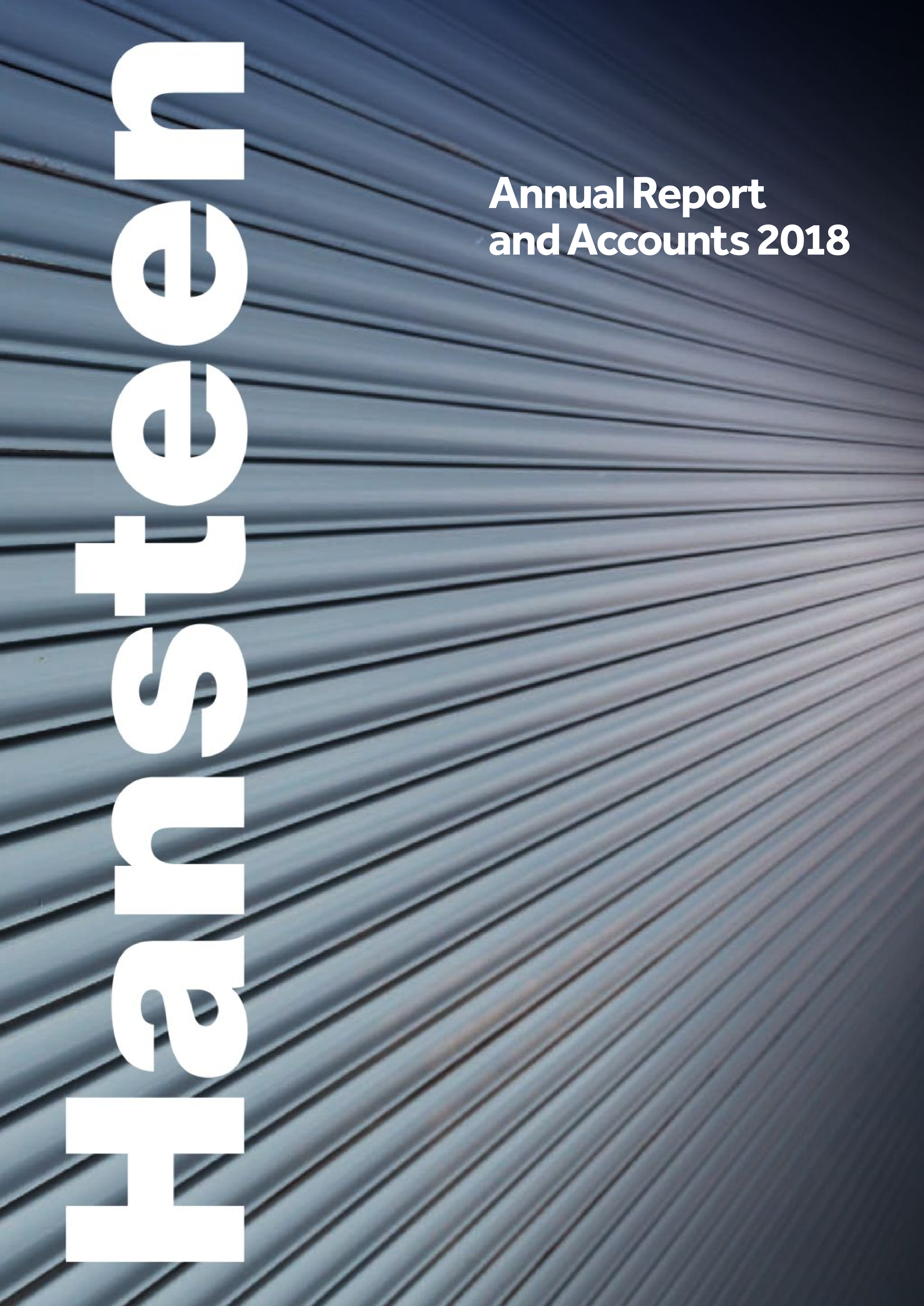
Hansteen

Annual Report and Accounts 2018



Hansteen Holdings PLC is a leading owner and asset manager of a diverse portfolio of industrial property located predominantly across the UK.

