable returns from its involvement with the investee
- Has the ability to use its power to affect its returns

In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair value at the acquisition date.

The results 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 through corporate acquisitions and there are no significant assets or liabilities other than property, the acquisition is treated as an asset acquisition, in other cases the purchase method is used.

***ii) Joint ventures***

Joint ventures are those entities over whose activities the Group has joint control.

Joint ventures are accounted for under the equity method, whereby the consolidated balance sheet incorporates the Group's share of the net assets of its joint ventures and the consolidated income statement incorporates the Group's share of joint venture profits after tax.

The Group's joint ventures adopt the accounting policies of the Group for inclusion in the Group financial statements.

Joint venture management fees are recognised as income in the accounting period in which the service is rendered.

***iii) Non-controlling interest***

The Group's non-controlling interest represents an 18% shareholding in LMP Retail Warehouse JV Holdings Limited, which owns a portfolio of DFS assets.

The Group consolidates the results and net assets of its subsidiary in these financial statements and reflects the non-controlling share as a deduction in the consolidated income statement and consolidated balance sheet.

***iv) Alternative performance measures***

Our portfolio is a combination of properties that are wholly owned by the Group and part owned through joint venture arrangements or where a third party holds a non-controlling interest. Management reviews the performance of the Group's proportionate share of assets and returns, and considers the presentation of information on this basis helpful to stakeholders as it aggregates the results of all the Group's property interests which under IFRS are required to be presented across a number of line items in the financial statements.

***v) Business combinations***

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values of assets and liabilities acquired and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition costs are recognised in the income statement as incurred.

Any excess of the purchase price of business combinations over the fair value of the assets, liabilities and contingent liabilities acquired is recognised as goodwill. This is recognised as an asset and is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement.

**f) Property portfolio**

***i) Investment properties***

Investment properties are properties owned or leased by the Group which are held for long term rental income and for capital appreciation. Investment property includes property that is being constructed, developed or redeveloped for future use as an investment property. Investment property is initially recognised at cost, including related transaction costs. It is subsequently carried at each published balance sheet date at fair value on an open market basis as determined by professionally qualified independent external valuers. Changes in fair value are included in the income statement. Where a property held for investment is appropriated to development property, it is transferred at fair value. A property ceases to be treated as a development property on practical completion.

In accordance with IAS 40 Investment Properties, no depreciation is provided in respect of investment properties.

Investment property is recognised as an asset when:

- It is probable that the future economic benefits that are associated with the investment property will flow to the Group
- The cost of the investment property can be measured reliably

All costs directly associated with the purchase and construction of a development property are capitalised. Capital expenditure that is directly attributable to the redevelopment or refurbishment of investment property, up to the point of it being completed for its intended use, is included in the carrying value of the property.

***ii) Assets held for sale***

An asset is classified as held for sale if its carrying amount is expected to be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset is available for sale in its present condition and management expect the sale to complete within one year from the balance sheet date.

***iii) Tenant leases***
Management has exercised judgement in considering the potential transfer of the risks and rewards of ownership in accordance with IAS 17 for all properties leased to tenants and has determined that such leases are operating leases.

***iv) Net rental income***
Rental income from investment property leased out under an operating lease is recognised in the profit or loss on a straight line basis over the lease term.

Contingent rents, such as turnover rents, rent reviews and indexation, are recorded as income in the periods in which they are earned. Rent reviews are recognised when such reviews have been agreed with tenants.

Surrender premiums receivable are recognised on completion of the surrender.

Where a rent free period is included in a lease, the rental income foregone is allocated evenly over the period from the date of lease commencement to the earlier of the first break option or the lease termination date. Lease incentives and costs associated with entering into tenant leases are amortised over the period from the date of lease commencement to the earlier of the first break option or the lease termination date.

Property operating expenses are expensed as incurred and any property operating expenditure not recovered from tenants through service charges is charged to the income statement.

The Group has applied IFRS 15, Revenue from contracts with customers, from 1 April 2018. The main impact of adopting IFRS 15 has been to recognise property transactions at the point of completion, which is the point at which control of the property passes, rather than on unconditional exchange of contracts, which was the point at which significant risks and rewards were transferred. The cumulative effect of adopting IFRS 15 at the date of initial application was nil.

***v) Profit and loss on sale of investment properties***
Profits and losses on sales of investment properties are calculated by reference to the carrying value at the previous year end valuation date, adjusted for subsequent capital expenditure.

**g) Financial assets and financial liabilities**
Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual terms of the instrument.

**Financial instruments under IFRS 9**

***i) Trade and other receivables and payables***
Trade receivables are recognised and carried at amortised cost as the Group’s business model is to collect the contractual cash flows due from tenants. An impairment provision is created based on the expected credit loss model which reflects the Group’s historical incurred credit losses and the lifetime expected credit loss.

***ii) Cash and cash equivalents***
Cash and cash equivalents include cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less, measured at amortised cost.

***iii) Borrowings***
Borrowings are recognised initially at fair value less attributable transaction costs. Subsequently, borrowings are stated at amortised cost with any difference being recognised in the income statement over the term of the borrowing.

**Financial instruments under IAS 39**

***iv) Derivative financial instruments***
The Group uses derivative financial instruments to hedge its exposure to interest rate risks. Derivative financial instruments are recognised initially at fair value, which equates to cost and subsequently remeasured at fair value, with changes in fair value being included in the income statement.

**h) Finance costs and income**
Net finance costs include interest payable on borrowings, net of interest capitalised and finance costs amortised.

Interest is capitalised if it is directly attributable to the acquisition, construction or redevelopment of development properties from the start of the development work until practical completion of the property. Capitalised interest is calculated with reference to the actual interest rate payable on specific borrowings for the purposes of development or, for that part of the borrowings financed out of general funds, with reference to the Group’s weighted average cost of borrowings.

Finance income includes interest receivable on funds invested at the effective rate and notional interest receivable on forward funded developments at the contractual rate.

**i) Tax**
Tax is included in profit or loss except to the extent that it relates to items recognised directly in equity, in which case the related tax is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, together with any adjustment in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The amount of deferred tax provided is based on the expected manner or realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

As the Group is a UK REIT there is no provision for deferred tax arising on the revaluation of properties or other temporary differences.

The Group must comply with the UK REIT regulation to benefit from the favourable tax regime.

**j) Share based payments**
The fair value of equity-settled share based payments to employees is determined at the date of grant and is expensed on a straight line basis over the vesting period based on the Group's estimate of shares that will eventually vest.

**k) Shares held in Trust**
The cost of the Company's shares held by the Employee Benefit Trust is deducted from equity in the Group balance sheet. Any shares held by the Trust are not included in the calculation of earnings or net assets per share.

**l) Dividends**
Dividends on equity shares are recognised when they become legally payable. In the case of interim dividends, this is when paid. In the case of final dividends, this is when approved by the shareholders at the Annual General Meeting.

## 2 Segmental information

| As at 31 March | | | | 2020 | | | 2019 |
|---|---|---|---|---|---|---|---|
| **Property value** | **100% owned £m** | **Share of JV £m** | **Non-controlling interest £m** | **Total £m** | 100% owned £m | Share of JV £m | Total £m |
| Distribution | **1,597.0** | **–** | **(3.3)** | **1,593.7** | 1,282.9 | 9.7 | 1,292.6 |
| Long income | **475.2** | **88.9** | **(11.6)** | **552.5** | 257.0 | 132.5 | 389.5 |
| Retail parks | **83.3** | **–** | **–** | **83.3** | 87.0 | – | 87.0 |
| Office | **55.1** | **–** | **–** | **55.1** | – | – | – |
| Residential | **1.4** | **3.5** | **–** | **4.9** | 1.3 | 16.0 | 17.3 |
| Development | **57.0** | **–** | **–** | **57.0** | 59.8 | – | 59.8 |
| | **2,269.0** | **92.4** | **(14.9)** | **2,346.5** | 1,688.0 | 158.2 | 1,846.2 |
| Head lease and right of use assets | | | | **5.7** | | | – |
| | | | | **2,352.2** | | | 1,846.2 |

| For the year to 31 March | | | | 2020 | | | 2019 |
|---|---|---|---|---|---|---|---|
| **Gross rental income** | **100% owned £m** | **Share of JV £m** | **Non-controlling interest £m** | **Total £m** | 100% owned £m | Share of JV £m | Total £m |
| Distribution | **76.3** | **–** | **(0.2)** | **76.1** | 63.7 | 0.6 | 64.3 |
| Long income | **25.7** | **6.1** | **(1.1)** | **30.7** | 15.0 | 9.4 | 24.4 |
| Retail parks | **7.1** | **–** | **–** | **7.1** | 6.4 | – | 6.4 |
| Office | **3.2** | **–** | **–** | **3.2** | – | – | – |
| Residential | **–** | **0.2** | **–** | **0.2** | – | 0.4 | 0.4 |
| | **112.3** | **6.3** | **(1.3)** | **117.3** | 85.1 | 10.4 | 95.5 |

| For the year to 31 March | | | | 2020 | | | 2019 |
|---|---|---|---|---|---|---|---|
| **Net rental income** | **100% owned £m** | **Share of JV £m** | **Non-controlling interest £m** | **Total £m** | 100% owned £m | Share of JV £m | Total £m |
| Distribution | **75.5** | **–** | **(0.2)** | **75.3** | 62.9 | 0.6 | 63.5 |
| Long income | **25.7** | **6.1** | **(1.1)** | **30.7** | 14.8 | 9.2 | 24.0 |
| Retail parks | **6.7** | **–** | **–** | **6.7** | 6.1 | – | 6.1 |
| Office | **3.2** | **–** | **–** | **3.2** | – | – | – |
| Residential | **–** | **–** | **–** | **–** | 0.1 | 0.1 | 0.2 |
| | **111.1** | **6.1** | **(1.3)** | **115.9** | 83.9 | 9.9 | 93.8 |

An operating segment is a distinguishable component of the Group that engages in business activities, earns revenue and incurs expenses, whose results are reviewed by the Group's chief operating decision makers and for which discrete financial information is available. Gross rental income represents the Group's revenues from its tenants and net rental income is the principal profit measure used to determine the performance of each sector. Total assets are not monitored by segment. However, property assets are reviewed on an ongoing basis. The Group operates almost entirely in the UK and no geographical split is provided in information reported to the Board. We have reclassified the operating segments this year following the acquisition of A&J Mucklow Group as discussed in note 15. A new though comparatively small office sector has been introduced and long income now includes convenience and leisure as one of its sub categories.

