

For professional investors and advisers only

Schroder Real Estate Investment Trust Limited Consolidated Annual Report

For the Year Ended 31 March 2014



Schroders



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

Financial Summary

- Net Asset Value ('NAV') total return of 14.4%
- NAV per share increased by 7.8%
- Earnings per share of 5.7p
- EPRA earnings per share of 2.1p
- Declared and paid dividends amounting to 2.74 pence per share ('pps')
- Share price total return of 30.1%

	31 March 2014	31 March 2013	% Change
NAV ¹	£190.4m	£160.5m	18.6
NAV per Ordinary Share ¹ (pence)	48.6	45.1	7.8
Share price (pence)	51.5	42.5	21.2
Share price premium/(discount) to NAV	5.9%	(5.8%)	
NAV total return ²	14.4%	(4.0%)	
FTSE All Share Index	3,555.6	3,380.6	5.2
FTSE EPRA/NAREIT UK Real Estate Index	1,595.8	1,290.6	23.7
Total Group assets less current liabilities	£317.8m	£300.8m	5.7
Loan to value ratio net of all cash ⁴	37.8%	32.3%	5.5 ³
Loan to value ratio net of all cash and including interest rate swap mark to market liability ⁴	37.8%	38.2%	(0.4) ³

Sources: Schroder Property Investment Management Limited and Datastream based on returns during the year from 1 April 2013 to 31 March 2014.

¹Net Asset Value is calculated using International Financial Reporting Standards.

²Net Asset Value total return calculated by Schroder Property Investment Management Limited.

³Percentage point change in borrowings.

⁴On 16 April 2013 the Group entered into a new fixed rate loan facility with Canada Life. As a result the Company no longer has swaps in place. Loan to value calculated incorporating all properties owned by the Group, including those outside Canada Life Security.

Company Summary

Schroder Real Estate Investment Trust Limited (the 'Company') together with its subsidiaries (the 'Group') hold a diversified portfolio of UK commercial properties, which is mainly invested in three commercial property sectors: office, retail and industrial. The Group may also invest in other sectors from time to time. The Group will not invest in other listed investment companies. In pursuing the investment objective, the Investment Manager concentrates on assets with good fundamental characteristics, a diverse spread of occupational tenants and with opportunities to enhance value through active management.

Performance Summary

Reconciliation of Net Asset Value per accounts to published Net Asset Value

	31 March 2014	31 March 2013
	Total	Total
	£000	£000
Net Asset Value as published on 24 April 2014	190,443	160,513
Net Asset Value per audited financial statements	190,443	160,513

Property performance

Value of Property Assets	306,480	258,580
Annualised rental income	20,982	18,795
Estimated open market rental value	23,449	21,218
Underlying property total return (year ending)*	13.7%	1.3%
IPD Quarterly Version of Balanced Monthly Index Funds total return (year ended 31 March 2014)*	12.5%	1.6%

* Source: Investment Property Databank ('IPD') including joint venture investments on a like-for-like basis

Summary consolidated statement of comprehensive income

	31 March 2014 £000	31 March 2013 £000
Net rental and related income	17,826	20,252
Realised and unrealised gains/(losses) on investment property	15,691	(17,731)
Expenses	(3,806)	(3,560)
Net finance and swap break costs	(22,252)	(17,672)
Ineffective portion of changes in fair value of swap	13,041	7,561
Share of profit of associates and joint ventures	397	376
Profit/(Loss) before tax	20,897	(10,774)
Taxation	(19)	207
Profit/(loss) for the year	20,878	(10,567)
Effective portion of changes in fair value of swap	57	1,491
Net change in fair value of swap reclassified to profit and loss	2,121	2,138
Total comprehensive income/(loss) for the year attributable to the equity holders of the parent	23,056	(6,938)

Earnings and dividends

Earnings/(loss) per share (pence)	5.7	(3.0)
EPRA earnings per share (pence)*	2.1	2.1
Dividends paid per share (pence)	2.74	3.52
Annualised dividend yield on 31 March share price**	5.3%	8.3%

* European Public Real Estate Association ('EPRA') earnings per share reflects the underlying performance of the company. The calculation is set out in Note 10 to the financial statements.

** Dividend reduction announced on 24 April 2013

Bank borrowings

	31 March 2014	31 March 2013
On-balance sheet borrowings (£000s)	129,585	114,500
Loan to value ratio, net of all cash*	37.8%	32.3%
Loan to value ratio net of all cash and including interest rate swap mark to market liability*	37.8%	38.2%

* On 16 April 2013 the Group entered into a fixed rate loan facility with Canada Life. As a result the Company no longer has swaps in place. Loan to value calculated incorporating all properties owned by the Group including those outside Canada Life Security.

Ongoing Charges¹

Ongoing charges (including fund only expenses ²)	1.6%	1.6%
Ongoing charges (including fund and property expenses)	4.0%	3.9%

¹Ongoing charges calculated in accordance with AIC recommended methodology issued in May 2012, as a percentage of average NAV during the year.

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

Chairman's Statement

Overview

The Company's performance and strong balance sheet, together with a strengthening UK commercial property market has provided an opportunity for disciplined growth. Equity raised has been quickly and effectively deployed in line with the Company's investment strategy. The result has been to increase net income and dividend cover, enhance shareholder returns, reduce leverage and increase the size of the Company.

Improving property market conditions have largely been driven by the strong recovery in the UK economy, with annualised Gross Domestic Product ('GDP') growth strengthening from 0.5% to 3.1% over the year to 31 March 2014, inflation slowing from 2.7% to 1.8% over the same period and increasing employment. These conditions, combined with continued loose monetary policy and an above average income return offered by the sector have led to strong capital flows and, notably, increased demand for higher yielding property outside of core central London markets. Encouragingly, there is now evidence of rental growth in the strongest regional centres due to increased tenant demand and a limited supply.

This is an attractive operating environment for the Company and the placing programme, approved by shareholders in April 2014, enables the Investment Manager (the 'Manager') to target further acquisitions offering an attractive income return as well as the potential for income and capital growth.

However, the Board will continue to remain vigilant and monitor this strategy with the Manager in light of risks in an increasingly competitive environment where pricing may begin to exceed fundamentals.

Performance

The Company's Net Asset Value ('NAV') as at 31 March 2014 was £190.4 million or 48.6 pence per share ('pps'), compared with £160.5 million as at 31 March 2013. This reflected an increase over the year, adjusted for new equity issuance, of 7.8%. Shareholders received total dividends over the period of £9.9 million or 2.74 pps, resulting in a total NAV return of 14.4%.

The increase in NAV was principally due to a 6.3% increase in the capital value of the underlying portfolio, compared with the Company's Investment Property Databank ('IPD') Benchmark Index of 6.1%. This, combined with a higher income return of 7.0%, compared with the IPD Benchmark of 6.0%, led to a total return of 13.7% compared with the IPD Benchmark of 12.5%. Since inception of the Company in 2004 the underlying portfolio has produced a total return of 5.6% per annum compared with the IPD Benchmark of 4.6% per annum.

Strategy

The Company's balance sheet refinancing resulted in a weighted 14 year term loan from April 2013 which took advantage of long term yields being at historic lows. The Company now has a single loan of £129.58 million at a fixed interest rate of 4.77% per annum incorporating sufficient flexibility to asset manage and implement the property strategy.

Providing a strong and stable footing, the refinancing has enabled the Company to take advantage of improving sentiment towards the UK commercial property market. The Company achieved this by raising £17.2 million of new equity, via a placing, in January 2014 and £40.2 million via a further placing and open offer for subscription in April 2014, which was approved by shareholders at an Extraordinary General Meeting ('EGM') held on 16 April 2014.

These proceeds have been substantially deployed into new acquisitions totalling £61.8 million satisfying the investment criteria by offering good underlying fundamentals in terms of location and specification, affordable rents and sustainable tenant demand. Successful implementation of this strategy during the year and since the year end has delivered the following key benefits:

- Enhancement in dividend cover following year end activity to a current level of approximately 95%;
- Reduction in the Company's net loan to value to approximately 33% from 39% immediately after the re-financing in April 2013;

Chairman's Statement

- Improved liquidity in the Company's share capital;
- Economies of scale in running the property portfolio as well as the Company's running cost per share;
- New acquisitions have an average income yield of 7.8% compared to portfolio average as at 31 March 2013 of 6.9%; and
- New acquisitions have been of larger lot sized assets, offering greater scope for higher rental growth and value enhancing asset management.

In April 2014 shareholders also approved a placing programme enabling the Company to issue up to a further 120 million shares in the period up to 19 March 2015. It is expected that this will enable the Manager to act opportunistically by making a series of accretive property acquisitions whilst also mitigating the risk of cash drag on shareholders returns. Furthermore, new issuance will only be undertaken as and when suitable properties are identified for acquisition and all shares issued under the proposed placing programme will be issued at a premium to the prevailing NAV including the costs associated with the issue.

Dividend policy

During the year the Company paid four quarterly dividends totalling 2.74 pps, resulting in post-tax dividend cover of 75% which compared with 60% over the year to 31 March 2013. Following the placing and offer for subscription in April 2014, and the subsequent acquisition of City Tower in Manchester, the pro-forma dividend cover is approximately 95%. The Board will continue to review dividend policy and the appropriate sustainable long term dividend level with regard to projected portfolio income, strategy and market conditions. Over the long-term the Board expects to adopt a progressive dividend policy.

Continuation vote

The Company's Articles of Incorporation state that shareholders will have an opportunity to vote on the continuation of the Company at the Annual General Meeting ('AGM') to be held in 2014. Consequently, prior to entering into a long term loan facility in April 2013, the Board undertook a broad consultation exercise to ascertain shareholders' views on the refinancing in the context of the continuation vote. The feedback from this consultation, reiterated during discussions connected with the placing and offer for subscription, indicated support for the continuation of the Company.

As a result of this feedback, completion of the refinancing and the positive outlook for shareholders arising from the market recovery, the Board has concluded that the continuation of the Company is in the interest of shareholders as a whole and is recommending that shareholders vote in favour of the continuation resolution to be proposed at the forthcoming AGM.

Board composition

In February 2014 my predecessor, Andrew Sykes, retired as Chairman having served on the Board since 2004. The Board is very grateful to Andrew for his significant contribution and leadership over this period. I joined the Board on 13 January 2014 and have held senior roles in the investment management, real estate and public sectors.

We would also like to thank Peter Atkinson for his eight year tenure up until his retirement in January 2014, and has been replaced by Alison Ozanne, who was appointed on 21 January 2014. Alison is a partner in AO Hall, a specialist Guernsey legal practice, which she co-founded in 2005. Alison's field of expertise is focused on the banking, insurance and trust sectors, with over 20 years of experience in London and Guernsey.

Manager Assessment

The Board made its annual visit to the Manager in March 2014. This covered the team and investment processes as well as the investment strategy and recommendations from the Manager. It is the Board's conclusion that it is in the

Chairman's Statement

best interests of the Company to continue with the Manager's appointment on the current terms under the Investment Management Agreement.

Alternative Investment Fund Managers Directive

The Manager, Schroder Property Investment Management, will act as the Alternative Investment Fund Manager under the Alternative Investment Fund Managers Directive ('AIFMD').

Outlook

We expect the sustained recovery in the UK economy to support continued growth in average commercial property values and demand from occupiers to lease properties. Whilst increasing demand for higher yielding assets is likely to result in further yield compression in parts of the market, future returns will be more influenced by rental value growth for well located properties in strong commercial centres. The Company's growth strategy will therefore continue to focus on property in supply constrained locations offering strong underlying fundamentals.

Increasing capital flows into UK commercial property also means the Company is well placed to benefit from expediting the growth strategy in order to optimise the arbitrage between the Company's cost of capital and property yields.

Lorraine Baldry

Chairman

Schroder Real Estate Investment Trust Limited

18 July 2014

Investment Manager's Report

As Manager we have been focused on the investment performance and growth of the Company. Completion of the refinancing in April 2013 provided a strong and stable platform for long-term growth from which to execute this strategy. This, alongside a sustained recovery in the UK commercial property market, has created opportunities to enhance shareholder returns by issuing equity and completing accretive new acquisitions.

Consequently, over the year and since the year end, the Company has issued £57.4 million of equity at an average premium to the prevailing NAV per share of 5%. These proceeds were efficiently deployed into five acquisitions totalling £61.8 million at an average net initial income yield of 7.8%. The acquisitions are consistent with the Company's strategy to focus on properties offering an above average yield, good fundamentals and accommodation which attracts sustainable tenant demand.

Whilst good assets in Central London continue to perform, demand for properties offering strong fundamentals outside of Central London is increasing due to improving market sentiment and growing occupational demand in strong regional centres. By efficiently executing on our growth strategy and selecting strong locations, the Company is well positioned to benefit from improving market conditions with new acquisitions already making a positive contribution to both NAV and net income. Following activity since the year-end, the current dividend level is close to being covered. We also expect the Company to benefit over the medium to long-term as a result of value enhancing asset management initiatives, improved liquidity in the Company's shares and economies of scale.