"The team is well placed to manage the portfolio going forward. We believe that our diverse portfolio and management focus presents a rare combination in today's property sector that can achieve both income and capital growth.

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Find more information about us at:
www.hansteen.co.uk

Highlights

Financial highlights

EPRA NAV per share
102.7p
after return of capital of 35p during 2018
(31 December 2017: 130.6p)[1]

IFRS NAV per share
103.3p
(31 December 2017: 135.1p)

Full-year dividend
6.2p
(FY 2017: 6.1p)

Normalised Income Profit
£25.8m
(FY 2017: £31.3m)[1]

Normalised Total Profit
£45.8m
(FY 2017: £37.5m)[1]

IFRS profit before tax
£59.5m
(FY 2017: £71.1m)

Net debt to property value ratio
29.7%
(31 December 2017: 27.6%)[1]

For more information see pages 12–15

Operational highlights

- Like-for-like property valuation increase of **£39.6 million** or 6.5%
- **874 new leases / renewals** at 10.4% ahead of ERV at 31 December 2017
- IMPT portfolio sold for **£116.0 million** generating a profit of **£6.1 million** over 31 December 2017 valuation
- Saltley Business Park compulsorily purchased (CPO). Total claim agreed for **£60.0 million**
- **£118.5 million** of other sales generating profits of **£9.2 million** or 8.6% over 31 December 2017 valuation
- **34 assets purchased** for £56.9 million reflecting a net initial yield of more than **9.2%**
- **£144.5 million** (35p per share) of capital returned to shareholders in May 2018 following the £578.1 million of capital returned by way of a tender offer in November 2017

1 **Important Explanatory Notes about Alternative Performance Measures used in this Report:**
The Group uses a number of Alternative Performance Measures (APMs) which are not defined or specified within IFRS. The Directors use these measures in order to assess the underlying operational performance of the Group and allow greater comparability between periods but do not consider them to be a substitute for or superior to IFRS measures. Key APMs used are Normalised Income Profit (NIP), Normalised Total Profit (NTP), measures defined by The European Public Real Estate Association (EPRA) and adjusted earnings per share (EPS).
NIP and NTP are adjusted measures intended to show the underlying earnings of the Group before fair value movements and other non-recurring or otherwise non-cash items. Fair value movements include those in relation to investment property, financial assets and financial liabilities. Non-recurring or otherwise non-cash items include foreign exchange gains or losses and the Founder LTIP charge. A reconciliation of NIP and NTP to the Profit for the year prepared in accordance with IFRS is set out in note 6.
A reconciliation of EPRA measures and adjusted EPS is included within note 14. A calculation of net debt and the net debt to value ratio is shown in the Financial review.

A glossary of terms is shown at the end of this report.

A year in review

Q1

Sale of Industrial Multi Property Trust (IMPT) portfolio for £116.0 million

On 27 March 2018, Hansteen completed the sale of the IMPT portfolio for £116.0 million. After acquiring the portfolio in the first half of 2017 for £88.8 million, our UK asset management team was able to increase the occupancy, rent roll and ERV and, as a result, the portfolio was valued at £109.7 million at 31 December 2017. The sale generated a profit over the 31 December 2017 valuation of £6.1 million after fees and expenses.

Q2

Return of capital

The sale of the IMPT portfolio and the Saltley Business Park CPO generated net cash proceeds of more than £150 million. Owing to the high level of demand for industrial property investments, opportunities to reinvest these substantial cash deposits in properties that fitted the Hansteen business model were limited. As the cash deposits would have earned virtually no interest and, therefore, materially dilute the returns from the business, the Board considered that returning the £144.5 million of capital to the shareholders by means of a reduction and return of capital was in the best interests of all shareholders. Each shareholder received 35p per share in cash on or around 11 May 2018.