## 3 Gross revenue

| For the year to 31 March | **2020 £m** | 2019 £m |
|---|---|---|
| Gross rental income | **112.3** | 85.1 |
| Property advisory fee income | **1.1** | 1.7 |
| | **113.4** | 86.8 |

This year, no individual tenant contributed more than 10% of gross rental income. Last year, 22% of the Group's gross rental income was receivable from two tenants.

## 4 Administrative costs

### a) Total administrative costs

| For the year to 31 March | **2020 £m** | 2019 £m |
|---|---|---|
| Staff costs | **12.1** | 10.4 |
| Auditor's remuneration | **0.2** | 0.2 |
| Depreciation | **0.7** | 0.1 |
| Other administrative costs | **2.8** | 3.0 |
| | **15.8** | 13.7 |

### b) Staff costs

| For the year to 31 March | **2020 £m** | 2019 £m |
|---|---|---|
| Employee costs, including those of Directors, comprise the following: | | |
| Wages and salaries | **10.3** | 8.6 |
| Less staff costs capitalised | **(2.1)** | (1.9) |
| | **8.2** | 6.7 |
| Social security costs | **0.8** | 0.7 |
| Pension costs | **0.2** | 0.3 |
| Share based payment | **2.9** | 2.7 |
| | **12.1** | 10.4 |

The long term share incentive plan ('LTIP') that was created in 2013 allows Executive Directors and eligible employees to receive an award of shares, held in trust, dependent on performance conditions based on the earnings per share, total shareholder return and total accounting return of the Group over a three year vesting period. The Group expenses the estimated number of shares likely to vest over the three year period based on the market price at the date of grant. In the current year the charge was £2.9 million (2019: £2.7 million).

The Company awarded 2,034,253 LTIP shares during the year, 1,439,480 of which were awarded to the current and former Executive Directors as shown in the Remuneration Committee report. The cost of acquiring the shares expected to vest under the LTIP of £7.2 million has been charged to reserves this year (2019: £4.8 million).

Employee costs of £2.1 million (2019: £1.9 million) have been capitalised in respect of time spent on development projects.

The emoluments and pension benefits of the current and former Executive Directors, who are also the key management personnel of the Company, are set out in aggregate in the table below. Further details of the emoluments of the Executive Directors can be found in the Remuneration Committee report.

| | **2020 £m** | 2019 £m |
|---|---|---|
| Salary and fees | **1.7** | 2.2 |
| Benefits | **0.1** | 0.1 |
| Pension | **0.2** | 0.2 |
| Annual bonus | **2.3** | 2.2 |
| Long term incentives | **3.5** | 3.0 |
| **Short term employee benefits** | **7.8** | 7.7 |

In accordance with the disclosure requirements of IAS 24 Related party disclosures for key management personnel, short term employee benefits were £7.8 million (2019: £7.7 million) and share based payments were £2.3 million (2019: £2.1 million).

**c) Staff numbers**

The average number of employees including Executive Directors during the year was:

| | **2020 Number** | 2019 Number |
|---|---|---|
| **Property and administration** | **34** | 28 |

**d) Auditor's remuneration**

| For the year to 31 March | **2020 £000** | 2019 £000 |
|---|---|---|
| **Audit services:** | | |
| Audit of the Group and Company financial statements, pursuant to legislation | **179** | 117 |
| Audit of subsidiary financial statements, pursuant to legislation | **5** | 5 |
| **Other fees:** | | |
| Audit related assurance services | **30** | 28 |
| **Total fees for audit and other services** | **214** | 150 |

In addition to the above audit fees, £35,600 (2019: £48,200) was due to the Group's auditor in respect of its joint venture operations. BDO LLP is responsible for the audit of other subsidiary entities at a cost to the Group of £10,400 (2019: £33,700).

## 5 Finance costs

| For the year to 31 March | **2020 £m** | 2019 £m |
|---|---|---|
| Interest payable on bank loans and related derivatives | **22.8** | 16.3 |
| Debt and hedging early close out costs | **0.2** | – |
| Amortisation of loan issue costs | **1.5** | 1.4 |
| Interest on lease liabilities | **0.1** | – |
| Commitment fees and other finance costs | **2.1** | 1.9 |
| **Total borrowing costs** | **26.7** | 19.6 |
| Less amounts capitalised on the development of properties | **(0.9)** | (1.1) |
| **Net borrowing costs** | **25.8** | 18.5 |
| Fair value loss on derivative financial instruments | **3.2** | 4.4 |
| **Total finance costs** | **29.0** | 22.9 |

Net finance costs deducted from EPRA earnings as disclosed in Supplementary note ii exclude the fair value loss on derivative financial instruments of £3.2 million (2019: £4.4 million) and early close out costs of £0.2 million (2019: nil).

## 6 Taxation

| For the year to 31 March | **2020 £m** | 2019 £m |
|---|---|---|
| **Current tax** | | |
| UK tax charge/(credit) on profit | **0.2** | (0.2) |

The tax assessed for the year varies from the standard rate of corporation tax in the UK. The differences are explained below:

| For the year to 31 March | **2020 £m** | 2019 £m |
|---|---|---|
| (Loss)/profit before tax | **(6.7)** | 119.5 |
| Tax (credit)/charge at the standard rate of corporation tax in the UK of 19% (2019: 19%) | **(1.3)** | 22.7 |
| Effects of: | | |
| Tax effect of income not subject to tax | **(0.2)** | (23.7) |
| Share of post tax losses of joint ventures | **1.7** | 1.2 |
| Land remediation tax credit | **–** | (0.4) |
| **UK tax charge/(credit) on profit** | **0.2** | (0.2) |

The current tax charge relates to tax arising on income attributable to the Group's non-controlling interest, other income that does not qualify as property income within the REIT regulations and income tax charged to non resident landlords on property rental income in the Isle of Man. As the Group is a UK REIT there is no provision for deferred tax arising on the revaluation of properties or other temporary differences.

## 7 Dividends

| For the year to 31 March | **2020 £m** | 2019 £m |
|---|---|---|
| **Ordinary dividends paid** | | |
| 2018 Third quarterly interim dividend: 1.85p per share | **–** | 12.8 |
| 2018 Fourth quarterly interim dividend: 2.35p per share | **–** | 16.3 |
| 2019 First quarterly interim dividend: 1.9p per share | **–** | 13.2 |
| 2019 Second quarterly interim dividend: 1.9p per share | **–** | 13.3 |
| 2019 Third quarterly interim dividend: 1.9p per share | **13.2** | – |
| 2019 Fourth quarterly interim dividend: 2.5p per share | **17.4** | – |
| 2020 First quarterly interim dividend: 2.0p per share | **16.8** | – |
| 2020 Second quarterly interim dividend: 2.0p per share | **16.8** | – |
| | **64.2** | 55.6 |
| **Quarterly dividend payable** | | |
| 2020 Third quarterly interim dividend: 2.0p per share | **16.7** | |
| 2020 Fourth quarterly interim dividend: 2.3p per share | **20.8** | |

The Company paid its third quarterly interim dividend in respect of the financial year to 31 March 2020 of 2.0p per share, wholly as a Property Income Distribution ('PID'), on 16 April 2020 to ordinary shareholders on the register at the close of business on 13 March 2020.

The fourth quarterly interim dividend for 2020 of 2.3p per share, of which 0.75p is payable as a PID, will be payable on 22 July 2020 to shareholders on the register at the close of business on 19 June 2020. A scrip dividend alternative will be offered to shareholders as it was for the first three quarterly dividend payments.

Neither dividend has been included as a liability in these accounts. Both dividends will be recognised as an appropriation of retained earnings in the year to 31 March 2021.

During the year the Company issued 2.9 million ordinary shares under the terms of the Scrip Dividend Scheme, which reduced the cash dividend payment by £5.8 million to £58.4 million.

## 8 Earnings and net assets per share

Adjusted earnings and net assets per share are calculated in accordance with the Best Practice Recommendations of the European Public Real Estate Association ('EPRA'). The EPRA earnings measure highlights the underlying performance of the property rental business. The earnings per share calculation uses the weighted average number of ordinary shares during the year and excludes the average number of shares held by the Employee Benefit Trust for the year. The net asset per share calculation uses the number of shares in issue at the year end and excludes the actual number of shares held by the Employee Benefit Trust at the year end. Further EPRA performance measures are reflected in the Supplementary notes.

### a) EPRA earnings

EPRA earnings for the Group and its share of joint ventures are detailed as follows:

| For the year to 31 March | **Group £m** | **JV £m** | **Non-controlling interest £m** | **2020 £m** | Group £m | JV £m | 2019 £m |
|---|---|---|---|---|---|---|---|
| Gross rental income | **112.3** | **6.3** | **(1.3)** | **117.3** | 85.1 | 10.4 | 95.5 |
| Property costs | **(1.2)** | **(0.2)** | **–** | **(1.4)** | (1.2) | (0.5) | (1.7) |
| **Net rental income** | **111.1** | **6.1** | **(1.3)** | **115.9** | 83.9 | 9.9 | 93.8 |
| Management fees | **1.1** | **(0.5)** | **–** | **0.6** | 1.7 | (0.8) | 0.9 |
| Administrative costs | **(15.8)** | **(0.1)** | **–** | **(15.9)** | (13.7) | – | (13.7) |
| Net finance costs[1] | **(24.9)** | **(1.5)** | **0.3** | **(26.1)** | (18.1) | (2.1) | (20.2) |
| Other | **(0.2)** | **–** | **0.2** | **–** | 0.2 | – | 0.2 |
| **EPRA earnings** | **71.3** | **4.0** | **(0.8)** | **74.5** | 54.0 | 7.0 | 61.0 |

1 Group net finance costs reflect net borrowing costs of £25.8 million (note 5) less early close out costs of £0.2 million (note 5) and finance income of £0.7 million.