The prolonged market recovery and activity over the year led to an increase in the Company's NAV from 45.1 pence per share ('pps') as at 31 March 2013 to 48.6 pps as at 31 March 2014. This reflected an increase, adjusted for the 35,592,128 shares issued in January 2014, of 7.8%. The table below provides a detailed breakdown of the movement in NAV over the period:

	Pence*
NAV as at 31 March 2013	45.1
Unrealised change in valuation of direct investment property portfolio	5.3
Capital expenditure during the period	(0.6)
Acquisition costs	(0.4)
Unrealised gain in change in valuation of joint ventures	0.1
Write-off of loan arrangement costs	(0.2)
Post tax net revenue	2.0
Dividends paid	(2.7)
NAV as at 31 March 2014	48.6

*Calculated using weighted average number of shares over the year

A 6.6% increase in the value of the underlying direct property portfolio, prior to capital expenditure, contributed 5.3 pps to the movement in NAV over the period.

The Company incurred capital expenditure of £2.2 million during the period, comprising refurbishment expenditure and planning fees. This reduced the like-for-like increase in the capital value of the underlying portfolio to 6.3% and reduced the NAV by 0.6 pps.

As previously reported, the refinancing with Canada Life Investments ('Canada Life') led to writing off unamortised finance costs relating to the previous securitised loan which, together with the Company's two remaining joint ventures, had a small negative impact on the NAV.

Over the year the Company paid total dividends of 2.74 pps which, based on net earnings of 2.0 pps, resulted in dividend cover of 75%. The dividend was rebased during the period leading to a payment of 0.88 pps in the quarter to June 2013 and 0.62 pps in the subsequent three quarters.

Investment Manager's Report

Market overview

According to the Company's IPD Benchmark, average UK commercial property produced a total return of 12.5% over the year to 31 March 2014, compared with a total return over the year to 31 March 2013 of 1.6%. Although all three key commercial property sectors recorded positive capital growth over the year, there continues to be divergence in total returns with the office and industrial sectors producing 16.7% and 16.3% respectively, and the retail sector lagging at 8.9%.

Increasing investor demand leading to falling yields was the principal driver of capital growth over the year, supported by rental growth turning slightly positive. Since the year end the pace of capital growth has increased, with the IPD Monthly Index reporting uplifts of 0.8% and 1.1% in April and May respectively.

The outperformance of the office sector was driven by Central London, where demand from international business services generated rental value growth of 6.3% and 8.7% in the West End and City of London office markets respectively. The TMT (telecommunications, media and technology) sector is a key driver of this demand with a 20% increase in employment over the past three years.

The Company continued to benefit from its below average weighting to the retail sector which, despite a recovery in consumer spending, faces structural headwinds arising from internet shopping and the impact this has on retailer trading formats. This contributed to negative rental value growth for the whole sector of -0.6% and shopping centres being the worst performing IPD sub-sector, with negligible capital growth of 0.3%. Whilst parts of the retail market are expected to deteriorate further, there are opportunities arising from changing consumer behaviour, such as the growth of convenience retailing in densely populated suburban locations.

In contrast, the industrial sector benefited from improving sentiment led by increasing occupational demand from logistics occupiers serving internet retailers as well as a resurgent manufacturing sector in parts of the UK, notably the automotive sector in the West Midlands. This demand, combined with an above average income return of 7%, produced capital growth of 8.8%.

We expect the divergence in performance between London and the rest of the UK to narrow, albeit with regional growth still concentrated in clusters such as Cambridge, Leeds and Manchester, and in locations with positive demand and constrained supply.

Assuming a continued recovery in the UK economy, we expect total returns from UK property to exceed their long-run average over the next year. The key risk for the sector is that prices rise at levels not supported by property fundamentals. However, constrained supply and positive rental growth should mitigate a negative impact on capital values should this occur.

Strategy

Future growth

The positive impact of the share placing in January 2014 and efficient deployment of the proceeds provided the Company with the opportunity to issue a further 80 million shares in April 2014 via a placing and offer for subscription.

These additional proceeds have since been efficiently deployed in properties which offer an attractive yield with scope for adding value through asset management. The next phase in the Company's growth will be to implement the placing programme where up to 120 million shares, totalling approximately £60 million, can be issued to fund acquisitions that satisfy the Company's investment criteria. Shares under the placing programme can only be issued at a premium to the prevailing NAV, resulting in a structure that is accretive to NAV, limits cash drag and enables Schroders as Manager to efficiently execute the strategy in a disciplined manner.

Investment Manager's Report

The net income yield achieved from recent acquisitions and the positive impact on dividend cover will also enable the Company the flexibility to acquire lower yielding assets which offer enhanced growth prospects and defensive qualities. Future acquisitions will target the following markets:

- Offices:
 - London sub-markets with robust demand and areas known as the London 'villages' which benefit from multiple alternative uses including commercial as well as residential occupiers; and
 - Cities and towns outside of London with a 'knowledge-based' economy offering creativity and innovation.
- Industrial:
 - Medium sized warehouses around big cities to support e-tailing; and
 - Greater London industrial offering long-term change of use.
- Retail:
 - Convenience retailing in affluent areas;
 - 'Value' retailing where overall cost to retailer is low; and
 - Higher yielding retail in strong cathedral towns and regional centres.
- Alternatives:

At the recent Extraordinary General Meeting to approve the placing programme, shareholders approved broadening the Company's investible universe through exposure to additional alternative property sectors such as healthcare, hotels, serviced apartments, residential and student accommodation. These sub-sectors could make a positive contribution to performance through diversification and other benefits such as:

- The ownership of properties capable of multiple uses;
- Targeting operators with the ability to pay higher rates because they can pass on rising costs to end users, and
- Fixed or inflation-linked rental uplifts where underlying rents will keep pace.

We are considering a pipeline of accretive acquisitions in each of these target markets.

Property strategy

In addition to focusing on growth we are maintaining a rigorous and proactive approach to maximising income and value from the existing portfolio. This is focused on the following areas:

Reducing void and non-recoverable expenses

Voids as a percentage of rental value fell from 14.4% as at 31 March 2013 to 11.7% as at 31 March 2014, and have subsequently reduced further to 10.7%, adjusting for activity since the year end.

Completing key low and non-income producing disposals

As set out below, progress has been made on key asset management initiatives at the Olympic Office Centre in Wembley and Reynards Trading Estate in Brentford, where completion of these initiatives should enhance NAV and enable proceeds to be redeployed into income producing investments. Similar activity is on-going across the portfolio where, for example, planning applications are being made to convert vacant office space to residential use.

Selling smaller properties and reinvesting in line with the investment strategy

Completion of the refinancing with Canada Life increased flexibility for the Company and reduced the requirement for a minimum number of properties from 50 under the Company's previous loan to 35. This will enable smaller

Investment Manager's Report

properties to be sold on completion of asset management activity with proceeds redeployed into larger properties offering strong fundamentals and greater scope to add value through asset management.

Property portfolio

As at 31 March 2014 the Company's direct property portfolio comprises 54 properties independently valued at £306.5 million. At the same date, the direct portfolio produced rental income of £21 million per annum, reflecting a net initial yield of 6.5%. The independent valuer has estimated that the current market rental value of the portfolio is £23.5 million per annum, reflecting a reversionary yield of 7.2%. The portfolio benefits from additional fixed annual rental uplifts of £1.3 million per annum due by March 2016.

Since the year end the Company has invested £34.5 million in acquiring a 25% interest in City Tower in Manchester and an adjoining ownership to one of our existing assets in Portsmouth. Both properties offer an above average income return and the tables below summarise the key portfolio information as at 31 March 2014, updated for these acquisitions:

Sector weightings by value	Weighting (%)	
	SREIT	IPD
Retail	29.4	43.8
Offices	44.2	31.7
Industrial	21.3	18.8
Other	5.1	5.7

Regional weightings by value	Weighting (%)	
	SREIT	IPD
Central London	0.0	17.4
South East excluding Central London	38.1	33.7
Rest of the South	10.7	13.6
Midlands and Wales	24.9	14.1
North and Scotland	26.3	21.2

The Company's top ten properties set out below comprise 52.4% of the portfolio value:

Top ten properties		Value (£)	(%)
1	Manchester, City Tower	33.0	9.7
2	Brighton, Victory House	26.9	7.9
3	Wembley, Olympic Office Centre and site	22.5	6.6
4	Leeds, Headingley, The Arndale Centre	17.3	5.1
5	Uxbridge, 106 Oxford Road	16.8	4.9
6	Brentford, Reynards Business Park	16.0	4.7
7	Salisbury, Churchill Way West	13.0	3.8
8	Luton, The Galaxy	11.8	3.5
9	Basingstoke, Churchill Way	11.2	3.3
10	Norwich, Union Park	9.8	2.9
Total as at 31 March 2014 (adjusted for post year-end acquisitions)		178.3	52.4

Investment Manager's Report

The table below sets out the Company's top ten tenants that generally comprise large businesses and represent 35.9% of the portfolio and have an average lease term, assuming all tenants break at the earliest opportunity, of nine years.

Top ten tenants		Rent p.a. (£)	% of portfolio
1	Wickes Building Supplies Limited	1,092,250	4.6
2	Norwich Union Life and Pensions Ltd	1,039,191	4.4
3	Lloyds TSB Bank PLC	1,024,000	4.4
4	The Buckinghamshire New University	1,018,267	4.3
5	BUPA Insurance Services Limited	960,755	4.1
6	Mott MacDonald Ltd	790,000	3.4
7	Recticel SA	731,086	3.1
8	Sportsdirect.com Retail Limited	657,177	2.8
9	Booker Limited	570,000	2.4
10	Irwin Mitchell LLP	555,000	2.4
Total as at 31 March 2014 (adjusted for post year-end acquisitions)		8,437,726	35.9

The Company receives independent quarterly reports from the IPD Rental Information Service ("IRIS"), which compares the quality of the Company's rental income with the IPD Benchmark. This results in a weighted risk score that takes into account credit ratings, lease length, tenant concentration, reversionary potential and vacancy. As at 31 December 2013, the latest available data, the Company's weighted tenant credit risk score puts it on the fourth percentile of the IPD Index, with the table below comparing the percentage of rental income generated by the portfolio graded by risk band, using credit ratings provided by Experian:

Tenant Risk Band

Dun & Bradstreet rating	Maximum	High	Medium to High	Low to Medium	Low	Negligible	Unscored or Ineligible
SREIT	4.0	2.38	3.02	6.22	22.07	60.92	1.39
IPD Benchmark	8.58	5.34	3.03	7.54	19.81	52.18	3.52

Over the period the Company's average unexpired lease term, assuming all tenants break at the earliest opportunity, increased from 7.3 years as at 31 March 2013 to 7.7 years as at 31 March 2014, adjusting for post year end acquisitions. Over the same period the IPD Benchmark decreased from 8.6 years to 8.2 years. The table below shows the expiry profile of Company's portfolio as at 31 March 2014 in five year increments assuming all tenants leave at the earliest opportunity. This is compared against the IPD Benchmark and ignores the potential for future rental uplifts at rent review.

Years to Expiry	% of rent passing as at 31 March 2014	
	SREIT earliest termination/IPD Index earliest termination	SREIT assuming no tenant breaks/IPD Index assuming no tenant breaks
Up to five	38.85 / 62.56	29.86 / 43.90
Five to 10	40.69 / 22.56	37.68 / 33.99
10 to 15	12.96 / 7.79	20.33 / 12.79
15 to 20	5.21 / 5.98	7.37 / 7.59
Over 20	2.29 / 1.11	4.75 / 1.73

Investment Manager's Report

Property portfolio performance

The performance of the Company's underlying property portfolio compared with its IPD Benchmark to 31 March 2014 is shown below:

IPD Sector	SREIT total return p.a. (%)			IPD Index total return p.a. (%)			Relative p.a. (%)		
	12 months	Three years	Since inception	12 months	Three years	Since inception	12 months	Three years	Since inception
Total	13.7	7.7	5.6	12.5	6.6	4.6	1.0	1.0	0.9

In addition to producing a higher total return over the periods above the underlying property portfolio has consistently produced a higher income return compared with the IPD Benchmark.

Transactions and asset management

Portsmouth, Commercial Road



On 9 December 2013 the Company acquired 244 to 248D Commercial Road in Portsmouth for £7.18 million, reflecting a net initial yield of 8.3% based on a rent of £626,750 per annum. The property comprises a 27,359 sq ft modern and well configured retail parade located at the eastern end of Commercial Road, Portsmouth's main pedestrianised retail area. The property is let to four tenants including Sports Direct, Mothercare and Tui UK Limited, with an average unexpired lease term, assuming all tenants break at the earliest opportunity, of 6.6 years. As at 31 March 2014 the property was independently valued at £7.2 million.

The property is immediately opposite the proposed site for the Northern Quarter retail and leisure redevelopment, a 600,000 sq ft retail and leisure development, with the proposed anchor store directly facing the property. On 19 June 2014 the Company acquired the adjoining 250 to 254 Commercial Road for £1.475 million, reflecting a net initial yield of 9.5%. The property produces rent of £148,000 per annum and is let to KFC, Greggs and Ladbrokes. This results in a combined investment of £8.7 million, reflecting a blended net initial yield of 8.5%.