The reconciliation of EPRA earnings to IFRS reported profit can be summarised as follows:

| For the year to 31 March | **Group £m** | **JV £m** | **Non-controlling interest £m** | **2020 £m** | Group £m | JV £m | 2019 £m |
|---|---|---|---|---|---|---|---|
| EPRA earnings | **71.3** | **4.0** | **(0.8)** | **74.5** | 54.0 | 7.0 | 61.0 |
| Revaluation of investment property | **(3.8)** | **(10.2)** | **2.0** | **(12.0)** | 75.9 | (11.5) | 64.4 |
| Fair value of derivatives | **(3.2)** | **(0.4)** | **–** | **(3.6)** | (4.4) | (0.3) | (4.7) |
| (Loss)/profit on disposal | **(4.9)** | **(2.3)** | **–** | **(7.2)** | 0.6 | (1.6) | (1.0) |
| Debt and hedging early close out costs | **(0.2)** | **–** | **–** | **(0.2)** | – | – | – |
| Impairment of goodwill | **(48.3)** | **–** | **–** | **(48.3)** | – | – | – |
| Acquisition costs | **(8.9)** | **–** | **–** | **(8.9)** | – | – | – |
| **IFRS reported profit/(loss)** | **2.0** | **(8.9)** | **1.2** | **(5.7)** | 126.1 | (6.4) | 119.7 |

### b) Earnings per ordinary share attributable to equity shareholders

| For the year to 31 March | **2020 £m** | 2019 £m |
|---|---|---|
| Basic and diluted earnings | **(5.7)** | 119.7 |
| EPRA adjustments above | **80.2** | (58.7) |
| **EPRA earnings** | **74.5** | 61.0 |

| For the year to 31 March | **Weighted average number of shares (millions)** | Weighted average number of shares (millions) |
|---|---|---|
| Ordinary share capital | **806.7** | 698.4 |
| Shares held in the Employee Benefit Trust | **(2.5)** | (2.8) |
| **Weighted average number of ordinary shares – basic** | **804.2** | 695.6 |
| Employee share schemes | **6.0** | 5.2 |
| **Weighted average number of ordinary shares – fully diluted** | **810.2** | 700.8 |

| | | |
|---|---|---|
| **Earnings per share** | | |
| Basic | **(0.7)p** | 17.2p |
| Fully diluted | **(0.7)p** | 17.1p |
| **EPRA earnings per share** | | |
| Basic | **9.3p** | 8.8p |
| Fully diluted | **9.2p** | 8.7p |

**c) Net assets per share attributable to equity shareholders**

| As at 31 March | **2020 £m** | 2019 £m |
|---|---|---|
| Equity shareholders' funds | **1,431.8** | 1,216.8 |
| Fair value of derivatives | **4.7** | 1.6 |
| Fair value of joint ventures' derivatives | **0.7** | 0.3 |
| **EPRA net asset value** | **1,437.2** | 1,218.7 |

| As at 31 March | **Number of shares (millions)** | Number of shares (millions) |
|---|---|---|
| Ordinary share capital | **841.5** | 700.0 |
| Number of shares held in the Employee Benefit Trust | **(4.3)** | (3.4) |
| **Number of ordinary shares** | **837.2** | 696.6 |
| **Net asset value per share** | **171.0p** | 174.7p |
| **EPRA net asset value per share** | **171.7p** | 174.9p |

## 9 Investment properties

**a) Investment properties**

| | | | **2020** | | | 2019 |
|---|---|---|---|---|---|---|
| As at 31 March | **Completed £m** | **Under development £m** | **Total £m** | Completed £m | Under development £m | Total £m |
| Opening balance | **1,628.2** | **59.8** | **1,688.0** | 1,635.0 | 42.6 | 1,677.6 |
| Acquisitions | **634.2** | **31.9** | **666.1** | 147.0 | 12.7 | 159.7 |
| Capital expenditure | **10.2** | **11.2** | **21.4** | 14.1 | 16.3 | 30.4 |
| Disposals | **(113.1)** | **(0.3)** | **(113.4)** | (247.2) | (0.5) | (247.7) |
| Property transfers | **50.3** | **(50.3)** | **–** | 21.0 | (21.0) | – |
| Revaluation movement | **(7.3)** | **3.5** | **(3.8)** | 66.2 | 9.7 | 75.9 |
| Movement in tenant incentives and rent free uplifts | **9.5** | **0.1** | **9.6** | (7.9) | – | (7.9) |
| Property portfolio | **2,212.0** | **55.9** | **2,267.9** | 1,628.2 | 59.8 | 1,688.0 |
| Head lease and right of use assets | **5.7** | **–** | **5.7** | – | – | – |
| | **2,217.7** | **55.9** | **2,273.6** | 1,628.2 | 59.8 | 1,688.0 |

Investment properties are held at fair value as at 31 March 2020 based on external valuations performed by professionally qualified valuers CBRE Limited ('CBRE'), Savills (UK) Limited ('Savills') and Cushman & Wakefield Debenham Tie Leung Limited ('Cushman & Wakefield'). The valuation of property held for sale at 31 March 2020 was £67.8 million (2019: £10.6 million), including £64.5 million distribution assets and £3.3 million long income assets.

The valuations have been prepared in accordance with the RICS Valuation – Professional Standards 2014 on the basis of fair value as set out in note 1. There has been no change in the valuation technique in the year. The total fees earned by CBRE, Savills and Cushman & Wakefield from the Company represent less than 5% of their total UK revenues. CBRE and Savills have continuously been the signatory of valuations for the Company since October 2007 and September 2010 respectively.

The COVID-19 pandemic has led to a heightened degree of uncertainty surrounding our year end valuations and our three external valuers have included material uncertainty clauses in their valuation reports which is in line with the RICS guidance.

Long term leasehold values included within investment properties amount to £176.9 million (2019: £109.4 million). All other properties are freehold.

Included within the investment property valuation is £72.1 million (2019: £62.5 million) in respect of unamortised lease incentives and rent free periods.

The historical cost of all of the Group's investment properties at 31 March 2020 was £1,884.0 million (2019: £1,295.6 million).

Capital commitments have been entered into amounting to £28.9 million (2019: £19.7 million) which have not been provided for in the financial statements.

Internal staff costs of the development team of £2.1 million (2019: £1.9 million) have been capitalised, being directly attributable to the development projects in progress.

Forward funded development costs of £9.9 million (2019: £10.4 million) have been classified within investment property as acquisitions.

At 31 March 2020, investment properties included £5.7 million for the head lease right of use assets which have been recognised following adoption of IFRS 16 on 1 April 2019.

**b) Valuation technique and quantitative information**

| | | | ERV | | Net initial yield | | Reversionary yield | |
|---|---|---|---|---|---|---|---|---|
| Asset type | Fair value 2020 £m | Valuation technique | Weighted average (£ per sq ft) | Range (£ per sq ft) | Weighted average % | Range % | Weighted average % | Range % |
| Distribution | **1,597.0** | Yield capitalisation | 6.60 | 4.00–20.10 | 4.5 | 1.9-7.9 | 4.9 | 2.4–8.1 |
| Long income | **475.2** | Yield capitalisation | 13.00 | 3.00–87.20 | 5.3 | 3.6–13.2 | 4.8 | 2.3–10.1 |
| Retail parks | **83.3** | Yield capitalisation | 14.86 | 7.00–20.70 | 7.5 | 6.2–11.7 | 7.1 | 6.0–11.6 |
| Offices | **55.1** | Yield capitalisation | 17.52 | 11.80–38.50 | 5.8 | 2.9–8.4 | 6.5 | 5.4–8.2 |
| Development | **55.9** | Residual | 6.78 | 5.50–16.00 | 5.8 | 4.2-7.3 | 5.1 | 4.2-7.0 |
| Residential | **1.4** | Comparison | n/a | n/a | n/a | n/a | n/a | n/a |

All of the Group's properties are categorised as Level 3 in the fair value hierarchy as defined by IFRS 13 Fair Value Management. There have been no transfers of properties between Levels 1, 2 and 3 during the year ended 31 March 2020. The fair value at 31 March 2020 represents the highest and best use.

**i) Technique**

The valuation techniques described below are consistent with IFRS 13 and use significant 'unobservable' inputs. There have been no changes in valuation techniques since the prior year.

Yield capitalisation – for commercial investment properties, market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross-checked against the net initial yields and the fair market values per square foot derived from recent market transactions.

Residual – for certain investment properties under development, the fair value of the property is calculated by estimating the fair value of the completed property using the yield capitalisation technique less estimated costs to completion and a risk premium.

Comparison – for residential properties the fair value is calculated by using data from recent market transactions.

**ii) Sensitivity**

A 5% increase or decrease in ERV would increase or decrease the fair value of the Group's investment properties by £59.5 million or £58.1 million respectively.

An increase or decrease of 25 bps to the equivalent yield would decrease or increase the fair value of the Group's investment properties by £90.9 million or £100.1 million respectively.

An increase or decrease in the estimated costs of development will decrease or increase the fair value of the Group's investment properties under development.

There are interrelationships between the unobservable inputs as they are determined by market conditions; an increase in more than one input could magnify or mitigate the impact on the valuation.

**iii) Process**

The valuation reports produced by CBRE, Savills and Cushman & Wakefield are based on:

- Information provided by the Group, such as current rents, lease terms, capital expenditure and comparable sales information, which is derived from the Group's financial and property management systems and is subject to the Group's overall control environment
- Assumptions applied by the valuers such as ERVs and yields which are based on market observation and their professional judgement

## 10 Investment in joint ventures

At 31 March 2020, the following principal property interests, being jointly controlled entities, have been equity accounted for in these financial statements:

| | Country of incorporation or registration[1] | Property sectors | Group share |
|---|---|---|---|
| Metric Income Plus Partnership | England | Long income | 50.0% |
| LSP London Residential Investments Limited | Guernsey | Residential | 40.0% |

1 The registered address for entities incorporated in England is One Curzon Street, London, W1J 5HB. The registered address for entities incorporated in Guernsey is Regency Court, Glategny Esplanade, St Peter Port, Guernsey, GY1 3AP

The principal activity of joint venture interests is property investment in the UK in the sectors noted in the table above, which complements the Group's operations and contributes to the achievement of its strategy.

The Metric Income Plus Partnership ('MIPP'), in which the Company has a 50% interest, sold two properties in the year for £6.0 million (Group share: £3.0 million).

LSP London Residential Investments Limited disposed of 26 residential flats at Moore House for £25.4 million (Group share: £10.2 million) in the year. Three further flats were sold post year end, reducing the number now held to five.

The Group increased its interest in the DFS joint venture from 45% to 82% in April 2019 by acquiring its partner's interest. The external debt facility with M&G was repaid in full and the Group's interest in LMP Retail Warehouse JV Holdings Limited is now accounted for as a subsidiary and consolidated in these financial statements. The remaining partner's 18% share is reflected as a non-controlling interest. Further information is provided in note 20(b).

At 31 March 2020, the freehold and leasehold investment properties were externally valued by Royal Institution of Chartered Surveyors ('RICS') Registered Valuers of CBRE and Savills. The valuation of property held for sale by joint ventures at 31 March 2020 was £3.9 million (Group share: £1.5 million), (2019: £5.8 million and Group share £2.8 million).

The movement in the carrying value of joint venture interests in the year is summarised as follows:

| As at 31 March | **2020 £m** | 2019 £m |
|---|---|---|
| Opening balance | **98.9** | 117.6 |
| Additions at cost | **0.3** | 5.1 |
| Share of loss in the year | **(8.9)** | (6.4) |
| Disposals[1] | **(20.5)** | – |
| Distributions received[2] | **(15.7)** | (17.4) |
| | **54.1** | 98.9 |

1 The disposal in the year related to the increased investment in the LMP Retail Warehouse JV from 45% to 82% which has been subsequently accounted for as a subsidiary and non-controlling interest as reflected in note 20(b)

2 Comprises profit distributions of £12.3 million and repayment of partner loans of £3.4 million

The Group’s share of the profit after tax and net assets of its joint ventures is as follows:

| | Metric Income Plus Partnership £m | LMP Retail Warehouse JV PUT £m | LSP London Residential Investments £m | Total 2020 £m | Group share 2020 £m |
|---|---|---|---|---|---|
| **Summarised income statement** | | | | | |
| Gross rental income | **11.8** | **0.5** | **0.3** | **12.6** | **6.3** |
| Property costs | **(0.2)** | **–** | **(0.2)** | **(0.4)** | **(0.2)** |
| **Net rental income** | **11.6** | **0.5** | **0.1** | **12.2** | **6.1** |
| Administrative costs | **(0.1)** | **–** | **–** | **(0.1)** | **(0.1)** |
| Management fees | **(0.9)** | **–** | **(0.2)** | **(1.1)** | **(0.5)** |
| Revaluation | **(20.3)** | **–** | **(0.3)** | **(20.6)** | **(10.2)** |
| Finance cost | **(2.7)** | **(0.2)** | **–** | **(2.9)** | **(1.5)** |
| Derivative movement | **(0.7)** | **–** | **–** | **(0.7)** | **(0.4)** |
| Profit/(loss) on disposal | **0.2** | **–** | **(6.1)** | **(5.9)** | **(2.3)** |
| **(Loss)/profit after tax** | **(12.9)** | **0.3** | **(6.5)** | **(19.1)** | **(8.9)** |
| **Group share of (loss)/profit after tax** | **(6.4)** | **0.1** | **(2.6)** | **(8.9)** | |
| EPRA adjustments: | | | | | |
| Revaluation | **20.3** | **–** | **0.3** | **20.6** | **10.2** |
| Derivative movement | **0.7** | **–** | **–** | **0.7** | **0.4** |
| (Profit)/loss on disposal | **(0.2)** | **–** | **6.1** | **5.9** | **2.3** |
| **EPRA earnings** | **7.9** | **0.3** | **(0.1)** | **8.1** | **4.0** |
| **Group share of EPRA earnings** | **4.0** | **0.1** | **(0.1)** | **4.0** | |
| **Summarised balance sheet** | | | | | |
| Investment properties | **177.7** | **–** | **8.9** | **186.6** | **92.4** |
| Other current assets | **0.9** | **–** | **0.1** | **1.0** | **0.5** |
| Cash | **5.6** | **–** | **5.7** | **11.3** | **5.1** |
| Current liabilities | **(2.9)** | **–** | **(0.1)** | **(3.0)** | **(1.5)** |
| Bank debt | **(84.3)** | **–** | **–** | **(84.3)** | **(42.1)** |
| Unamortised finance costs | **0.9** | **–** | **–** | **0.9** | **0.4** |
| Derivative financial instruments | **(1.3)** | **–** | **–** | **(1.3)** | **(0.7)** |
| **Net assets** | **96.6** | **–** | **14.6** | **111.2** | **54.1** |
| **Group share of net assets** | **48.3** | **–** | **5.8** | **54.1** | |

| | Metric Income Plus Partnership £m | LMP Retail Warehouse JV PUT £m | LSP London Residential Investments £m | Total 2019 £m | Group share 2019 £m |
|---|---|---|---|---|---|
| **Summarised income statement** | | | | | |
| Gross rental income | 13.2 | 7.7 | 0.8 | 21.7 | 10.4 |
| Property costs | (0.5) | – | (0.5) | (1.0) | (0.5) |
| **Net rental income** | 12.7 | 7.7 | 0.3 | 20.7 | 9.9 |
| Administrative costs | (0.1) | – | – | (0.1) | – |
| Management fees | (1.1) | (0.3) | (0.3) | (1.7) | (0.8) |
| Revaluation | (13.5) | (7.5) | (3.4) | (24.4) | (11.5) |
| Finance income | 0.3 | – | – | 0.3 | 0.1 |
| Finance cost | (2.7) | (1.9) | – | (4.6) | (2.2) |
| Derivative movement | (0.7) | – | – | (0.7) | (0.3) |
| Loss on disposal | – | – | (3.9) | (3.9) | (1.6) |
| **Loss after tax** | (5.1) | (2.0) | (7.3) | (14.4) | (6.4) |
| **Group share of loss after tax** | (2.6) | (0.9) | (2.9) | (6.4) | |
| EPRA adjustments: | | | | | |
| Revaluation | 13.5 | 7.5 | 3.4 | 24.4 | 11.5 |
| Derivative movement | 0.7 | – | – | 0.7 | 0.3 |
| Loss on disposal | – | – | 3.9 | 3.9 | 1.6 |
| **EPRA earnings** | 9.1 | 5.5 | – | 14.6 | 7.0 |
| **Group share of EPRA earnings** | 4.6 | 2.4 | – | 7.0 | |
| **Summarised balance sheet** | | | | | |
| Investment properties | 202.1 | 91.4 | 40.0 | 333.5 | 158.2 |
| Other current assets | 0.6 | – | 0.1 | 0.7 | 0.4 |
| Cash | 4.5 | 1.1 | 1.9 | 7.5 | 3.5 |
| Current liabilities | (3.4) | (0.9) | (0.2) | (4.5) | (2.2) |
| Bank debt | (80.5) | (46.6) | – | (127.1) | (61.2) |
| Unamortised finance costs | 1.0 | 0.1 | – | 1.1 | 0.5 |
| Derivative financial instruments | (0.6) | – | – | (0.6) | (0.3) |
| **Net assets** | 123.7 | 45.1 | 41.8 | 210.6 | 98.9 |
| **Group share of net assets** | 61.9 | 20.3 | 16.7 | 98.9 | |

## 11 Trade and other receivables

| As at 31 March | **2020 £m** | 2019 £m |
|---|---|---|
| Trade receivables | **5.8** | 0.9 |
| Amounts receivable from property sales | **–** | 3.8 |
| Prepayments and accrued income | **1.1** | 1.0 |
| Other receivables | **0.9** | 0.1 |
| | **7.8** | 5.8 |

All amounts fall due for payment in less than one year. Trade receivables comprise rental income which is due on contractual payment days with no credit period. At 31 March 2020, trade receivables of £69,800 were overdue and considered at risk (2019: £44,600). Based on the IFRS 9 Expected Credit Loss model, an impairment provision of £340,000 (2019: £140,000) has also been made against trade receivables.

## 12 Cash and cash equivalents

Cash and cash equivalents include £5.4 million (2019: £5.7 million) retained in rent and restricted accounts which are not readily available to the Group for day to day commercial purposes.

## 13 Trade and other payables

| As at 31 March | **2020 £m** | 2019 £m |
|---|---|---|
| Trade payables | **4.2** | 2.3 |
| Amounts payable on property acquisitions and disposals | **0.4** | 2.1 |
| Rent received in advance | **19.8** | 14.7 |
| Accrued interest | **1.9** | 0.9 |
| Other payables | **4.1** | 6.5 |
| Other accruals and deferred income | **12.2** | 9.9 |
| | **42.6** | 36.4 |

The Group has financial risk management policies in place to ensure that all payables are settled within the required credit timeframe.