The Arndale Centre, Headingley, Leeds



On 15 January 2014 the Company acquired the Arndale Centre in Headingley for £16.23 million from Joint Fixed Charge Receivers, reflecting a net initial yield of 9.14% based on a rent of £1.57 million per annum. The property comprises a 125,834 sq ft multi-let retail, leisure and office property located in a densely populated suburb of Leeds. The property has an average unexpired lease term of five years and offers a strong tenant base with approximately 75% of the income generated by 20 retail and leisure tenants, which include Sainsbury's, Morrisons, Wilkinsons and Pizza Express. There is significant scope to add value through asset management including potential for change of use from offices to residential. The property also stands to benefit from local infrastructure improvements, as it is located adjacent to the proposed Leeds Trolley Bus station, a proposed rapid transport system linking Leeds city centre with its suburban areas. As at 31 March 2014 the property was independently valued at £17.25 million.

Investment Manager's Report

Morgan Sindall House, Rugby



On 6 February 2014 the Company acquired Morgan Sindall House in Rugby for £3.95 million, reflecting a net initial yield of 8%. The property comprises a 36,016 sq ft office building let to Morgan Sindall Plc as their regional headquarters for 15 years without tenant breaks at £335,000 per annum or an overall rate £9.30 per sq ft, with a guarantee from Morgan Sindall Group Plc. The lease benefits from five yearly upwards only rent reviews linked to the Retail Price Index, subject to a minimum uplift of 2% per annum compound and a maximum uplift of 4% per annum compound. As at 31 March 2014 the property was independently valued at £4.1 million.

City Tower, Manchester



On 12 June 2014 the Company acquired a 25% interest in City Tower, a landmark mixed use investment in Central Manchester, for £33 million, reflecting a headline net initial yield of 7%. The Company acquired the property alongside funds managed by Schroders, for a total price of £132 million. The property is held in a simple joint ownership structure with each investor able to call for a disposal of the underlying property.

City Tower provides 615,429 sq ft of office, retail, leisure and hotel accommodation on a three acre island site including 456 car parking spaces. It is located in a prime location within the Central Business District of Manchester with frontage to both Piccadilly Gardens and New York Street. The property is held on a long leasehold basis from Manchester City Council with 218 years unexpired at nil rent. The property provides significant diversification with 115 tenancies and a spread of lease expiries with an average unexpired lease term, to the earlier of lease expiry or break, of 10.8 years.

The offices, representing approximately 65% of the income, are let at a low initial rent of £17 per sq ft with key tenants including the National Institute for Health and Care Excellence, the Ministry of Justice, The University of Law Limited and Aegis Outsourcing (UK) Limited. The property offers significant scope to add value through asset management and also benefits from being central to the city and Manchester's public transport infrastructure network.

Investment Manager's Report

Wembley, Olympic Office Centre



Olympic Office Centre in Wembley comprises a 74,000 sq ft office building with an adjoining two acre site, partially used as car parking. A high level of activity over the year contributed to an increase in the independent valuation from £16.5 million to £22.5 million. The property is adjacent to Wembley Stadium in an area benefiting from regeneration, and has significant frontage to Wembley Way. In September 2013 the Company secured outline planning consent for 400,000 sq ft of student, residential, hotel and leisure uses on the two acre site. In parallel, detailed planning consent was obtained for decked car parking at the base of the office building to preserve future letting prospects.

In September contracts were exchanged to sell one acre to a wholly owned subsidiary of The Unite Group plc ('Unite') for a base price of £7.4 million plus overage linked to Unite's obligation to secure a detailed planning consent for 200,000 sq ft of student accommodation comprising no fewer than 674 rooms. Unite subsequently secured a resolution to grant detailed planning consent for 699 rooms, without onerous conditions, increasing the sale price to £7.56 million including overage. The contract with Unite has a fixed completion date of 1 August 2014.

Strong demand for residential accommodation in Wembley now presents the opportunity to sell the remaining one acre plot with the benefit of outline consent for 200,000 sq ft of residential and ancillary uses. This is being pursued in parallel with agreeing a strategy for the office building, where the current leases expire in December 2014.

Brentford, Reynards Trading Estate



In September 2013 the Company exchanged conditional contracts to sell Reynards Trading Estate in Brentford to Notting Hill Home Ownership ('Notting Hill') for a base price of approximately £20 million, with completion subject to Notting Hill securing a residential planning permission at their own cost. This compares to a value of £16 million as at 31 March 2014. Notting Hill have submitted their planning application and whilst this is an important step forward to realising value from a substantially non-income producing asset, there continues to be uncertainty regarding the timing and prospects for achieving a residential planning permission.

Investment Manager's Report

Finance

The refinancing with Canada Life completed on 16 April 2013 with the new £129.58 million loan facility used to repay the £114.5 million securitised loan in full. As at 31 March 2014 the loan was secured against 50 properties with a combined value of £278 million. At the same date the loan has an average duration of 13 years and details of the loan and compliance with the principal covenants are set out below:

Canada Life loan (£m)	Maturity	Interest rate (%)	Loan to Value (‘LTV’) ratio (%)*	LTV ratio covenant (%)*	Interest cover ratio (%)**	ICR ratio covenant (%)**	Forward looking ICR ratio (%)***	Forward looking ICR ratio covenant (%)***
103.7	16/04/2028	4.77	46.6	65	293	185	250	185
25.9	16/04/2023							

* Loan balance divided by property value as at 31 March 2014

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

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

The Company has the ability to make a limited number of voluntary prepayments and fixed rate break costs are payable on any prepayment. No break costs are payable when the ten year tranche of debt matures.

As at 31 March 2014 the Company also held three unsecured properties with a combined value of £28.6 million and cash of £50 million. Following the post year end placing and acquisitions the Company owns five unsecured properties with a combined value of £61.8 million, together with cash of approximately £13 million. This results in a loan to value ratio, net of cash, of approximately 33%.

In order to take advantage of attractive future acquisition opportunities as they arise, the Company may consider tactical short-term debt facilities at a low loan to value ratio, to be repaid from subsequent equity issuance. The long-term target, assuming completion of the placing programme, is to maintain a net loan to value ratio in the region of 25% to 35%.

Outlook

The UK economy is returning to growth following a deep recession which, alongside increasing occupational demand, provides reasons to be optimistic about the sustainability of returns for investors in real estate. The refinancing has provided the platform with a controlled level of long-term and low cost leverage. This has enabled the Company to pursue accretive growth arising from improving property market conditions and the arbitrage between the Company's cost of capital and yields offered by good quality property investments.

Over the short-term the Company has the potential to enhance NAV total returns and grow net income further by expediting the placing programme to take advantage of these favourable market conditions. Shareholder returns should also be supported by completion of ongoing asset management initiatives, notably Wembley and Brentford, where redeploying proceeds from low or non-income producing investments will generate additional income. Successful execution of this strategy, combined with a continued market recovery, should provide the Company with both a sustainable dividend and, in the longer-term, the ability for continued NAV growth.

The short-term risk for the UK property market is therefore on the upside as a result of improving investor and occupier demand. Whilst capital markets are currently experiencing historically low levels of volatility, we remain cognisant of the potential negative impact of rising interest rates on capital values. We will work to mitigate this risk by continuing to adopt a disciplined approach to new investments, targeting property offering good long-term fundamentals in growth markets.

Duncan Owen

Schroder Property Investment Management Limited

18 July 2014

Business Model and Strategy

Company's Business

The Company is a limited liability, authorised closed-ended, Guernsey investment company managed by Schroder Property Investment Management Limited ('Schroders'/the 'Investment Manager'). Article 43.1 of the Company's Articles of Incorporation states that the Company's shareholders will have the opportunity to vote for its continuation at the Annual General Meeting to be held in 2014.

The Board

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

The Company has no executive Directors or employees.

Investment Strategy

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

Investment Objective

The investment objective of the Company is to provide shareholders with an attractive level of income together with the potential for income and capital growth through investing predominantly in UK commercial property.

A clarification to the investment objective was passed at the Extraordinary General Meeting held on 16 April 2014. Evolving structural and cyclical changes in the UK commercial property market means that, in the view of the Investment Manager, there is an opportunity to broaden the Company's investable universe through exposure to additional alternative property types such as healthcare, hotels and student accommodation. These alternative property types could make a positive contribution to performance through diversification and other benefits such as longer lease terms with inflation-linked rents.

Investment Policy

The investment policy of the Company is to own a diversified portfolio of UK commercial property with good fundamental characteristics, as outlined below. The Group invests principally in the UK commercial property sectors including office, retail and industrial and will also invest in other sectors including mixed use, residential, hotels, healthcare and leisure.

Diversification and asset allocation

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

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

Borrowings

As at 31 March 2014, the Group had £129.58 million of on-balance-sheet debt with Canada Life. This was put in place on 16 April 2013 and this represented the successful conclusion of a strategy of selective property disposals, where asset management initiatives had been completed, to reduce the quantum of the Company's debt and its loan to value ('LTV') ratio in order to optimise the terms of the refinancing.

Business Model and Strategy

The Board has established a gearing guideline for the Investment Manager, which seeks to limit on-balance-sheet debt, net of cash, to 40% of on-balance-sheet assets while recognising that this may be exceeded in the short term from time to time. It should be noted that the Company's Articles of Incorporation limit its borrowings to 65% of the Group's gross assets, calculated as at the time of borrowing. The Board keeps this guideline under review and the Directors may require the Investment Manager to manage the Group's assets with the objective of bringing borrowings within the appropriate limit while taking due account of the interests of shareholders. Accordingly, corrective measures may not have to be taken immediately if this would be detrimental to shareholder interests.

Interest Rate Exposure

It is the Board's policy to minimise interest rate risk, either by ensuring that borrowings are on a fixed rate basis, or through the use of interest rate swaps/derivatives used solely for hedging purposes. At the year end, there are no interest rate swaps due to the fixed rate nature of the refinanced debt.

Investment Restrictions

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

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

Performance

The Board uses principal financial Key Performance Indicators ('KPIs') to monitor and assess the performance of the Company being the absolute net asset value ('NAV') total return, the performance of the Company's underlying property portfolio relative to its Investment Property Databank ('IPD') Benchmark peer group index and the share price:

1. NAV total return

For the year to 31 March 2014 the Company produced a NAV total return of 14.4% (-4.0% for the year to 31 March 2013). From inception in May 2004, the Company has produced an annualised NAV total return of -0.7% per annum.

2. Underlying property portfolio performance relative to peer group Benchmark

The performance of the Company's property portfolio is measured against a specific benchmark defined as the Investment Property Databank ('IPD') Quarterly Version of Balanced Monthly Index Funds (the 'Benchmark Index'). As at 31 March 2014 the Benchmark Index comprised 56 member funds.

Total return for 12 months to 31 March 2014		Total return for 12 months to 31 March 2013	
SREIT (%)	IPD Benchmark Index (%)	SREIT (%)	IPD Benchmark Index (%)
13.7	12.5	1.3	1.6

The analysis above prepared by IPD is undertaken on a 'like for like' basis and takes account of all direct property related transaction costs.

3. Share price performance

The Board monitors the level of the share price compared to the NAV. As at 31 March 2014, the NAV of 48.6p reflects a premium to the share price of 5.9%. Where appropriate on investment grounds, the Company may from time to time repurchase its own shares, but the Board recognises that movements in the share price premium or discount are driven by numerous factors, including investment performance, gearing and market sentiment.

Business Model and Strategy

Accordingly it focuses its efforts principally on addressing sources of risk and return as the most effective way of producing long term value for shareholders.

Investment Manager performance

The Board reviews the Investment Manager's performance at its quarterly Board meetings. In addition, the Board made its annual visit to the Investment Manager's office in March 2014 to review portfolio strategy and the Investment Manager's capabilities in more depth. Subsequently the individual Directors formally discussed the performance of the Investment Manager at a private session. On the basis of this review, and the extensive selection process undertaken prior to appointing the Investment Manager, the Board remains satisfied that the Investment Manager has the appropriate capabilities required to support the Company, and believes that the continuing appointment of the Investment Manager is in the interests of shareholders.

Risks and Uncertainties

The Board has adopted a matrix of key risks which affect its business and a robust framework of internal control which is designed to monitor those risks. The internal control framework provides a system to enable the Directors to mitigate these risks as far as possible and which assists in determining the nature and extent of the significant risks the Board is willing to take in achieving its strategic objectives. A description of the Company's system of internal control is set out further below in the Corporate Governance statement. The principal risks are considered to be as follows:

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

Economic and property market risk: The performance of the Company could be affected by economic and property market risk. In the wider economy this could include inflation or deflation, economic recessions, movements in interest rates or other external shocks. The performance of the underlying property portfolio could also be affected by structural or cyclical factors impacting particular sectors or regions of the property market.

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

In addition, the Company's property assets are valued quarterly by Knight Frank LLP, a specialist property valuation firm who are provided with regular updates on portfolio activity by the Investment Manager.