## 14 Borrowings and financial instruments

**a) Non current financial liabilities**

| As at 31 March | **2020 £m** | 2019 £m |
|---|---|---|
| Secured bank loans | **192.7** | 130.0 |
| Unsecured bank loans | **740.0** | 435.0 |
| | **932.7** | 565.0 |
| Unamortised finance costs | **(6.0)** | (6.1) |
| | **926.7** | 558.9 |

Certain bank loans at 31 March 2020 are secured by fixed charges over Group investment properties with a carrying value of £529.7 million (2019: £377.6 million). Secured fixed rate debt acquired as part of the acquisition of A&J Mucklow Group was reflected at fair value on acquisition in accordance with IFRS 3, increasing secured bank loans by £2.7 million as disclosed in note 15.

**b) Financial risk management**

***Financial risk factors***

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group's financial risk management objectives are to minimise the effect of risks it is exposed to through its operations and the use of debt financing.

The principal financial risks to the Group and the policies it has in place to manage these risks are summarised below:

***i) Credit risk***

Credit risk is the risk of financial loss to the Group if a client or counterparty to a financial instrument fails to meet its contractual obligations.

The Group's principal financial assets are cash balances and deposits and trade and other receivables. The Group's credit risk is primarily attributable to its cash deposits and trade receivables.

The Group mitigates financial loss from tenant defaults by dealing with only creditworthy tenants. The trade receivable amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables concerned. The balance is low relative to the scale of the balance sheet and therefore the credit risk of trade receivables is considered to be low.

Cash is placed on deposit with a diverse mix of institutions with suitable credit ratings and rates of return and for varying periods of time. The credit ratings of the banks are monitored and changes are made where necessary to manage risk.

The credit risk on liquid funds and derivative financial instruments is limited due to the Group's policy of monitoring counterparty exposures with a maximum exposure equal to the carrying amount of these instruments. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties.

***ii) Liquidity risk***

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group actively maintains a mixture of long term and short term committed facilities that are designed to ensure that the Group has sufficient available funds for operations. The Group's funding sources are diversified across a range of banks and institutions. Weekly cash flow forecasts are prepared for the Senior Leadership Team to ensure sufficient resources of cash and undrawn debt facilities are in place to meet liabilities as they fall due.

The Group had cash reserves of £81.8 million (2019: £20.6 million) and available and undrawn bank loan facilities at 31 March 2020 of £133.8 million (2019: £363.8 million).

The following table shows the contractual maturity profile of the Group's financial liabilities on an undiscounted cash flow basis and assuming settlement on the earliest repayment date.

| As at 31 March 2020 | **Less than one year £m** | **One to two years £m** | **Two to five years £m** | **More than five years £m** | **Total £m** |
|---|---|---|---|---|---|
| Bank loans | **24.4** | **120.5** | **588.0** | **332.8** | **1,065.7** |
| Derivative financial instruments | **1.6** | **1.6** | **–** | **–** | **3.2** |
| | **26.0** | **122.1** | **588.0** | **332.8** | **1,068.9** |

| As at 31 March 2019 | Less than one year £m | One to two years £m | Two to five years £m | More than five years £m | Total £m |
|---|---|---|---|---|---|
| Bank loans | 17.8 | 17.8 | 213.0 | 437.7 | 686.3 |
| Derivative financial instruments | 0.8 | 0.8 | 0.8 | – | 2.4 |
| | 18.6 | 18.6 | 213.8 | 437.7 | 688.7 |

***iii) Market risk – interest rate risk***

The Group is exposed to interest rate risk from the use of debt financing at a variable rate. It is the risk that future cash flows of a financial instrument will fluctuate because of changes in interest rates. It is Group policy that a reasonable portion of external borrowings are at a fixed interest rate in order to manage this risk.

The Group uses interest rate swaps and caps to manage its interest rate exposure and hedge future interest rate risk for the term of the bank loan. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully the cash flow risk associated with interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

The Group uses interest rate swaps, caps and fixed rates to manage its interest rate exposure and hedge future interest rate risk for the term of the bank loan.

The average interest rate payable by the Group (including share of joint ventures) on all bank borrowings at 31 March 2020 including the cost of amortising finance arrangement fees, was 2.9% (2019: 3.1%). A 1% increase or decrease in interest rates during the year would have increased or decreased the Group's annual profit before tax by £1.6 million or £1.0 million respectively.

***iv) Capital risk management***

The Group's objectives when maintaining capital are to safeguard the entity's ability to continue as a going concern so that it can provide returns to shareholders and as such it seeks to maintain an appropriate mix of debt and equity. The capital structure of the Group consists of debt, which includes long term borrowings and undrawn debt facilities, and equity comprising issued capital, reserves and retained earnings. The Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

## c) Financial instruments

***i) Categories of financial instruments***

| As at 31 March | Measured at amortised cost 2020 £m | 2019 £m | Measured at fair value 2020 £m | 2019 £m |
|---|---|---|---|---|
| **Current assets** | | | | |
| Cash and cash equivalents (note 12) | **81.8** | 20.6 | **–** | – |
| Trade receivables (note 11) | **5.8** | 0.9 | **–** | – |
| Other receivables (note 11) | **0.9** | 0.1 | **–** | – |
| | **88.5** | 21.6 | **–** | – |
| **Non current liabilities** | | | | |
| Derivative financial instruments (see 14c(iii)) | **–** | – | **4.7** | 1.6 |
| Borrowings (note 14a) | **926.7** | 558.9 | **–** | – |
| **Current liabilities** | | | | |
| Trade payables (note 13) | **4.2** | 2.3 | **–** | – |
| Accrued interest (note 13) | **1.9** | 0.9 | **–** | – |
| Other accruals (note 13) | **12.2** | 9.9 | **–** | – |
| Other payables (note 13) | **4.1** | 6.5 | **–** | – |
| | **949.1** | 578.5 | **4.7** | 1.6 |

***ii) Fair values***

To the extent financial assets and liabilities are not carried at fair value in the consolidated balance sheet, the Directors are of the opinion that book value approximates to fair value at 31 March 2020.

***iii) Derivative financial instruments***

Details of the fair value of the Group's derivative financial instruments that were in place at 31 March 2020 are provided below:

| As at 31 March | Average rate | | Notional amount | | Fair value | |
|---|---|---|---|---|---|---|
| **Interest rate caps – expiry** | **2020 %** | 2019 % | **2020 £m** | 2019 £m | **2020 £m** | 2019 £m |
| Less than one year | **–** | 3.0 | **–** | 10.0 | **–** | – |
| One to two years | **2.0** | – | **19.6** | – | **–** | – |
| Two to five years | **–** | 2.0 | **–** | 19.6 | **–** | – |
| | **2.0** | 2.3 | **19.6** | 29.6 | **–** | – |

| As at 31 March | Average rate | | Notional amount | | Fair value | |
|---|---|---|---|---|---|---|
| **Interest rate swaps – expiry** | **2020 %** | 2019 % | **2020 £m** | 2019 £m | **2020 £m** | 2019 £m |
| Less than one year | **–** | 2.0 | **–** | 10.0 | **–** | – |
| One to two years | **–** | – | **–** | – | **–** | – |
| Two to five years | **1.1** | 1.1 | **350.0** | 350.0 | **(4.7)** | (1.6) |
| | **1.1** | 1.1 | **350.0** | 360.0 | **(4.7)** | (1.6) |
| Total fair value | | | | | **(4.7)** | (1.6) |

All derivative financial instruments are non current interest rate derivatives, and are carried at fair value following a valuation as at 31 March 2020 by Chatham Financial.

The market values of hedging products change with interest rate fluctuations, but the exposure of the Group to movements in interest rates is protected by way of the hedging products listed above. In accordance with accounting standards, fair value is estimated by calculating the present value of future cash flows, using appropriate market discount rates. For all derivative financial instruments this equates to a Level 2 fair value measurement as defined by IFRS 13 Fair Value Measurement.

The valuation therefore does not reflect the cost or gain to the Group of cancelling its interest rate protection at the balance sheet date, which is generally a marginally higher cost (or smaller gain) than a market valuation.

## 15 Business combination

On 27 June 2019, the Company acquired the entire issued share capital of A&J Mucklow Group, a distribution and industrial REIT with a complementary portfolio of assets located predominantly in the West Midlands. The acquisition was implemented by way of a Scheme of Arrangement under Part 26 of the Companies Act 2006. On 24 September 2019, following the repurchase and cancellation of its listed preference shares for £1.1 million, A&J Mucklow Group plc was re-registered as a private limited company, changing its name to A&J Mucklow Group Limited.

The portfolio was acquired for a total consideration of £413.0 million, representing cash of £129.4 million or 204.5p per ordinary share acquired, and 138.6 million new ordinary shares issued at 204.6p, being the closing share price of the Company on 27 June 2019, totalling £283.6 million.

The fair value of assets acquired was £364.7 million as reflected in the table below. The resulting goodwill on acquisition was £48.3 million, which has been fully impaired in the period as the future cash flows arising in the form of rental income were fully incorporated into the fair value of the assets acquired.

The goodwill arising includes exceptional transaction costs of £6.5 million which were incurred by Mucklow pre acquisition and the fair value adjustments noted in the table below. In addition, and most significantly, the Company's strong share price performance and its premium to the previously reported EPRA NAV at 31 March 2019 upon which the offer was based, increased the fair value of the consideration paid, which is calculated with reference to the Company's share price at completion, thereby creating goodwill. The share price increased to 204.6p on completion of the transaction, representing a 17% premium to EPRA NAV at 31 March 2019.

| | Book value £m | Fair value of trading properties £m | Fair value of fixed rate debt £m | Fair value of preference shares £m | **Fair value £m** |
|---|---|---|---|---|---|
| Investment properties | 453.6 | – | – | – | **453.6** |
| Property, plant and equipment | 0.1 | – | – | – | **0.1** |
| Trading properties | 0.1 | 1.0 | – | – | **1.1** |
| Trade and other receivables | 2.7 | – | – | – | **2.7** |
| Cash and cash equivalents | 9.8 | – | – | – | **9.8** |
| **Total assets** | 466.3 | 1.0 | – | – | **467.3** |
| Trade and other payables | (18.8) | – | – | – | **(18.8)** |
| Current tax liabilities | (0.7) | – | – | – | **(0.7)** |
| Borrowings | (79.8) | – | (2.9) | (0.4) | **(83.1)** |
| **Total liabilities** | (99.3) | – | (2.9) | (0.4) | **(102.6)** |
| **Fair value of net assets acquired** | 367.0 | 1.0 | (2.9) | (0.4) | **364.7** |
| Cash consideration | | | | | **129.4** |
| Equity instruments | | | | | **283.6** |
| **Fair value of consideration paid** | | | | | **413.0** |
| **Goodwill on acquisition** | | | | | **48.3** |

The cost of the acquisition as reflected in the Group cash flow statement of £119.6 million reflects the cash consideration of £129.4 million less the £9.8 million Mucklow cash balance.

Acquisition costs incurred by the Company of £9.1 million have been paid in the period (£8.9 million charged to the income statement and £0.2 million to other reserves). In addition and subsequent to completion, the Group paid Mucklow acquisition costs of £6.5 million and repaid the HSBC £20 million banking facility in full.

The acquisition has contributed £20.5 million to gross rental income, £15.5 million to EPRA earnings and £31.1 million to retained profit since acquisition. Had A&J Mucklow Group been part of the Group since 1 April 2019, the combined gross rental income, EPRA earnings and retained profit for the Group at 31 March 2020 would have been £118.4 million, £79.4 million and £2.1 million respectively.

## 16 Leases

The Group's minimum lease rentals receivable under non cancellable operating leases, excluding joint ventures, are as follows:

| As at 31 March | **2020 £m** | 2019 £m |
|---|---|---|
| Less than one year | **113.6** | 77.9 |
| Between one and five years | **421.6** | 303.9 |
| Between six and ten years | **399.6** | 296.0 |
| Between 11 and 15 years | **240.7** | 217.8 |
| Between 16 and 20 years | **121.5** | 102.3 |
| Over 20 years | **32.5** | 38.7 |
| | **1,329.5** | 1,036.6 |

The Group's minimum lease payments under non cancellable operating leases in accordance with IAS 17, are as follows:

| As at 31 March | **2020 £m** | 2019 £m |
|---|---|---|
| Less than one year | **–** | 0.3 |
| Between one and five years | **–** | 2.8 |
| | **–** | 3.1 |

As set out in note 1, the Group has adopted IFRS 16 from 1 April 2019 and has recognised a right of use asset for its head office lease and other head lease obligations. These leases are accounted for as finance leases and the Group's minimum lease payments are due as follows:

| As at 31 March | **Minimum lease payments £m** | **Interest £m** | **Present value of minimum lease payments 2020 £m** | 2019 £m |
|---|---|---|---|---|
| Less than one year | **0.7** | **(0.1)** | **0.6** | – |
| Between one and five years | **1.9** | **(0.3)** | **1.6** | – |
| Over five years | **7.4** | **(3.7)** | **3.7** | – |
| | **10.0** | **(4.1)** | **5.9** | – |

## 17 Share capital

| As at 31 March | **2020 Number** | **2020 £m** | 2019 Number | 2019 £m |
|---|---|---|---|---|
| **Issued, called up and fully paid** | | | | |
| Ordinary shares of 10p each | **841,498,022** | **84.2** | 699,991,840 | 70.0 |

As reported in note 15, the Company issued 138,615,684 ordinary shares as part of the consideration for the acquisition of A&J Mucklow Group on 27 June 2019. In addition, the Company issued 2,890,498 ordinary shares under the terms of its Scrip Dividend Scheme during the year.

Post year end in April, the Company issued a further 118,163 ordinary shares under the terms of its Scrip Dividend Scheme and in May, the Company issued 66,666,666 new ordinary shares in connection with the equity raise.

In June 2019, the Company granted options over 2,034,253 ordinary shares under its Long Term Incentive Plan. In addition, 2,111,973 ordinary shares in the Company that were granted to certain Directors and employees under the Company's Long Term Incentive Plan in 2016 vested along with 420,394 ordinary shares in the Director's Deferred Bonus Plan. The average share price on vesting was 207.2p.

No disclosures have been made in accordance with IFRS 2 for share based payments to employees other than those in the Remuneration Committee report on the basis of materiality.

## 18 Reserves

The following describes the nature and purpose of each reserve within equity:

| | |
|---|---|
| Share capital | The nominal value of shares issued. |
| Share premium | The premium paid for new ordinary shares issued above the nominal value. |
| Capital redemption reserve | Amounts transferred from share capital on redemption of issued ordinary shares. |
| Other reserve | A reserve relating to the application of merger relief in the acquisition of LondonMetric Management Limited, Metric Property Investments Plc and A&J Mucklow Group Plc by the Company, the cost of the Company's shares held in treasury and the cost of shares held in trust to provide for the Company's future obligations under share award schemes. |
| Retained earnings | The cumulative profits and losses after the payment of dividends. |

## 19 Analysis of movement in net debt

| | | | **2020** | | | 2019 |
|---|---|---|---|---|---|---|
| As at 31 March | **Cash and cash equivalents £m** | **Borrowings £m** | **Net debt £m** | Cash and cash equivalents £m | Borrowings £m | Net debt £m |
| Opening balance | **20.6** | **558.9** | **538.3** | 26.2 | 643.6 | 617.4 |
| Cash movement | **61.2** | **304.9** | **243.7** | (5.6) | (85.0) | (79.4) |
| Debt acquired | **–** | **60.0** | **60.0** | – | – | – |
| Loan issue costs paid | **–** | **(1.5)** | **(1.5)** | – | (1.1) | (1.1) |
| Fair value of debt acquired | **–** | **2.9** | **2.9** | – | – | – |
| Amortisation of loan issue costs | **–** | **1.5** | **1.5** | – | 1.4 | 1.4 |
| | **81.8** | **926.7** | **844.9** | 20.6 | 558.9 | 538.3 |

## 20 Related party transactions

### a) Joint ventures

Management fees and profit distributions receivable from the Group's joint venture arrangements in which it had an equity interest during the year were as follows:

| | | Management fees | | Profit distributions | |
|---|---|---|---|---|---|
| For the year to 31 March | Group interest | **2020 £m** | 2019 £m | **2020 £m** | 2019 £m |
| LSP London Residential Investments | 40.0% | **0.2** | 0.3 | **8.3** | 10.5 |
| Metric Income Plus Partnership | 50.0% | **0.9** | 1.1 | **4.0** | 4.5 |
| LMP Retail Warehouse JV Property Unit Trust[1] | – | **–** | 0.3 | **–** | 2.5 |
| | | **1.1** | 1.7 | **12.3** | 17.5 |

1 45% interest in the prior year as explained in note 20(b)

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

### b) Non-controlling interest

The Group's non-controlling interest represents an 18% shareholding in LMP Retail Warehouse JV Holdings Limited, which owns a portfolio of DFS assets.

On 26 April 2019, LMP Retail Warehouse JV Holdings Limited acquired its joint venture partner's 45% interest in LMP Retail Warehouse JV Property Unit Trust, which subsequently transferred its assets to LMP Retail Warehouse JV Holdings Limited.

The Group's interest increased from 45% to 82%, requiring it to consolidate the results and net assets of its subsidiary in these financial statements and reflect the non-controlling share as a deduction in the consolidated income statement and consolidated balance sheet. As at the year end, the non-controlling interest share of losses and net assets was £1.2 million and £7.1 million respectively, with distributions of £0.4 million paid during the year.

## 21 Post balance sheet events

Post year end, the Group has acquired £14.8 million of urban logistics and long income assets, and has sold two distribution centres for £16.9 million. Further information is provided in the Property review.

On 3 April 2020, we cancelled £350 million interest rate swaps that hedged our unsecured facilities. On 7 May 2020, the Group successfully completed the placing of 66.7 million new ordinary shares raising gross proceeds of £120 million at an issue price of 180.0p per share.

# Supplementary information (not audited)

## i EPRA summary table

| | **2020** | 2019 |
|---|---|---|
| EPRA earnings per share | **9.3p** | 8.8p |
| EPRA net asset value per share | **171.7p** | 174.9p |
| EPRA triple net asset value per share | **171.0p** | 174.7p |
| EPRA vacancy rate | **1.4%** | 2.2% |
| EPRA cost ratio (including vacant property costs) | **14.2%** | 15.0% |
| EPRA cost ratio (excluding vacant property costs) | **13.3%** | 14.1% |
| EPRA net initial yield | **4.3%** | 4.3% |
| EPRA 'topped up' net initial yield | **5.0%** | 4.7% |

The definition of these measures can be found in the Glossary.