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

Processes are in place to ensure that the Company complies with the conditions applicable to property investment companies set out in the Listing Rules and the Rules of the CISE. The Administrator attends all Board meetings to

Business Model and Strategy

be aware of all announcements that need to be made and the Company's advisors are aware of their obligations to advise the Administrator and, where relevant, the Board of any notifiable events. Finally, the Board is satisfied that the Investment Manager and Administrator have adequate procedures in place to ensure continued compliance with the regulatory requirements of the FCA, the CISE and the Guernsey Financial Services Commission.

Corporate Governance and Shareholder Relations: Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Governance report.

Operational: Disruption to, or failure of, the Investment Manager's business or accounting systems could lead to an inability to provide accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by the Investment manager and its associates and the key elements designed to provide effective internal control are included with the Internal Control section of the Governance report on page 34.

Financial: Note 20 to the financial statements include a description of risks relating to financial risk, market price risk, credit risk, liquidity risk and interest rate risk. As described earlier under Investment policy, the Board establishes gearing guidelines, and ensures that the Investment Manager operates within the defined guidelines.

Political: Changes in financial or tax legislation in the United Kingdom, Channel Islands and European Union may adversely affect the Company. The Board seeks advice on these matters where appropriate.

Management and control: Changes that cause the management and control of the Company to be exercised in the United Kingdom could lead to the Company becoming liable for United Kingdom taxation on income and capital gains.

This report includes statements that are, or may be deemed to be, 'forward-looking statements'. Forward-looking statements are not guarantees of future performance. The Company's actual investment performance, results of operations, financial condition, dividend policy and the development of its financing strategies may differ materially from the impression created by the forward-looking statements contained in this document.

Board of Directors

Lorraine Baldry (Chairman) – appointed on 13 January 2014

Aged 65, is Chairman of London & Continental Railways, Inventa Partners Ltd Tri-Air Developments Ltd and senior independent Director of Circle Holdings plc. She was Chief Executive of Chesterton International plc and prior to that held various senior positions at Prudential Corporation, Morgan Stanley and Regus. She is a former Chairman of London Thames Gateway Development Corporation and Central London Partnership and non-executive director of St Ives plc and DTZ Holdings plc. She is also an Honorary Member of the Royal Institution of Chartered Surveyors and a Past President of the British Property Federation.

John Frederiksen – appointed on 27 May 2004

Aged 66, is chairman of the Danish Property Federation and several major Danish property and other companies as well as President of the European Property Federation. He established and was Managing Director of Bastionen A/S, one of the largest Danish property investment companies from 1986 to 2001. He was also Chairman of ASC, the largest property management company in Denmark, from 1990 to 1998.

Keith Goulborn – appointed on 27 May 2004

Aged 69, was head of Unilever's UK Property Department for 17 years. In this capacity he was responsible for the property investment activities of the Unilever Pension Fund in the UK and operational property advice to the UK group and its implementation. Prior to that, he was a partner in Debenham, Nightingale Chancellors. He is a Fellow of the Royal Institution of Chartered Surveyors.

Harry Dick-Cleland – appointed on 13 March 2006

Aged 57, is Managing Director of Cleland & Co Limited, Chartered Accountants which he founded in 2003. He was previously a Partner at Ernst & Young from 1998 to 2003, having joined their Guernsey office in 1987. He is a fellow of the Institute of Chartered Accountants in England & Wales.

David Warr – appointed on 13 March 2006

Aged 60, is a fellow of the Institute of Chartered Accountants in England & Wales with particular expertise in trust and corporate work. He is also a Non-executive Director of Threadneedle UK Select Trust Limited, Breedon Aggregates Limited, Unigestion (Guernsey) Limited, Acorn Income Fund Limited, and Mid Europa Fund Management Limited.

Alison Ozanne – appointed on 21 January 2014

Aged 47, is a founding partner of AO Hall Legal Specialists. She specialises in commercial litigation with a particular emphasis on trust and fiduciary, banking, insolvency, insurance and reinsurance litigation and general corporate disputes. Alison also has a significant interest in customary law issues and has lectured widely on Guernsey's constitutional position in Guernsey, London, Jersey and France.

Report of the Directors

The Directors of Schroder Real Estate Investment Trust Limited (the 'Company') and its subsidiaries (together, the 'Group') present their report and the audited financial statements of the Group for the year ended 31 March 2014. The Company is incorporated in Guernsey, Channel Islands under The Companies (Guernsey) Law, 2008.

Results and Dividends

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

During the year the Company has declared and paid the following interim dividends to its ordinary shareholders in accordance with the solvency test (contained in The Companies (Guernsey) Law, 2008):

Dividend For Quarter	Date Paid	Rate
31 March 2013	24 May 2013	0.88 pence per share
30 June 2013	23 August 2013	0.62 pence per share
30 September 2013	22 November 2013	0.62 pence per share
31 December 2013	21 February 2014	0.62 pence per share

Subject to the solvency test provided for in The Companies (Guernsey) Law, 2008, being satisfied, all dividends are declared and paid as interim dividends. The Directors do not therefore recommend a final dividend. A dividend for the quarter ended 31 March 2014 of 0.62 pence per share ('pps') was declared on 1 April 2014 and paid on 25 April 2014.

Continuation vote

The Company's Articles of Incorporation state that shareholders will have an opportunity to vote on the continuation of the Company at the Annual General Meeting ('AGM') to be held in 2014. Consequently, prior to entering into a long term loan facility in April 2013, the Board undertook a broad consultation exercise to ascertain Shareholders views on the refinancing in the context of the continuation vote. The feedback from this consultation, reiterated during discussions connected with the placing and offer for subscription, indicated support for the continuation of the Company.

As a result of this feedback, completion of the refinancing and the positive outlook for shareholders arising from the market recovery, the Board has concluded that the continuation of the Company is in the interest of shareholders as a whole and is recommending that shareholders vote in favour of the continuation resolution to be proposed at the forthcoming AGM.

Share Capital

During the year the Company issued an additional 35,592,128 shares issued at a price of 48.25p per share, resulting in the 31 March 2014 issued share capital totalling 391,513,409.

Post year end, a further 80,000,000 of new ordinary shares were issued under the placement and offer for subscription programme in April 2014 at a price of 50.25p per share.

As at the date of this Report, the Company has 471,513,409 Ordinary shares in issue. The total number of voting rights of the Company as at the date of this Report is 471,513,409.

Investment Manager

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

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

With effect from the earlier of (i) the date that the Manager, Schroder Property Investment Management, becomes authorised and regulated by the FCA as a full scope 'UK AIFM' as defined in the FCA Handbook of Rules and (ii) 22 July 2014, the Company has appointed the Manager as the Alternative Investment Fund Manager under the

Report of the Directors

Alternative Investment Fund Managers Directive ('AIFMD'). There is no additional fee paid to the Investment Manager for this service.

Administration

The Board appointed Northern Trust International Fund Administration Services (Guernsey) Limited as the administrator to the Company (the 'Administrator') with effect from 25 July 2007. The Administrator is entitled to an annual fee equal to £120,000.

Northern Trust (Guernsey) Limited has been appointed by the Board to provide Depository services, as required under the Alternative Investment Fund Management Directive. A fee of £40,000 will be paid for the service.

Going Concern

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

The Company's Articles of Incorporation state that shareholders will have an opportunity to vote on the continuation of the Company at the Annual General Meeting ('AGM') to be held in 2014. Consequently, prior to entering into a long term loan facility in April 2013, the Board undertook a broad consultation exercise to ascertain Shareholders views on the refinancing in the context of the continuation vote. The feedback from this consultation, reiterated during discussions connected with the placing and offer for subscription, indicated support for the continuation of the Company. On this basis, the Directors have a reasonable expectation that the continuation vote will be passed.

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

Creditor Payment Policy

It is the Group's policy to ensure settlement of supplier invoices in accordance with stated terms.

Anti-Bribery Policy

The Board notes the implementation of the Bribery Act 2010 in the United Kingdom, which came into force on 1 July 2011. The Company continues to be committed to carrying out its business fairly, honestly and openly. To this end, it has undertaken a risk assessment of its internal procedures and the policies of the Company's main service providers and has adopted a revised anti-bribery policy which aims to prevent bribery being committed by Directors and persons associated with the Company on the Company's behalf and to ensure compliance with the Bribery Act.

Directors

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

Director	Number of Ordinary Shares	Percentage (%)
Lorraine Baldry	–	Less than 0.1
Keith Goulborn	34,880	Less than 0.1
Harry Dick-Cleland	–	Less than 0.1
David Warr	220,000	Less than 0.1
Alison Ozanne	–	Less than 0.1
John Frederiksen	50,000	Less than 0.1

Report of the Directors

Substantial Shareholdings

At 7 April 2014 the Directors were aware that the following shareholders each owned 3% or more of the issued Ordinary Shares of the Company.

	Number of Ordinary Shares	Percentage (%)
Schroder Investment Management Limited	72,339,490	18.48
Investec Wealth and Investment	58,198,701	14.87
Alliance Trust Savings Limited	25,928,061	6.62
Premier Fund Managers Limited	16,663,152	4.26
Kleinwort Benson Private Bank Ltd	16,246,651	4.15
BlackRock Investment Management Limited	15,393,904	3.93
Transact	14,375,106	3.67
JO Hambro Capital Management	12,396,239	3.17

Disclosure of Information to Auditors

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

Independent Auditors

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

KPMG's reappointment follows a review of auditor appointment in the form of a formal tender process as described in the Report of the Audit Committee.

Status for Taxation

The Director of Income Tax in Guernsey has granted the Company exemption from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and the income of the Company may be distributed or accumulated without deduction of Guernsey Income Tax. Exemption under the above mentioned Ordinance entails the payment by the Company of an annual fee of £600.

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

Post balance sheet event

On 16 April 2014, an offer for subscription was approved by shareholders at an Extraordinary General Meeting ('EGM'), enabling the Company to issue a further 200 million shares within the year. The Company successfully issued 80 million shares pursuant to the Initial Placing and Offer at the Issue Price of 50.25 each, resulting in Ordinary shares in issue of 471,513,409.

Publication of unaudited financial information

The following unaudited financial information was included in the prospectus issued by the company dated 20 March 2014 and is repeated here in accordance with the provisions of Listing Rule 9.2.18(2)(a). There is no difference between the unaudited information and the actual figures as at the relevant dates, as required to be disclosed under Listing Rule 9.2.18(2)(b).

Extract from page 31 of the prospectus

'The January placing and the acquisition of both the Headingley Property and the Rugby Property have had the following positive financial impact compared with the last reported NAV as at 31 December 2013:

- increase in the NAV from £168.5 million as at 31 December 2013 to approximately £190.6 million as at 17 March 2014;
- increase in dividend cover from 74 per cent. over the quarter to December 2013 to approximately 91 per cent. as at 17 March 2014;'

Report of the Directors

Extract from page 87 of the prospectus

'Capitalisation and indebtedness

The following table shows the unaudited capitalisation and indebtedness of the Group (distinguishing between guaranteed and unguaranteed, secured and unsecured indebtedness) as at 31 December 2013.

	31 December 2013
	£'000
Total Current Debt	
Guaranteed	–
Secured	–
Unguaranteed/unsecured	–
Total Non-current Debt	
Guaranteed	–
Secured	129,585
Unguaranteed/unsecured	–
Shareholders' Equity	
Share capital and share premium	110,305
Legal reserve	–
Other reserve	58,208
Total	168,508

The following table shows the Group's unaudited net indebtedness as at 31 December 2013.

	£'000
A Cash	16,490
B Cash equivalent	–
C Trading securities	–
D Liquidity (A + B + C)	16,490
E Current financial receivable	–
F Current bank debt	–
G Current portion of non-current debt	–
H Other current financial debt	–
I Current financial debt (F + G + H)	–
J Net current financial indebtedness (I – E – D)	(16,490)
K Non-current bank loans	129,585
L Bonds issued	–
M Other non-current loans	–
N Non-current financial indebtedness (K + L + M)	129,585
O Net financial indebtedness (J+N)	113,095

Statement of Directors' Responsibilities

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

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

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

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

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole and comply with The Companies (Guernsey) Law, 2008;
- the Strategic and Governance Reports include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties it faces; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

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

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

Ordinary Resolutions 1 – 10

Ordinary Resolutions 1-10 are being proposed to approve the ordinary business of the Company to: (i) consider and approve the consolidated annual report and the remuneration report of the Company for the year ended 31 March 2014; (ii) re-elect the Directors; and (iii) re-appoint the Auditors and to authorise the Directors to determine the Auditors' remuneration.

Ordinary Resolution 11 Continuation of the Company

Pursuant to the Company's articles of incorporation, the Company is required to propose an ordinary resolution at the 2014 annual general meeting that the Company should continue in existence until such further resolution is passed to determine otherwise. In the event that this resolution is not passed, the Board is required to draw up proposals for the reconstruction, unitisation or other reorganisation of the Company for submission to shareholders at an extraordinary general meeting to be convened for a date not more than three months after the date of the annual general meeting. If such proposals are not passed, the Board is required to propose the voluntary liquidation of the Company.