## ii EPRA proportionally consolidated income statement

| For the year to 31 March | **Group £m** | **JV £m** | **Non-controlling interest £m** | **2020 £m** | Group £m | JV £m | 2019 £m |
|---|---|---|---|---|---|---|---|
| Gross rental income | **112.3** | **6.3** | **(1.3)** | **117.3** | 85.1 | 10.4 | 95.5 |
| Property costs | **(1.2)** | **(0.2)** | **–** | **(1.4)** | (1.2) | (0.5) | (1.7) |
| Net rental income | **111.1** | **6.1** | **(1.3)** | **115.9** | 83.9 | 9.9 | 93.8 |
| Management fees | **1.1** | **(0.5)** | **–** | **0.6** | 1.7 | (0.8) | 0.9 |
| Administrative costs | **(15.8)** | **(0.1)** | **–** | **(15.9)** | (13.7) | – | (13.7) |
| Net finance costs | **(24.9)** | **(1.5)** | **0.3** | **(26.1)** | (18.1) | (2.1) | (20.2) |
| Other | **(0.2)** | **–** | **0.2** | **–** | 0.2 | – | 0.2 |
| EPRA earnings | **71.3** | **4.0** | **(0.8)** | **74.5** | 54.0 | 7.0 | 61.0 |

## iii EPRA proportionally consolidated balance sheet

| As at 31 March | **Group £m** | **JV £m** | **Non-controlling interest £m** | **2020 £m** | Group £m | JV £m | 2019 £m |
|---|---|---|---|---|---|---|---|
| Investment property | **2,273.6** | **92.4** | **(14.9)** | **2,351.1** | 1,688.0 | 158.2 | 1,846.2 |
| Trading property | **1.1** | **–** | **–** | **1.1** | – | – | – |
| | **2,274.7** | **92.4** | **(14.9)** | **2,352.2** | 1,688.0 | 158.2 | 1,846.2 |
| Gross debt | **(932.7)** | **(42.1)** | **–** | **(974.8)** | (565.0) | (61.2) | (626.2) |
| Cash | **81.8** | **5.1** | **(0.8)** | **86.1** | 20.6 | 3.5 | 24.1 |
| Other net liabilities | **(34.3)** | **(0.6)** | **8.6** | **(26.3)** | (24.1) | (1.3) | (25.4) |
| EPRA net assets | **1,389.5** | **54.8** | **(7.1)** | **1,437.2** | 1,119.5 | 99.2 | 1,218.7 |
| Derivatives | **(4.7)** | **(0.7)** | **–** | **(5.4)** | (1.6) | (0.3) | (1.9) |
| IFRS net assets | **1,384.8** | **54.1** | **(7.1)** | **1,431.8** | 1,117.9 | 98.9 | 1,216.8 |
| Loan to value | **35.7%** | **40.0%** | **–** | **35.9%** | 31.8% | 36.5% | 32.2% |
| Cost of debt | **2.9%** | **3.1%** | **–** | **2.9%** | 3.1% | 3.5% | 3.1% |
| Undrawn facilities | **133.8** | **–** | **–** | **133.8** | 363.8 | 9.7 | 373.5 |

## iv EPRA cost ratio

| For the year to 31 March | **2020 £m** | 2019 £m |
|---|---|---|
| Property operating expenses | **1.2** | 1.2 |
| Administrative costs | **15.8** | 13.7 |
| Share of joint venture property costs, administrative costs and management fees | **0.8** | 1.3 |
| Less: | | |
| Joint venture property management fee income | **(1.1)** | (1.7) |
| Ground rents | **(0.1)** | (0.1) |
| **Total costs including vacant property costs (A)** | **16.6** | 14.4 |
| Group vacant property costs | **(0.9)** | (0.7) |
| Share of joint venture vacant property costs | **(0.1)** | (0.2) |
| **Total costs excluding vacant property costs (B)** | **15.6** | 13.5 |
| Gross rental income | **112.3** | 85.1 |
| Share of joint venture gross rental income | **6.3** | 10.4 |
| Share of non-controlling interest gross rental income | **(1.3)** | – |
| | **117.3** | 95.5 |
| Less: | | |
| Ground rents | **(0.1)** | (0.1) |
| **Total gross rental income (C)** | **117.2** | 95.4 |
| **Total EPRA cost ratio (including vacant property costs) (A)/(C)** | **14.2%** | 15.0% |
| **Total EPRA cost ratio (excluding vacant property costs) (B)/(C)** | **13.3%** | 14.1% |

## v EPRA net initial yield and ‘topped up’ net initial yield

| As at 31 March | **2020 £m** | 2019 £m |
|---|---|---|
| Investment property – wholly owned | **2,267.9** | 1,688.0 |
| Investment property – share of joint ventures | **92.4** | 158.2 |
| Trading property | **1.1** | – |
| Less development properties | **(57.0)** | (59.8) |
| Less residential properties | **(4.9)** | (17.3) |
| Less non-controlling interest | **(14.9)** | – |
| Completed property portfolio | **2,284.6** | 1,769.1 |
| Allowance for: | | |
| Estimated purchasers’ costs | **155.4** | 120.3 |
| Estimated costs to complete | **18.7** | 14.8 |
| **EPRA property portfolio valuation (A)** | **2,458.7** | 1,904.2 |
| Annualised passing rental income | **102.1** | 74.5 |
| Share of joint ventures | **6.0** | 9.4 |
| Less development properties | **(1.9)** | (1.1) |
| Less residential properties | **–** | (0.2) |
| **Annualised net rents (B)** | **106.2** | 82.6 |
| Contractual rental increase across the portfolio | **16.0** | 6.6 |
| **‘Topped up’ net annualised rent (C)** | **122.2** | 89.2 |
| **EPRA net initial yield (B/A)** | **4.3%** | 4.3% |
| **EPRA ‘topped up’ net initial yield (C/A)** | **5.0%** | 4.7% |

## vi EPRA Vacancy rate

| As at 31 March | **20120 £m** | 2019 £m |
|---|---|---|
| Annualised estimated rental value of vacant premises | **1.7** | 1.9 |
| Portfolio estimated rental value[1] | **124.4** | 90.1 |
| **EPRA vacancy rate** | **1.4%** | 2.2% |

1 Excludes residential and development properties

## vii EPRA capital expenditure analysis

| As at 31 March | **Group 2020 £m** | **JV 2020 £m** | **Non-controlling interest £m** | **Total 2020 £m** | Group 2019 £m | JV 2019 £m | Total 2019 £m |
|---|---|---|---|---|---|---|---|
| Opening valuation | **1,688.0** | **158.2** | **–** | **1,846.2** | 1,677.6 | 164.4 | 1,842.0 |
| Acquisitions[1,2] | **635.3** | **(41.2)** | **(17.0)** | **577.1** | 147.0 | 9.3 | 156.3 |
| Developments[3] | **43.1** | **–** | **–** | **43.1** | 29.0 | 5.3 | 34.3 |
| Capital expenditure[4] | **10.2** | **0.3** | **(0.2)** | **10.3** | 14.1 | 0.9 | 15.0 |
| Disposals | **(113.4)** | **(15.1)** | **0.3** | **(128.2)** | (247.7) | (11.1) | (258.8) |
| Revaluation | **(3.8)** | **(10.2)** | **2.0** | **(12.0)** | 75.9 | (11.5) | 64.4 |
| Lease incentives | **9.6** | **0.4** | **–** | **10.0** | (7.9) | 0.9 | (7.0) |
| Head lease right of use asset | **5.7** | **–** | **–** | **5.7** | – | – | – |
| **Closing valuation** | **2,274.7** | **92.4** | **(14.9)** | **2,352.2** | 1,688.0 | 158.2 | 1,846.2 |

1 Group acquisitions in the period include £634.2 million completed investment properties as reflected in note 9 and trading property of £1.1 million

2 DFS upweight from 45% to 82% has been reflected in this table as an acquisition by the Group and offset as a disposal by the joint venture

3 Group developments include acquisitions and capital expenditure on properties under development as reflected in note 9

4 Capital expenditure on completed properties

## viii Total accounting return

| For the year to 31 March | **2020 pence per share** | 2019 pence per share |
|---|---|---|
| EPRA net asset value | | |
| – at end of year | **171.7** | 174.9 |
| – at start of year | **174.9** | 165.2 |
| (Decrease)/increase | **(3.2)** | 9.7 |
| Dividend paid | **8.4** | 8.0 |
| Net increase | **5.2** | 17.7 |
| **Total accounting return** | **3.0%** | 10.7% |

## ix Portfolio split and valuation

| As at 31 March | 2020 £m | 2020 % | 2019 £m | 2019 % |
|---|---|---|---|---|
| Mega distribution | **349.6** | **14.9** | 427.1 | 23.1 |
| Regional distribution | **419.5** | **17.9** | 385.5 | 20.9 |
| Urban logistics | **824.6** | **35.1** | 480.0 | 26.0 |
| Distribution | **1,593.7** | **67.9** | 1,292.6 | 70.0 |
| Long income | **552.5** | **23.5** | 389.5 | 21.2 |
| Retail parks | **83.3** | **3.6** | 87.0 | 4.7 |
| Offices | **55.1** | **2.4** | – | – |
| **Investment portfolio** | **2,284.6** | **97.4** | 1,769.1 | 95.9 |
| Development[1] | **57.0** | **2.4** | 59.8 | 3.2 |
| Residential | **4.9** | **0.2** | 17.3 | 0.9 |
| **Total portfolio** | **2,346.5** | **100.0** | 1,846.2 | 100.0 |
| Head lease and right of use assets | **5.7** | | – | |
| | **2,352.2** | | 1,846.2 | |

1 Represents regional distribution £38.1 million (1.6%), urban logistics £6.2 million (0.3%), long income £10.5 million (0.5%), office £1.1 million and other land £1.1 million at 31 March 2020. Split of prior period comparatives was regional distribution £22.6 million (1.2%), urban logistics £23.9 million (1.3%), long income £13.3 million (0.7%)

## x Investment portfolio yields

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| As at 31 March | **EPRA NIY %** | **EPRA topped up NIY %** | **Equivalent yield %** | EPRA NIY % | EPRA topped up NIY % | Equivalent yield % |
| Distribution | **3.9** | **4.6** | **5.1** | 3.9 | 4.3 | 4.9 |
| Long income | **5.0** | **5.6** | **5.9** | 5.4 | 5.6 | 5.6 |
| Retail parks | **6.7** | **7.5** | **7.3** | 6.1 | 6.3 | 6.2 |
| Offices | **5.8** | **5.8** | **6.5** | – | – | – |
| **Investment portfolio** | **4.3** | **5.0** | **5.5** | 4.3 | 4.7 | 5.1 |

## xi Investment portfolio – Key statistics

| As at 31 March 2020 | **Area ’000 sq ft** | **WAULT to expiry years** | **WAULT to first break years** | **Occupancy %** | **Average rent £ per sq ft** |
|---|---|---|---|---|---|
| Distribution | 12,623 | 10.8 | 9.6 | 98.1 | 6.30 |
| Long income | 2,754 | 13.3 | 12.5 | 100.0 | 14.70 |
| Retail parks | 432 | 8.6 | 7.2 | 97.0 | 16.10 |
| Offices | 218 | 6.0 | 5.0 | 99.8 | 15.60 |
| **Investment portfolio** | **16,027** | **11.2** | **10.2** | **98.6** | **7.90** |