Ordinary Resolution 12 Authority to repurchase shares

The Company did not buy back any ordinary shares during the year ended 31 March 2014. The Directors currently have authority to repurchase up to 14.99% of the Company's ordinary shares and will seek annual renewal of this authority from shareholders. Any repurchase of ordinary shares will be made subject to Guernsey law and within any guidelines established from time to time by the Board and the making and timing of any repurchases will be at the absolute discretion of the Board.

Purchases of ordinary shares will only be made through the market for cash at prices below the prevailing NAV of the ordinary shares (as last calculated) where the Directors believe such purchases will enhance shareholder value. Such purchases will also only be made in accordance with the Listing Rules and Rules of the CISE which provide that the price to be paid must not be more than 5 per cent. above the average market value for the ordinary shares for the five business days before the ordinary shares are purchased. Any ordinary shares purchased under this authority will be cancelled.

Special Resolution 1 Authority to disapply pre-emption rights

The Directors require specific authority from shareholders before allotting new ordinary shares for cash (or selling shares out of treasury for cash) without first offering them to existing shareholders in proportion to their holdings. Special Resolution 1 empowers the Directors to allot new ordinary shares for cash or to sell ordinary shares held by the Company in treasury for cash, otherwise than to existing shareholders on a pro-rata basis, up to an amount of 39,151,340 ordinary shares, or such other number of ordinary shares being equal to 10% of the ordinary shares in issue on 11 September 2014.

This authority will expire on the earlier of the conclusion of the AGM of the Company in 2015 or on the expiry of 15 months from the passing of Special Resolution 1.

Special Resolution 2 Authority to adopt new articles of incorporation

The Board is proposing to make amendments to the Company's existing articles of incorporation in response to regulations implementing the Alternative Investment Fund Managers Directive ('AIFMD Regulations') coming into

force. An amendment to the existing articles of incorporation is therefore proposed with the effect of enabling the Board, should the need arise and subject to applicable laws, to allow a depositary to discharge its strict liability for loss of certain of the Company's assets. This proposed amendment provides the Company with commercial flexibility, and the Board will exercise its discretion in the usual way in determining whether or not to provide such a discharge.

The Board has also taken the opportunity to make certain non-material amendments to the existing articles of incorporation to ensure that they comply with current law and practice.

Copies of the proposed new articles of incorporation of the Company, including a version showing by tracked changes the alterations from the existing articles, will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Company up to and including the date of the AGM.

The Board considers that the resolutions to be proposed at the AGM are in the best interests of the Company's shareholders as a whole. The Board therefore recommends unanimously to shareholders that they vote in favour of each of the resolutions.

Lorraine Baldry

Chairman

18 July 2014

Harry Dick-Cleland

Director

18 July 2014

Remuneration Report

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

Directors receive a base fee of £25,000 per annum, and the Chairman receives £40,000 per annum. The Chairman of the Audit Committee receives an additional fee of £5,000 and members of the Transaction Committee each receive an additional fee of £5,000 reflecting their additional responsibilities and workload. The base fee and the Chairman's fee were increased by £2,500 per annum with effect from 1 January 2014.

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

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

No Director has a service contract with the Company, however, Directors have a letter of appointment with the Company. The Directors' terms of appointment are available for inspection at the Company's registered office address during normal business hours and at the AGM.

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

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

Performance

The performance of the Company is described on page 18 in the Business Model and Strategy Report.

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

Director	31 March 2014	31 March 2013
Andrew Sykes (Chairman)	(pro-rata) 33,125	37,500
Peter Atkinson*	(pro-rata) 22,459	27,500
Keith Goulborn	23,125	22,500
Harry Dick-Cleland*#	33,125	32,500
David Warr*	28,125	27,500
John Frederiksen	23,125	22,500
Alison Ozanne*	(pro-rata) 5,333	–
Lorraine Baldry (Chairman)	(pro-rata) 7,833	–
	176,250	170,000

* Member of the Transaction Committee (see page 32)

Chairman of the Audit Committee

Lorraine Baldry

Chairman

18 July 2014

Harry Dick-Cleland

Director

18 July 2014

Corporate Governance

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

On 1 January 2012, the Guernsey Financial Services Commission's (the 'GFSC') Finance Sector Code of Corporate Governance (the 'Code') came into effect. The GFSC have stated in the Code that companies which report against the UK Corporate Governance Code or the Association of Investment Companies Code of Corporate Governance (the 'AIC Code') are deemed to meet the Code, and need take no further action.

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

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

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

Statement of Compliance

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

The UK Corporate Governance Code includes provisions relating to:

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

For the reasons set out above the Board considers these provisions are not relevant to the Company, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

Role of the Board

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

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

Board Decisions

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

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

Corporate Governance

Board performance evaluation

As in prior years, the Board has undertaken a review of its performance. The review process involved completion of a questionnaire by each of the Directors and Investment Manager. The Chair of the Nomination Committee coordinates this process and collates feedback which is discussed in detail with the Board. This review concluded that the Board was operating effectively and that the Directors had the breadth of skills required to fulfil their role.

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

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

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

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

Board composition and diversity

The Board currently consists of six non-executive Directors. The biography of each of these Directors is set out on page 21 of the report. The Board considers each of the Directors to be independent. The independence of each Director is considered on a continuing basis.

The Board is satisfied that it is of sufficient size with an appropriate balance of skills and experience, independence and knowledge of both the Company and the wider investment company industry, to enable it to discharge its respective duties and responsibilities effectively and that no individual or group of individuals is or has been, in a position to dominate decision making.

The Board has made considerable steps on gender diversity during the year with a third of the Board, including the Chairman, now being female.

Board Committees

Audit Committee

Details on the Audit Committee is set out in the Report of the Audit Committee.

Nomination Committee

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

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

The Committee considered the appointment of two new non-executive Directors during the year under review. The Chairman of the Nomination Committee is primarily responsible for interviewing suitable candidates and a recommendation is made to the Board for final approval.

To discharge its duties, the members of the Committee met on one occasion during the year ended 31 March 2014 to consider the composition and balance of the Board, Board succession planning and the selection of suitable candidates as Directors, subsequent to which the appointment of two new non-executive Directors, Mrs Lorraine Baldry and Ms Alison Ozanne, was recommended to the Board for approval.

Corporate Governance

Remuneration Committee

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

Transactions Committee

The members of the Transactions Committee are Alison Ozanne, Harry Dick-Cleland and David Warr, with the Chairman elected at each meeting. Peter Atkinson was a member of the Committee up until his retirement on 22 January 2014. The Transactions Committee reviews transactions between regular scheduled Board meetings where a Board approval is required. All transaction proposals are circulated to all Directors in advance, together with a recommendation and explanatory note from the Investment Manager. All Board members may comment in advance of the Transactions Committee meeting, but only those attending will consider the proposal. Transactions are noted subsequently at regular quarterly Board meetings. The members of the Transactions Committee are each paid a fee of £5,000 per annum, in addition to their fees as Directors.

Board Meetings and Attendance

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

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

	Board	Audit Committee
Andrew Sykes (Chairman – retired)	4/4	2/2
Lorraine Baldry (Chairman)	1/1	0/0*
Peter Atkinson	3/4	2/2
Keith Goulborn	4/4	1/2
Harry Dick-Cleland	4/4	2/2
David Warr	4/4	2/2
John Frederiksen	3/4	1/2
Alison Ozanne	1/1	0/0*
No. of meetings during the year	4/4	2/2

* no audit committee meetings following appointment to the Board.

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

Information Flows

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

Directors' and Officers' Liability Insurance

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

Relations with Shareholders

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

The Board believes that the Annual General Meeting provides an appropriate forum for investors to communicate with the Board, and encourages participation. The Notice of Meeting on page 57 sets out the business of the meeting.

Corporate Governance

Corporate Social Responsibility – benefits, risks and controls

The Board agrees with the Investment Manager that corporate social responsibility remains key to long term future business success.

The Investment Manager states in its Responsible Property Investment Policy:

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

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

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

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

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

A full copy of Schrodgers’ policy is available on request.’

The Company is currently an Information Declarer within Phase I of the CRC Energy Efficiency Scheme (the ‘CRC Scheme’), legislation that requires full participants to report annual carbon emissions and purchase equivalent allowances. The Company’s portfolio is too small to be a full participant and as expected did not breach the size threshold that would otherwise require registration for Phase II of the CRC Scheme and the purchase of allowances. The Investment Manager in conjunction with its principal managing agent, MJ Mapp, will continue to monitor the Company’s energy usage and efficiency as well as water and waste.

The Company does not fall within the requirements for mandatory reporting of greenhouse gas emissions for UK quoted companies which came into effect from 1 October 2013. The Board and its advisors will continue to monitor requirements and guidance in relation to managing and reporting environmental matters and developments in legislation.

Report of the Audit Committee

Composition

The Audit Committee is chaired by Harry Dick-Cleland with Lorraine Baldry, Keith Goulborn, John Frederiksen, David Warr and Alison Ozanne as members. The Board considers that Harry Dick-Cleland's experience makes him suitably qualified to chair the Audit Committee.

Responsibilities

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

Work of the Committee

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

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

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

Matter

Property Valuation

Property valuation is central to the business and is a significant area of judgement. Although valued by an independent firm of valuers, Knight Frank, the valuation is inherently subjective.

Errors in valuation could have a material impact on the Company's net asset value.

Action

The Audit Committee reviewed the outcomes of the valuation process throughout the year and discussed the detail of each quarterly valuation with the Manager at the Board meetings.

A nominated representative of the Committee met with the Company's valuer on a private basis to discuss the process, assumptions, independence and communication with the Managers. The results of the visit were reported back to the Board and discussed.

Furthermore, as this is the main area of audit focus, the auditors contact the valuers directly and independently of the Manager. The Audit Committee receives detailed verbal and written reports from KPMG on this matter as part of their interim and year end reporting to the committee.

On the basis of the above, the Committee concluded that the valuations were suitable for inclusion in the financial statements.

Internal Control

The Code requires the Board to conduct, at least annually, a review of the adequacy of the Company's systems of internal control, and to report to shareholders that it has done so. The Board has approved a detailed Risk Map identifying significant strategic, investment-related, operational and service provider related risks and has in place a monitoring system to ensure that risk management and all aspects of internal control are considered on an ongoing

Report of the Audit Committee

basis. The monitoring system assists in determining the nature and extent of the significant risks the Board is willing to take in achieving its strategic objectives.

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

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

Internal audit

The Committee considered the need for an internal audit function and concluded that one was not needed given the scale and complexity of the business.

External Auditor remuneration, independence and effectiveness

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

The Committee's policy for the use of the external auditor for non-audit services recognises that there are certain circumstances where, due to KPMG's expertise and knowledge of the Company, it will often be in the best position to perform non audit services. Under the policy, the use of the external auditor for non-audit services is subject to pre-clearance by the Audit Committee.

During the year, the non-audit services fees paid to KPMG related solely to the interim review. Post year end, KPMG advised on the share placing programme, and were paid a fee of £90,000 for this work.

During the year, the Audit Committee evaluated the effectiveness of the audit firm. This evaluation involved an assessment of the effectiveness of the Auditor's performance against agreed criteria including: calibre, expertise and resources, independence and effectiveness of the audit process. As part of the evaluation, the Committee considered feedback from the Manager on the audit process and the year-end report from the Auditor.

Review of auditor appointment

KPMG has been the Group's Auditor since inception in 2004. In order to benchmark KPMG's service quality, effectiveness and value for money, together with adopting the UK Corporate Governance code on audit tendering and rotation, the Committee conducted a formal tender process during May/June 2014.

Three firms, including KPMG, were asked to submit a written response to questions asked in the Request for Proposal, followed by a presentation to an Interview panel comprised of the Chairman of the Audit Committee, one other director and a representative of the investment manager. All firms were independently scored on numerous criteria by the Interview panel covering firm's experience, team structure and audit methodology, amongst other things. Following this, a recommendation was made to the Audit Committee to retain KPMG as the Group's auditors.

The Audit Committee has recommended the continuing appointment of KPMG to the Board.

Consolidated Statement of Comprehensive Income

	Notes	For the year ended 31 March 2014 £000	For the year ended 31 March 2013 £000
Rental income		20,194	22,598
Other income	4	563	652
Property operating expenses	5	(2,931)	(2,998)
Net rental and related income		17,826	20,252
Profit on disposal of investment property		–	3,066
Net valuation gain/(loss) on investment property	12	15,691	(20,797)
Expenses			
Investment management fee	3	(1,781)	(1,937)
Valuers' and other professional fees		(1,181)	(903)
Administrators and accounting fee	3	(120)	(120)
Auditor's remuneration	6	(120)	(139)
Directors' fees	7	(176)	(170)
Other expenses	7	(428)	(291)
Total expenses		(3,806)	(3,560)
Net operating profit/(loss) before net finance costs		29,711	(1,039)
Interest receivable		24	9
Finance costs payable	8	(7,188)	(9,436)
Swap break costs	8 & 17	(15,088)	(8,245)
Ineffective portion of changes in fair value of swaps	17	13,041	7,561
Net finance costs		(9,211)	(10,111)
Share of profit of associates and joint ventures	13	397	376
Profit/(loss) before taxation		20,897	(10,774)
Taxation	9	(19)	207
Profit/(loss) for the year attributable to the equity holders of the parent		20,878	(10,567)
Other comprehensive income: items that are or may be reclassified to the profit and loss			
Effective portion of changes in fair value of swaps	17	57	1,491
Net change in fair value of swap reclassified to profit and loss	17	2,121	2,138
Total comprehensive income/(loss) for the year attributable to the equity holders of the parent		23,056	(6,938)
Basic and diluted earnings/(loss) per share	10	5.7p	(3.0p)

All items in the above statement are derived from continuing operations. The accompanying notes 1 to 25 form an integral part of the financial statements.

Consolidated Statement of Financial Position

	Notes	31 March 2014 £000	31 March 2013 £000
Investment in associates and joint ventures	13	–	3,480
Loans to associates and joint ventures	13	1,800	1,223
Total investment and loans in associates and joint ventures		1,800	4,703
Investment property	12	298,074	251,306
Non-current assets		299,874	256,009
Trade and other receivables	14	10,230	8,639
Taxation receivable		–	117
Cash and cash equivalents	15	14,969	42,914
Current assets		25,199	51,670
Total assets		325,073	307,679
Issued capital and reserves	16	190,443	160,513
Equity		190,443	160,513
Interest-bearing loans and borrowings	17	127,406	125,042
Interest rate swaps	17	–	15,218
Non-current liabilities		127,406	140,260
Trade and other payables	18	7,154	6,906
Taxation payable		70	–
Current liabilities		7,224	6,906
Total liabilities		134,630	147,166
Total equity and liabilities		325,073	307,679
Net Asset Value per Ordinary Share	19	48.6p	45.1p

The financial statements on pages 36 to 52 were approved at a meeting of the Board of Directors held on 18 July 2014 and signed on its behalf by:

Lorraine Baldry
Chairman

Harry Dick-Cleland
Director

The accompanying notes 1 to 25 form an integral part of the financial statements.

Consolidated Statement of Changes in Equity

	Notes	Share premium £000	Hedge reserve £000	Revenue reserve £000	Total £000
Balance as at 31 March 2012		110,305	(5,807)	75,481	179,979
Loss for the year		–	–	(10,567)	(10,567)
Change in fair value of swap taken to equity		–	1,491	–	1,491
Net change in fair value of swap reclassified to profit and loss		–	2,138	–	2,138
Dividends paid	11	–	–	(12,528)	(12,528)
Balance as at 31 March 2013		110,305	(2,178)	52,386	160,513
Profit for the year		–	–	20,878	20,878
Change in fair value of swap taken to equity		–	57	–	57
Net change in fair value of swap reclassified to profit and loss		–	2,121	–	2,121
New Equity Issuance		16,847	–	–	16,847
Dividends paid	11	–	–	(9,973)	(9,973)
Balance as at 31 March 2014		127,152	–	63,291	190,443

Total comprehensive income for the year was £23,056,000 (2013: £6,938,000 loss).

The accompanying notes 1 to 25 form an integral part of the financial statements.

Consolidated Statement of Cash Flows

	Notes	For the year ended 31 March 2014 £000	For the year ended 31 March 2013 £000
Operating activities			
Profit/(loss) for the year		20,878	(10,567)
Adjustments for:			
Profit on disposal of investment property		–	(3,066)
Net valuation (gain)/loss on investment property		(15,691)	20,797
Share of profit of associates and joint ventures		(397)	(376)
Net finance cost		9,211	10,111
Taxation		19	(207)
Operating cash generated before changes in working capital		14,020	16,692
(Increase)/Decrease in trade and other receivables		(1,555)	941
Increase/(Decrease) in trade and other payables		360	(986)
Cash generated from operations		12,825	16,647
Finance costs paid		(6,474)	(9,329)
Swap break costs		(15,088)	(8,245)
Interest received		24	9
Tax received/(paid)		168	(653)
Cash flows from operating activities		(8,545)	(1,571)
Investing Activities			
Proceeds from sale of investment property		–	53,567
Proceeds from sale of investment in joint ventures and associates		3,265	11,700
Acquisition of investment property		(28,827)	–
Additions to investment property		(2,250)	(1,716)
Cash flows from investing activities		(27,812)	63,551
Financing Activities			
Repayment of loan	17	(125,700)	(59,000)
New loan	17	129,585	–
Loan arrangement fees	17	(2,347)	–
Share issue net proceeds		16,847	–
Dividends paid		(9,973)	(12,528)
Cash flows from financing activities		8,412	(71,528)
Net decrease in cash and cash equivalents for the year		(27,945)	(9,548)
Opening cash and cash equivalents		42,914	52,462
Closing cash and cash equivalents		14,969	42,914

The accompanying notes 1 to 25 form an integral part of the financial statements.

Notes to the Financial Statements

1. Significant accounting policies

Schroder Real Estate Investment Trust Limited ('the Company') is a closed-ended investment company registered in Guernsey. The consolidated financial statements of the Company for the year ended 31 March 2014 comprise the Company, its subsidiaries and its interests in associates and joint ventures (together referred to as the 'Group').

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') issued by, or adopted by, the International Accounting Standards Board (the 'IASB'), and interpretations issued by the International Financial Reporting Interpretations Committee. The financial statements give a true and fair view and are in compliance with The Companies (Guernsey) Law, 2008, applicable legal and regulatory requirements and the Listing Rules of the UK Listing Authority.

Basis of preparation

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

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

Going concern

The Directors have examined significant areas of possible financial risk including cash and cash requirements and the debt covenants, in particular the loan to value covenant and interest cover ratio on the newly refinanced loan with Canada Life that has 80% of the loan maturing in 15 years and 20% maturing in 10 years. They have not identified any material uncertainties which would cast significant doubt on the Group's ability to continue as a going concern for a period of not less than twelve months from the date of the approval of the financial statements. The Directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future.

The Company's Articles of Incorporation state that shareholders will have an opportunity to vote on the continuation of the Company at the Annual General Meeting ('AGM') to be held in September 2014. Consequently, prior to entering into a long term loan facility in April 2013, the Board undertook a broad consultation exercise to ascertain Shareholders views on the refinancing in the context of the continuation vote. As a result of this feedback, completion of the refinancing and the positive outlook for shareholders arising from the market recovery, the Board has concluded that the continuation of the Company is in the interest of shareholders as a whole and is recommending that shareholders vote in favour of the continuation resolution to be proposed at the forthcoming AGM.

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

Use of estimates and judgements

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

The most significant judgements made in preparing these financial statements relate to the carrying value of investment properties which are stated at market value. The Group uses external professional valuers to determine the relevant amounts. Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed in note 20.

Basis of consolidation

Subsidiaries

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

Associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of these entities on an equity accounted basis, from the date that significant influence commences to the date that significant influence ceases. When the Group's share of losses exceeds its interest in an entity, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations for the losses, or is making payments on behalf of an entity.

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of recognised gains and losses of jointly controlled entities on an equity accounted basis. When the Group's share

Notes to the Financial Statements

of losses exceeds its interest in an entity, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or is making payments on behalf of an entity.

Transactions eliminated on consolidation

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

Investment property

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

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

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

As disclosed in note 21, the Group leases out all owned properties on operating leases. A property held under an operating lease is classified and accounted for as an investment property where the Group holds it to earn rentals, capital appreciation, or both. Any such property leased under an operating lease is classified as an investment property and carried at fair value.

Financial instruments

Non-derivative financial instruments

Assets

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

Cash and cash equivalents

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

Liabilities

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

Loans and borrowings

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

Trade and other payables

Trade and other payables are stated at cost.

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to interest rate fluctuations. It is not the Group's policy to trade in derivative financial instruments.

Cash flow hedges

Cash flow hedges are used to hedge the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction.

Derivative financial instruments are recognised initially at fair value and are subsequently re-measured and stated at fair value. Fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date. Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity via the Consolidated Statement of Comprehensive Income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit and loss.

On maturity or early redemption of the hedged item the realised gains or losses arising are taken to profit and loss, with an associated transfer from the amounts recognised in other comprehensive income in respect of unrealised gains or losses arising in the fair value of the same arrangement.

Share capital

Ordinary shares are classified as equity.

Dividends

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

Notes to the Financial Statements

Impairment

Financial assets

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

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

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

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

Non-financial assets

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

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

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

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

Provisions

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

Rental income

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

Finance income and expenses

Finance income comprises interest income on funds invested and gains on hedging instruments that are recognised in the profit and loss. Interest income is recognised on an accruals basis.

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

Expenses

All expenses are accounted for on an accruals basis.

Taxation

The Company and its subsidiaries are subject to UK income tax on any income arising on investment properties, after deduction of debt financing costs and other allowable expenses.

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being property investment and in one geographical area, the United Kingdom. There is no one tenant that represents more than 10% of group revenues.

2. New standards and interpretations

The following IFRSs or IFRIC interpretations were effective for the first time for the financial year:

IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. There was no impact on the financial statements from adopting this standard.

IFRS 11 'Joint Arrangements' establishes principles for financial reporting by parties to a joint arrangement. It is concerned principally with both the structure of the arrangement and that an entity had a choice of accounting treatment for interests in jointly controlled entities. IFRS11 requires that joint ventures be accounted for using the equity method. There was no impact on the financial statements from adopting this standard.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. There was no impact on the financial statements from adopting this standard.

Notes to the Financial Statements

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or. The group has enhanced its disclosure in response to the adoption of this standard.

New standards, amendments and interpretations issued but not effective for the financial periods after 1 April 2014 and not early adopted

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 April 2018.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

3. Material agreements

Schroder Property Investment Management Limited is the Investment Manager to the Company. The Investment Manager is entitled to a fee together with reasonable expenses incurred in the performance of its duties. The fee is payable monthly in arrears and shall be an amount equal to one twelfth of the aggregate of 1.1% of the NAV of the Company. The Investment Management Agreement can be terminated by either party on not less than twelve months written notice or on immediate notice in the event of certain breaches of its terms or the insolvency of either party. The total charge to profit and loss during the year was £1,781,000 (2013: £1,937,000). At the year end £296,000 was outstanding (2013:£152,000).

Northern Trust International Fund Administration Services (Guernsey) Limited is the Administrator to the Company. The Administrator is entitled to an annual fee equal to £120,000 (2013: £120,000) of which £30,000 (2013: £30,000) was outstanding at the year end.

4. Other income

	31 March 2014	31 March 2013
	£000	£000
Insurance rebates and commissions	152	314
Dilapidations	400	251
Surrender premia	-	32
Miscellaneous income	11	55
	563	652

The Group is obliged to arrange insurance on the majority of its property assets for which it receives a commission, which is stated net of any fees payable to insurance brokers.

5. Property operating expenses

	31 March 2014	31 March 2013
	£000	£000
Agents' fees	135	155
Repairs and maintenance	83	74
Advertising	39	39
Rates – vacant	822	791
Security	264	156
Insurance	247	91
Service charge and utilities on vacant units	1,059	856
Ground rent	117	133
Bad debt provision	163	565
Other	2	138
	2,931	2,998

Notes to the Financial Statements

6. Auditor's remuneration

The total expected audit fees for the year are £107,000 (2013: £126,000) and £13,000 (2013: £13,000) for the half year review of the financial statements. Subsequent to the year-end the auditors were paid £90,000 for transaction services work in relation to the equity issue in April 2014.

7. Other expenses

Other expenses

	31 March 2014	31 March 2013
	£000	£000
Directors' and officers' insurance premium	12	(15)
Regulatory costs	52	42
Marketing	30	30
Professional fees	61	83
Other expenses	273	151
	428	291

Directors' fees

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

The Directors' annual remuneration for services to the Group was £176,250 (2013: £170,000). There was an increase in Directors fees during the year, as described in the Remuneration report, and these were applied pro-rata for the newly appointed directors and the outgoing Directors'.

8. Finance costs payable

	31 March 2014	31 March 2013
	£000	£000
Swap break costs: portion of swap previously recognised in profit and loss	12,967	6,107
Swap break costs: portion of swap previously recognised in equity	2,121	2,138
Swap break costs	15,088	8,245
Interest payable	6,346	8,216
Write off of loan arrangement fees	658	-
Other debt fees	184	1,220
Finance costs payable	7,188	9,436
Total finance costs	22,276	17,681

9. Taxation

	31 March 2014	31 March 2013
	£000	£000
Tax expense/(credit) in year	19	(207)
Reconciliation of effective tax rate		
Profit/(loss) before tax	20,897	(10,774)
Effect of:		
Income tax using UK income tax rate of 20%	4,179	(2,155)
Revaluation (gain)/losses not taxable	(3,178)	4,159
Share of profit of associates and joint ventures not taxable	79	(76)
Profit on disposal of investment property not taxable	-	(613)
Changes in fair value (gain)/loss of ineffective swaps where no deferred tax has been recognised	(2,608)	(1,512)
Swap break costs not taxable	3,017	1,649
Utilisation of capital allowance, effect of different tax rates in subsidiaries and other adjustments	(1,470)	(1,323)
Adjustments in respect of prior periods	-	(336)
Current tax expense/(credit) in the year	19	(207)

Notes to the Financial Statements

The Company and its Guernsey registered subsidiaries have obtained exempt company status in Guernsey under the terms of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 so that they are exempt from Guernsey taxation on income arising outside Guernsey and on bank interest receivable in Guernsey. Each company is, therefore, only liable for a fixed fee of £600 per annum. The Directors intend to conduct the Group's affairs such that they continue to remain eligible for exemption.