## xii Total property returns

| For the year to 31 March | **All property 2020 %** | All property 2019 % |
|---|---|---|
| Capital return | **–** | 3.9 |
| Income return | **5.1** | 4.9 |
| **Total return** | **5.1** | 9.0 |

## xiii Contracted rental income

| As at 31 March | **2020 £m** | 2019 £m |
|---|---|---|
| Distribution | **77.3** | 59.0 |
| Long income | **33.9** | 23.6 |
| Retail parks | **6.8** | 5.9 |
| Offices | **3.4** | – |
| **Investment portfolio** | **121.4** | 88.5 |
| Development – distribution | **1.3** | – |
| Development – long income | **0.6** | 1.0 |
| **Commercial portfolio** | **123.3** | 89.5 |
| Residential | **–** | 0.2 |
| **Total portfolio** | **123.3** | 89.7 |

## xiv Rent subject to expiry

| As at 31 March 2020 | **Within 3 years %** | **Within 5 years %** | **Within 10 years %** | **Within 15 years %** | **Within 20 years %** | **Over 20 years %** |
|---|---|---|---|---|---|---|
| Distribution | 9.7 | 22.0 | 49.4 | 75.5 | 85.6 | 100.0 |
| Offices | 13.4 | 22.5 | 91.7 | 100.0 | 100.0 | 100.0 |
| Long income | 0.7 | 4.0 | 34.5 | 64.0 | 90.7 | 100.0 |
| Retail parks | 5.7 | 18.2 | 63.2 | 87.3 | 100.0 | 100.0 |
| **Commercial portfolio** | **7.1** | **16.8** | **47.1** | **73.6** | **88.2** | **100.0** |

## xv Contracted rent subject to RPI or fixed uplifts

| As at 31 March | **2020 £m** | **2020 %** | 2019 £m | 2019 % |
|---|---|---|---|---|
| Distribution | **46.1** | **58.7** | 42.4 | 71.8 |
| Long income | **19.7** | **57.2** | 12.8 | 52.0 |
| Retail parks | **1.1** | **15.7** | 1.3 | 22.6 |
| Offices | **0.3** | **8.5** | – | – |
| **Commercial portfolio** | **67.2** | **54.5** | 56.5 | 63.2 |

## xvi Top ten assets (by value)

| As at 31 March 2020 | **Area ’000 sq ft** | **Contracted rent £m** | **Occupancy %** | **WAULT to expiry years** | **WAULT to first break years** |
|---|---|---|---|---|---|
| Primark, T2, Islip | 1,062 | 5.7 | 100 | 20.5 | 20.5 |
| Eddie Stobart, Dagenham | 454 | 4.1 | 100 | 23.5 | 23.5 |
| Primark, Thrapston | 783 | 4.3 | 100 | 12.5 | 12.5 |
| Argos, Bedford | 657 | 4.1 | 100 | 14.0 | 14.0 |
| Tesco, Croydon | 191 | 1.9 | 100 | 8.1 | 8.1 |
| Amazon, Warrington | 357 | 2.1 | 100 | 11.7 | 11.7 |
| DHL, Reading | 230 | 1.8 | 100 | 5.3 | 5.3 |
| Ollerton, Clipper | 364 | 2.0 | 100 | 17.5 | 17.5 |
| Oak Furniture, Swindon | 357 | 1.9 | 100 | 15.6 | 15.6 |
| New Malden | 51 | 1.9 | 100 | 11.6 | 7.0 |

## xvii Top ten occupiers

| As at 31 March 2020 | Contracted rental income £m | Market capitalisation £bn | Contracted rental income[2] % |
|---|---|---|---|
| Primark[1] | 10.0 | 13.7 | 8.4 |
| DFS | 5.3 | 0.4 | 4.4 |
| M&S | 4.5 | 1.8 | 3.8 |
| Argos[1] | 4.2 | 4.2 | 3.5 |
| Eddie Stobart | 4.1 | – | 3.4 |
| Dixons Carphone | 3.3 | 0.9 | 2.7 |
| Odeon[1] | 3.2 | 0.3 | 2.7 |
| DHL[1] | 3.1 | 28.5 | 2.6 |
| Amazon | 2.6 | 946.0 | 2.2 |
| Clipper Logistics | 2.3 | 0.2 | 2.0 |
| Top ten | 42.6 | | 35.7 |
| Other commercial | 76.6 | | 64.3 |
| **Total commercial** | **119.2** | | **100.0** |

1 Market capitalisation of Parent Company

2 Excludes income from sales that had exchanged but not completed by the year end

# Glossary

**A&J Mucklow Group or A&J Mucklow or Mucklow**
A&J Mucklow Group Plc acquired on 27 June 2019 and re-registered as A&J Mucklow Group Limited on 24 September 2019

**Building Research Establishment Environmental Assessment Methodology ('BREEAM')**
A set of assessment methods and tools designed to help construction professionals understand and mitigate the environmental impacts of the developments they design and build

**Capital Return**
The valuation movement on the property portfolio adjusted for capital expenditure and expressed as a percentage of the capital employed over the period

**Commercial portfolio**
The Group's property portfolio excluding residential properties

**Contracted Rent**
The annualised rent excluding rent free periods

**Cost of debt**
Weighted average interest rate payable

**Debt maturity**
Weighted average period to expiry of drawn debt

**Distribution**
The activity of delivering a product for consumption by the end user

**Energy Performance Certificate ('EPC')**
Required certificate whenever a property is built, sold or rented. An EPC gives a property an energy efficiency rating from A (most efficient) to G (least efficient) and is valid for ten years. An EPC contains information about a property's energy use and typical energy costs, and recommendations about how to reduce energy use and save money

**EPRA Cost Ratio**
Administrative and operating costs (including and excluding costs of direct vacancy) as a percentage of gross rental income

**EPRA Earnings per Share (EPS)**
Underlying earnings from the Group's property rental business divided by the average number of shares in issue over the period

**EPRA NAV per Share**
Balance sheet net assets excluding fair value of derivatives, divided by the number of shares in issue at the balance sheet date

**EPRA NNNAV per Share**
EPRA NAV per share adjusted to include the fair value of financial instruments, debt and deferred taxes at the balance sheet date

**EPRA net initial yield**
Annualised rental income based on cash rents passing at the balance sheet date, less non recoverable property operating expenses, expressed as a percentage of the market value of the property, after inclusion of estimated purchaser's costs

**EPRA topped up net initial yield**
EPRA net initial yield adjusted for expiration of rent free periods or other lease incentives such as discounted rent periods and stepped rents

**EPRA Vacancy**
The Estimated Rental Value (ERV) of immediately available vacant space as a percentage of the total ERV of the Investment Portfolio

**Equivalent Yield**
The weighted average income return expressed as a percentage of the market value of the property, after inclusion of estimated purchaser's costs

**Estimated Rental Value (ERV)**
The external valuers' opinion of the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property

**European Public Real Estate Association (EPRA)**
EPRA is the industry body for European Real Estate Investment Trusts (REITs)

**Gross rental income**
Rental income for the period from let properties reported under IFRS, after accounting for lease incentives and rent free periods. Gross rental income will include, where relevant, turnover based rent, surrender premiums and car parking income

**Group**
LondonMetric Property Plc and its subsidiaries

**IFRS**
The International Financial Reporting Standards issued by the International Accounting Standards Board and adopted by the European Union

**Income Return**
Net rental income expressed as a percentage of capital employed over the period

**Investment Portfolio**
The Group's property portfolio excluding development, land holdings and residential properties

**Investment Property Databank (IPD)**
IPD is a wholly owned subsidiary of MSCI producing an independent benchmark of property returns and the Group's portfolio returns

**Like for Like Income Growth**
The movement in contracted rental income on properties owned through the period under review, excluding properties held for development and residential

**Loan to Value (LTV)**
Net debt expressed as a percentage of the total property portfolio value at the period end, adjusted for deferred completions on sales

**Logistics**
The organisation and implementation of operations to manage the flow of physical items from origin to the point of consumption

**Net Debt**
The Group's bank loans net of cash balances at the period end

**Net Rental Income**
Gross rental income receivable after deduction for ground rents and other net property outgoings including void costs and net service charge expenses

**Occupancy Rate**
The ERV of the let units as a percentage of the total ERV of the Investment Portfolio

**Omni-Channel Retailing**
The evolution of multi-channel retailing providing a seamless shopping experience for the consumer through all available shopping channels, i.e. physical, internet, mobile, social media, telephone, catalogue etc

**Passing Rent**
The gross rent payable by tenants under operating leases, less any ground rent payable under head leases

**Property Income Distribution (PID)**
Dividends from profits of the Group's tax-exempt property rental business under the REIT regulations. The PID dividend is paid after deducting withholding tax at the basic rate

**Real Estate Investment Trust (REIT)**
A listed property company which qualifies for and has elected into a tax regime which is exempt from corporation tax on profits from property rental income and UK capital gains on the sale of investment properties

**Total Accounting Return (TAR)**
The movement in EPRA NAV per share plus the dividend paid during the period expressed as a percentage of the EPRA NAV per share at the beginning of the period

**Total Property Return (TPR)**
Unlevered weighted capital and income return of the property portfolio as calculated by IPD

**Total Shareholder Return (TSR)**
The movement in the ordinary share price as quoted on the London Stock Exchange plus dividends per share assuming that dividends are reinvested at the time of being paid

**Weighted Average Interest Rate**
The total loan interest and derivative costs per annum (including the amortisation of finance costs) divided by the total debt in issue at the period end

**Weighted Average Unexpired Lease Term (WAULT)**
Average unexpired lease term across the investment portfolio weighted by Contracted Rent