Cumulative tax losses of £14 million (2013: £15 million) have been carried forward and are available for use against future taxable profits. No deferred tax has been recognised in the financial statements as it is not probable that tax losses will be utilised in the foreseeable future.

The current year tax expense is £19,000 (2013: tax income of £207,000, includes £336,000 in relation to tax rebates and release of provisions from prior years).

10. Basic and diluted (loss)/earnings per share

Earnings per share

The basic and diluted earnings per share for the Group is based on the net profit for the year of £20,878,000 (2013: loss £10,567,000) and the weighted average number of Ordinary Shares in issue during the year of 363,819,808 (2013: 355,921,281).

EPRA earnings reconciliation

	31 March 2014 £000	31 March 2013 £000
Profit/(loss) after tax	20,878	(10,567)
Adjustments to calculate EPRA Earnings exclude:		
Profit on disposal of investment property	–	(3,066)
Net valuation (gain)/loss on investment property	(15,691)	20,797
Share of profit on associates and joint ventures	(397)	(376)
Movement in fair value of swaps	(13,041)	(7,561)
Swap break costs	15,088	8,245
Write-off of loan arrangement fees	658	–
EPRA earnings	7,495	7,472
Weighted average number of Ordinary shares	363,819,808	355,921,281
EPRA earnings per share (pence per share)	2.1	2.1

European Public Real Estate Association ('EPRA') earnings per share reflect the underlying performance of the company calculated in accordance with the EPRA guidelines.

11. Dividends paid

In respect of	No. of Ordinary Shares	Rate (pence)	31 March 2014 £000
Quarter 31 March 2013 dividend paid 24 May 2013	355.92 million	0.88	3,132
Quarter 30 June 2013 dividend paid 23 August 2013	355.92 million	0.62	2,207
Quarter 30 September 2013 dividend paid 22 November 2013	355.92 million	0.62	2,207
Quarter 31 December 2013 dividend paid 21 February 2014	391.51 million	0.62	2,427
		2.74	9,973
In respect of	Ordinary Shares	Rate (pence)	31 March 2013 £000
Quarter 31 March 2012 dividend paid 18 May 2012	355.92 million	0.88	3,132
Quarter 30 June 2012 dividend paid 17 August 2012	355.92 million	0.88	3,132
Quarter 30 September 2012 dividend paid 16 November 2012	355.92 million	0.88	3,132
Quarter 31 December 2012 dividend paid 22 February 2013	355.92 million	0.88	3,132
		3.52	12,528

A dividend for the quarter ended 31 March 2014 of 0.62 pence (£2,427,383) was declared on 3 April 2014 and paid on 25 April 2014.

Notes to the Financial Statements

12. Investment property

	Leasehold £000	Freehold £000	Total £000
Fair value as at 31 March 2012	47,454	273,434	320,888
Additions	126	1,590	1,716
Disposals	–	(50,501)	(50,501)
Net valuation loss on investment property	(8,187)	(12,610)	(20,797)
Fair value as at 31 March 2013	39,393	211,913	251,306
Additions	23	31,054	31,077
Net valuation (loss)/gain on investment property	(55)	15,746	15,691
Fair value as at 31 March 2014	39,361	258,713	298,074

The Group owned one non-income generating site during the year (2013: one). Direct operating expenses relating to this site were £nil (2013: £28,378).

Fair value of investment properties as determined by the valuers totals £306,480,000 (2013: £258,580,000). Of this amount £8,206,000 (2013: £7,274,000) is included within trade and other receivables in connection with lease incentives.

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

The properties have been valued on the basis of ‘Fair Value’ in accordance with the RICS Valuation – Professional Standards VPS4(1.5) Fair Value and VPGA1 Valuations for Inclusion in Financial Statements which adopt the definition of Fair Value used by the International Accounting Standards Board.

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

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

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

Quantitative information about fair value measurement using unobservable inputs (Level 3)

		Industrial ¹	Retail (incl retail warehouse)	Office	Other (incl dev sites) ¹	Total
Fair value (£m)		68.87	93.96	116.30	27.35	306.48
Area ('000 sq ft)		1,168	448	731	145	2,492
Net passing rent psf per annum	Range	£1.90 – £8.82	£0 – £42.75	£0 – £25.72	£0 – £4.48	£0 – £42.75
	Weighted average	£3.05	£14.25	£12.34	N/A	£7.88
Gross ERV psf per annum	Range	£3.55 – £8.82	£9.46 – £42.75	£9.79 – £24.00	£0 – £8.75	£0 – £42.75
	Weighted average	£4.07	£16.36	£13.95	N/A	£9.45
Net initial yield ²	Range	0% – 12.32%	0% – 14.26%	2.71% – 15.30%	8.05%	0% – 15.306%
	Weighted average	6.55%	6.67%	7.84%	N/A	6.47%
Equivalent yield	Range	6.26% – 9.91%	4.84% – 10.27%	5.65% – 12.96%	8.55%	4.84% – 12.96%
	Weighted average	8.01%	6.85%	7.59%	N/A	7.46%

Notes:

¹Yield profiles calculated excluding the Market Value of land held for development.

²Yields based on rents receivable after deduction of head rents, but gross of non-recoverables.

Notes to the Financial Statements

Sensitivity of measurement to variations in the significant unobservable inputs

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

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

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

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

Estimated movement in fair value of investment properties at 31 March 2014	Industrial £000	Retail £000	Office £000	Other £000	Total £000
Increase in ERV by 5%	2,280	3,440	4,450	200	10,370
Decrease in ERV by 5%	-1,720	-3,570	-4,900	-250	-10,440
Increase in net initial yield by 0.25%	-1,900	-3,400	-3,550	-350	-11,400
Decrease in net initial yield by 0.25%	2,150	3,650	3,900	375	12,350

13. Investment in associates and joint ventures

Crendon – During the year Crendon Industrial Partnership sold Crendon Industrial Park, giving rise to net proceeds to SREIT of approximately £1.8 million which was received in April 2014.

Merchant – the Group has sold its 19.49% interest in Merchant Property Unit Trust in the year giving rise to net proceeds of £3.27 million.

The table below shows the changes in investment in and loans to joint ventures and associates.

	£000
Opening balance as at 1 April 2012	16,027
Sale of Plantation Place	(11,700)
Share of profits in year	376
Closing balance as at 31 March 2013	4,703
Sale of Merchant	(3,300)
Share of profits in year	397
Closing balance as at 31 March 2014	1,800

	31 March 2014 £000	31 March 2013 £000
Summarised financial information not adjusted for the Group's share		
Total assets	3,978	69,821
Total liabilities ¹	5	49,509
Revenues for year	1,762	4,812
Total comprehensive income	1,217	1,997
Net asset value attributable to Group	–	3,480
Loans due to Group	1,800	1,223
Total asset value attributable to Group	1,800	4,703
Total comprehensive income attributable to the Group	397	376

¹Liabilities that are non-recourse to the Group.

Notes to the Financial Statements

14. Trade and other receivables

	31 March 2014	31 March 2013
	£000	£000
Rent receivable	1,822	881
Other debtors and prepayments	8,408	7,758
	10,230	8,639

Other debtors and prepayments includes £8,406,000 (2013: £7,274,000) in respect of lease incentives.

15. Cash and cash equivalents

The cash balance is £15.0 million (2013: £42.9 million). The 31 March 2013 balance included £11.2 million of restricted cash held under the liquidity facility with Lloyds TSB bank. This was repaid during the year to 31 March 2014 as part of the refinancing.

16. Issued capital and reserves

Share capital

The share capital of the Company is represented by an unlimited number of Ordinary Shares of no par value.

Issued share capital

The number of issued Ordinary Shares of the Company at the start of the year was 355,921,281. There were 35,592,128, new Ordinary Shares issued during the year as part of the capital raise. The number of issued Ordinary Shares at the end of the year was 391,513,409. The gross proceeds were £17.2 million with costs of £0.3 million therefore net proceeds of £16.9 million.

17. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see note 20.

	31 March 2014		31 March 2013	
	£000	£000	£000	£000
Non-current liabilities				
Loan facility		129,585		–
Class A Secured Floating Rate Notes		–		36,766
Reserve Notes		–		77,734
Total		129,585		114,500
Less: Finance costs incurred	(2,347)		(5,367)	
Add: Amortised finance costs	168	(2,179)	4,709	(658)
		127,406		113,842
Liquidity facility		–		11,200
		127,406		125,042

In April 2013 the Group repaid its existing loan of £114.5 million and the £11.2 million liquidity facility, incurring a total of £15.1 million in swap break costs. The Group also wrote off unamortised arrangement fees totalling £0.7 million due to early repayment of the loan.

The Group entered into a new £129.6 million loan facility with Canada Life on 16 April 2013 that has 80% of the loan maturing in 15 years and 20% maturing in 10 years, with a fixed interest rate of 4.77%. As at 31 March 2014 the group has a loan balance of £129.6 million and £2.2 million of unamortised arrangement fees.

The new facility has a first charge security over all the property assets in the ring fenced Security Pool (the 'Security Pool') which at 31 March 2014 contained properties valued at £278 million together with £14 million cash. Various restraints apply during the term of the loan although the facility has been designed to provide significant operational flexibility.

The principal covenants however are that the loan should not comprise more than 65% of the value of the assets in the Security Pool nor should estimated rental and other income arising from assets in the Security Pool, calculated on any interest payment date and one year projected from any interest payment date, comprise less than 185% of the interest payments. The interest cover calculated in accordance with the ICR covenant was 293% and the projected interest cover was 250%, as at 31 March 2014. The loan to value ratio as at 31 March 2014 of 46.6% (41.6% net of all cash) was within the covenant requirement of 65%.

Notes to the Financial Statements

18. Trade and other payables

	31 March 2014	31 March 2013
	£000	£000
Rent received in advance	4,522	4,104
Rental deposits	383	428
Interest payable	1,305	1,327
Other trade payables and accruals	944	1,047
	7,154	6,906

19. NAV per Ordinary Share

The NAV per Ordinary Share is based on the net assets of £190,443,000 (2013: £160,513,000) and 391,513,409 (2013: 355,921,281) Ordinary Shares in issue at the reporting date.

20. Financial instruments, properties and associated risks

Financial risk factors

The Group holds cash and liquid resources as well as having debtors and creditors that arise directly from its operations. The Group previously entered into interest rate swap contracts which were used to limit exposure to interest rate risks, but does not have any other derivative instruments.

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

Market price risk

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

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

The Directors monitor the market value of investment properties by having independent valuations carried out quarterly by a firm of independent chartered surveyors.

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

Credit risk

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

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

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

	31 March 2014	31 March 2013
	Carrying amount	Carrying amount
	£000	£000
Office	626	536
Industrial	721	309
Retail	475	36
	1,822	881

Notes to the Financial Statements

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

	31 March 2014 Carrying amount £000	31 March 2013 Carrying amount £000
0-30 days	1,654	731
31-60 days	25	–
61-90 days	8	–
91 days plus	135	150
	1,822*	881

*Net of bad debt provisions of £573,000 (2013: £795,000).

Liquidity risk

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

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

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

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

	Carrying amount £000	Expected Cash flows £000	6 mths or less £000	6 mths- 2 years £000	2-5 years £000	More than 5 years £000
As at 31 March 2014						
Financial liabilities						
Interest-bearing loans and borrowings and interest	128,711	216,123	3,091	9,272	18,544	185,216
Trade and other payables	1,327	1,327	1,327	–	–	–
Total financial liabilities	130,038	217,450	4,418	9,272	18,544	185,216
	Carrying amount £000	Expected Cash flows £000	6 mths or less £000	6 mths- 2 years £000	2-5 years £000	More than 5 years £000
As at 31 March 2013						
Financial liabilities						
Interest-bearing loans and borrowings and interest	115,827	124,317	3,272	121,045	–	–
Trade and other payables	1,445	1,445	1,445	–	–	–
Total financial liabilities	117,272	125,762	4,717	121,045	–	–

Interest rate risk

Exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations and to interest earned on cash balances. As interest on the Group's long-term debt obligations is payable on a fixed-rate basis the Group is not exposed to interest rate risk, but is exposed to changes in fair value of long-term debt obligations driven by interest rate movements. As at 31 March 2014 the fair value of the Group's £129.6 million loan with Canada Life was £122 million.

A 1% increase or decrease in short-term interest rates would increase or decrease the annual income and equity by £150,000 based on the cash balance as at 31 March 2014.

Fair values

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

The fair value hierarchy levels are as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the assets or liability that are not based on observable market data (unobservable inputs).

There have been no transfers between Levels 1, 2 and 3 during the year (2013: none).

Notes to the Financial Statements

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

Investment property – level 3

Fair value is based on valuations provided by an independent firm of chartered surveyors and registered appraisers. These values were determined after having taken into consideration recent market transactions for similar properties in similar locations to the investment properties held by the Group. The fair value hierarchy of investment property is level 3. See Note 12 for further details.

Derivatives – level 3

Fair value for the interest rate swap uses a broker quote. This is then tested using pricing models or discounted cash flow techniques. The fair value hierarchy of the interest rate swap is level 2.

Interest bearing loans and borrowings – level 2

Fair values are based on the present value of future cash flows discounted at a market rate of interest. Issue costs are amortised over the period of the borrowings. As at 31 March 2014 the fair value of the Group's £129.6 million loan with Canada Life was £122 million.

Trade and other receivables/payables – level 3

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

Capital management

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

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

	31 March 2014 £000	31 March 2013 £000
Debt		
Fixed rate loan facility	129,585	–
Securitised loan facility	–	114,500
Equity		
Called-up share capital	127,152	110,305
Reserves	63,291	50,208
	190,443	160,513
Total debt and equity	320,028	275,013

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

21. Operating leases

The Group leases out its investment property under operating leases. At 31 March 2014 the future minimum lease receipts under non-cancellable leases are as follows:

	31 March 2014 £000	31 March 2013 £000
Less than one year	19,708	17,844
Between one and five years	62,940	55,599
More than five years	105,355	100,092
	188,003	173,535

The total above comprises the total contracted rent receivable as at 31 March 2014.

Notes to the Financial Statements

22. List of Subsidiary, Associate and Joint Venture Undertakings

The companies listed below are those which were part of the group at 31 March 2014:

Undertaking	Category	Country of Incorporation	Ultimate Ownership
SREIT No.2	Subsidiary	Guernsey	100%
SREIT Holdings	Subsidiary	Guernsey	100%
SREIT (Merchant) Ltd	Subsidiary	Guernsey	100%
SREIT (Basingstoke) Ltd	Subsidiary	Guernsey	100%
SREIT (Salisbury) Ltd	Subsidiary	Guernsey	100%
SREIT (Hinckley) Ltd	Subsidiary	Guernsey	100%
SREIT (Wembley) Ltd	Subsidiary	Guernsey	100%
SREIT (Tokenhouse) Ltd	Subsidiary	Guernsey	100%
SREIT (Portman) Ltd	Subsidiary	Guernsey	100%
SREIT (Minerva) Ltd	Subsidiary	Guernsey	100%
SREIT Property Ltd	Subsidiary	Guernsey	100%
SREIT (Portergate) Ltd	Subsidiary	Guernsey	100%
SREIT (Victory) Ltd	Subsidiary	Guernsey	100%
SREIT (Uxbridge) Ltd	Subsidiary	Guernsey	100%
Lunar Partnership (Brentford) Ltd	Subsidiary	Guernsey	100%
LP (Brentford) Ltd	Subsidiary	Guernsey	100%
Clerical Medical (Industrial) Nominees Company	Subsidiary	United Kingdom	100%
Clerical Medical (Retail) Nominees Company	Subsidiary	United Kingdom	100%
Clerical Medical (Retail) Nominees Company	Subsidiary	United Kingdom	100%
Crendon Industrial Partnership	Joint Venture	United Kingdom	50%

23. Related party transactions

Material agreements are disclosed in note 3. Transactions with Directors and the Investment Managers are disclosed in note 7. Transactions with joint ventures and associates are disclosed in note 13.

24. Capital commitments

At 31 March 2014 the Group had no capital commitments.

25. Post balance sheet events

On 14 April 2014 the company issued 80 million New Shares at 50.25 pence per share to raise gross proceeds of £40.2 million. The related costs were £1.2 million therefore net proceeds of £39.3 million were raised.

On 12 June 2014 the company has completed the acquisition of a 25% interest in City Tower in Manchester for £33 million.

On 19 June the Company completed the acquisition of 250-258 Commercial Road, Portsmouth for £1.5 million.

Independent auditor's report to the members of Schroder Real Estate Investment Trust Limited

Opinions and conclusions arising from our audit

Opinion on financial statements

We have audited the consolidated financial statements (the 'financial statements') of Schroder Real Estate Investment Trust Limited (the 'Company') and its subsidiaries (together, the 'Group') for the year ended 31 March 2014 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards. In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2014 and of its total comprehensive income for the year ended 31 March 2014;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- comply with The Companies (Guernsey) Law, 2008.

Our assessment of risks of material misstatement

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

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

Valuation of Investment Properties (£298 million)

Refer to page 34 of the Report of the Audit Committee, Note 1 significant accounting policies and Note 12 Investment properties disclosures

- **The risk** – The Group's property portfolio accounted for 92% of the Group's total assets as at 31 March 2014. The fair value of the investment properties at 31 March 2014 was assessed by the Board of Directors based on an independent valuation prepared by the Group's external property valuer. As highlighted in the Report of the Audit Committee, the valuation of the Group's property portfolio, given it represents the majority of the total assets of the Group and requires the use of significant judgment and subjective assumptions, is a significant area of our audit.
- **Our response** – Our audit procedures with respect to the Group's investment properties included, but were not limited to, testing the design, implementation and operating effectiveness of certain relevant controls, use of our own UK Real Estate specialist group to critically assess the valuation prepared by the external property valuer and to evaluate the appropriateness of the valuation methodologies and assumptions used, including undertaking discussions on key findings with the external valuer and challenging the assumptions used. We compared key inputs to the valuation such as current and estimated rental income, initial and equivalent yields, estimated capital value, occupancy and tenancy contracts for consistency with other audit findings. We also considered the Group's investment property valuation policies and their application as described in the notes to the financial statements for compliance with International Financial Reporting Standards in addition to the adequacy of disclosures in Notes 1 and 12 in relation to the fair value of the investment properties.

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

Materiality is a term used to describe the acceptable level of precision in financial statements. Auditing standards describe a misstatement or an omission as 'material' if it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The auditor has to apply judgment in identifying whether a misstatement or omission is material and to do so the auditor identifies a monetary amount as 'materiality for the financial statements as a whole'.

The materiality for the financial statements as a whole was set at £2.5 million. This has been calculated using a benchmark of the Group's total assets (of which it represents approximately 0.8%) which we believe is the most appropriate benchmark as total assets is considered as the prime driver of returns to the members of the Company.

Independent auditor's report to the members of Schroder Real Estate Investment Trust Limited

We agreed with the audit committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £125,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

For the purposes of the Group audit, the audit of the Company's subsidiaries, were all performed by the Group audit team based on the materiality levels set out above.

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

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Matters on which we are required to report by exception

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

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

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

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

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

Under the Listing Rules we are required to review the part of the Corporate Governance Statement on pages 30 to 35 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

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

Independent auditor's report to the members of Schroder Real Estate Investment Trust Limited

Scope of report and responsibilities

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

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 28, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors.

Deborah J Smith

For and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors
20 New Street, St Peter Port, Guernsey, GY1 4AN

18 July 2014

The maintenance and integrity of the Schroder Real Estate Investment Trust Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Glossary

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

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

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

Group is Schroder Real Estate Investment Trust Limited and its subsidiaries.

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

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

IPD is the Investment Property Databank Ltd, a Company that produces an independent benchmark of property returns.

Net asset value ('NAV') are shareholders' funds divided by the number of shares in issue at the period end.

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

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

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

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 3QL Channel Islands on 11 September 2014 at 10.00 am.

Resolution on Form of Proxy	Agenda
	1. To elect a Chairman of the Meeting.
	To consider and, if thought fit, pass the following Ordinary Resolutions:
Ordinary Resolution 1	2. To consider and approve the Consolidated Annual Report and Financial Statements of the Company for the year ended 31 March 2014.
Ordinary Resolution 2	3. To approve the Remuneration Report for the year ended 31 March 2014.
Ordinary Resolution 3	4. To re-elect Ms Lorraine Baldry as a Director of the Company.
Ordinary Resolution 4	5. To re-elect Mr Harry Dick-Cleland as a Director of the Company.
Ordinary Resolution 5	6. To re-elect Mr John Frederiksen as a Director of the Company.
Ordinary Resolution 6	7. To re-elect Mr Keith Goulborn as a Director of the Company.
Ordinary Resolution 7	8. To re-elect Ms Alison Ozanne as a Director of the Company.
Ordinary Resolution 8	9. To re-elect Mr David Warr as a Director of the Company.
Ordinary Resolution 9	10. To re-appoint KPMG Channel Islands Limited as Auditor of the Company until the conclusion of the next Annual General Meeting.
Ordinary Resolution 10	11. To authorise the Board of Directors to determine the Auditor's remuneration.
Ordinary Resolution 11	12. That the Company should continue in existence until a further resolution is passed to determine otherwise in accordance with Article 43.1 of the Articles of Incorporation.
Ordinary Resolution 12	13. That the Company be authorised, in accordance with section 315 of The Companies (Guernsey) Law, 2008, as amended (the 'Companies Law'), to make market acquisitions (within the meaning of section 316 of the Companies Law) of ordinary shares in the capital of the Company ('ordinary shares'), provided that: <ol style="list-style-type: none"> (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 14.99% of the issued ordinary shares on the date on which this resolution is passed; (b) the minimum price which may be paid for an ordinary share shall be 0.01p; (c) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall be 105% of the average of the middle market quotations on the relevant market where the repurchase is carried out for the ordinary shares for the five business days immediately preceding the date of a purchase; (d) such authority shall expire at the Annual General Meeting of the Company in 2015 unless such authority is varied, revoked or renewed prior to such date by ordinary resolution of the Company in general meeting; and (e) the Company may make a contract to purchase ordinary shares under such authority prior to its expiry which will or may be executed wholly or partly after its expiration and the Company may make a purchase of ordinary shares pursuant to any such contract.

Notice of Annual General Meeting

To consider and, if thought fit, pass the following Special Resolution:

- Special Resolution 1: 14. That the Directors of the Company be and are hereby empowered to allot ordinary shares of the Company for cash as if the pre-emption provisions contained under Article 13 of the Articles of Incorporation did not apply to any such allotments and to sell ordinary shares which are held by the Company in treasury for cash on a non pre-emptive basis provided that this power shall be limited to the allotment and sales of ordinary shares:
- (a) up to an amount of 39,151,340 ordinary shares, or such other number of ordinary shares being equal to 10% of the ordinary shares in issue on 11 September 2014;
 - (b) at a price of not less than the net asset value per share as close as practicable to the allotment or sale; and
 - (c) such power shall expire on the earlier of the Annual General Meeting of the Company in 2015 or on the expiry of 15 months from the passing of this Special Resolution, except that the Company may before such expiry make offers or agreements which would or might require ordinary shares to be allotted or sold after such expiry and notwithstanding such expiry the Directors may allot or sell ordinary shares in pursuance of such offers or agreements as if the power conferred hereby had not expired.

This resolution does not revoke or replace the unexercised authorities previously granted to the Directors at the Company's Extraordinary General Meeting held on 16 April 2014 to allot ordinary shares for cash otherwise than *pro rata* to existing shareholders and is in addition to those authorities.

- Special Resolution 2 15. That the Articles of Incorporation produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted as the Articles of Incorporation of the Company in substitution for, and to the exclusion of, the existing Articles of Incorporation.
16. Close of Meeting.

By Order of the Board

For and on behalf of
Northern Trust International Fund Administration
Services (Guernsey) Limited
Secretary
18 July 2014

Notes

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

Corporate Information

Registered Address

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

Directors

Lorraine Baldry (Chairman)
Keith Goulborn
John Frederiksen
Harry Dick-Cleland
David Warr
Alison Ozanne
(All Non-Executive Directors)

Investment Manager and Accounting Agent

Schroder Property Investment Management Limited

31, Gresham Street
London EC2V 7QA

Secretary and Administrator

Northern Trust International Fund Administration Services (Guernsey) Limited

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

Solicitors to the Company

as to English Law;

Stephenson Harwood LLP

1 Finsbury Circus
London EC2M 7SH

as to Guernsey Law;

Mourant Ozannes

1 Le Marchant Street
St. Peter Port
Guernsey GY1 4HP

ISA/PEP status

The Company's shares are eligible for Individual Savings Accounts ('ISAs') and PEP transfers and can continue to be held in existing PEPs

Auditor

KPMG Channel Islands Limited

20 New Street
St. Peter Port
Guernsey GY1 4AN

Property Valuers

Knight Frank LLP

55 Baker Street
London W1U 8AN

Channel Islands Sponsor

Northern Trust International Fund Administration Services (Guernsey) Limited

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

UK Sponsor and Broker

J.P. Morgan Securities plc

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Canary Wharf
London E14 5JP

Numis Securities Limited

10 Paternoster Square
London EC4M 7LT

Tax Advisers

Deloitte

2 New Street Square
London EC4A 3BZ

Receiving Agent and UK Transfer/Paying Agent

Computershare Investor Services (Guernsey) Limited

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