Q3

Acquisition of £56.9 million portfolio

Hansteen completed the acquisition of a mixed-use portfolio of 34 properties located throughout the UK, with a focus on the North West and the West Midlands, for £56.9 million, reflecting a high yield of over 9.2% and a low capital value of £41 per sq ft. The portfolio provided 1.4 million sq ft of accommodation, let to more than 200 tenants producing a rent of £5.25 million per annum. The portfolio fits perfectly with our buying criteria and there are a number of asset management opportunities and initiatives across the portfolio which provide us with the opportunity to increase the rent roll and create additional value.

Q4

Sale of £86.5 million of property

Hansteen completed the sale of £86.5 million of property in the final quarter of 2018. A portfolio of 22 properties was sold to a subsidiary of Stenprop Limited for £67.9 million with a further four individual asset sales totalling £18.6 million sold to a range of purchasers from owner occupiers to local authorities. In total, these £86.5 million of sales brought the total disposal value for 2018 to £294.5 million, generating profits over the December 2017 valuation of £19.4 million.

Company overview

We buy undervalued portfolios, often with high levels of vacancy or other opportunities to add value. We apply an intensive programme of improvement using our local management teams and sell to realise the value added.

We have created a high-yielding property portfolio that is managed from our regional offices across the UK.

1	**Midlands**	
	Number of units	**460**
	Area (million sq ft)	**3.0**
	Contracted rent (£m)	**10.0**
2	**Scotland**	
	Number of units	**587**
	Area (million sq ft)	**2.7**
	Contracted rent (£m)	**9.9**
3	**Yorkshire**	
	Number of units	**395**
	Area (million sq ft)	**1.7**
	Contracted rent (£m)	**7.1**
4	**North East**	
	Number of units	**592**
	Area (million sq ft)	**2.2**
	Contracted rent (£m)	**8.0**
5	**South West & Wales**	
	Number of units	**307**
	Area (million sq ft)	**1.9**
	Contracted rent (£m)	**6.2**
6	**North West**	
	Number of units	**276**
	Area (million sq ft)	**1.2**
	Contracted rent (£m)	**5.1**
7	**South East**	
	Number of units	**11**
	Area (million sq ft)	**0.2**
	Contracted rent (£m)	**0.9**
	Total	
	Number of units	**2,628**
	Area (million sq ft)	**12.9**
	Contracted rent (£m)	**47.2**

Total portfolio value

£650.0m

Number of properties

256

Contracted rent roll per annum

£49.9m

Tenants

2,399

Offices

7

Occupancy

91.3%

Square feet of lettable space

13.6m

Chairman's Statement

I am pleased to present Hansteen's results and Strategic Report for the year ended 31 December 2018.

"2018 was the sixth consecutive year that Hansteen has produced double-digit total returns to shareholders (measured by EPRA NAV growth, dividends and other returns to shareholders).

Melvyn Egglenton
Chairman

2018 was another very successful year for Hansteen with income growth, profit on sales and growth in NAV per share when adjusted for the material return of capital during the year. This has led to a strong set of financial results.

Results

During 2018, the Group disposed of £294.5 million and acquired £56.9 million of property which enabled us to make a return of capital on 11 May 2018 of £144.5 million, equivalent to 35p per share. This follows the £1.12 billion sale of the European business in 2017 and the return of capital that followed. As a result of these capital returns, some of the reported profit measures have fallen compared to the previous year but show an increase on a per share basis.

NIP from continuing operations was £25.8 million (FY 2017: £31.3 million) and the profits on the substantial amount of property sales has increased our NTP from continuing operations by 22.1 % to £45.8 million (FY 2017: £37.5 million). On a per share basis, NIP was 6.3p (FY 2017: 4.3p) and NTP was 11.1p (FY 2017: 5.2p). IFRS profit was £59.5 million (FY 2017: £71.1 million).

The Group's IFRS NAV per share at 31 December 2018 was 103.3p (31 December 2017: 135.1p) and the EPRA NAV was 102.7p (31 December 2017: 130.6p).

Dividend

In May 2018, the Group returned £144.5 million or 35p per share of capital to shareholders (approximately 25% of the NAV) and despite this substantial reduction in the Group's capital base, the Board has decided to maintain the second ongoing dividend for 2018 at 3.8p per share. This decision reflects the strong financial performance of the Group during 2018 with realised profits of £45.8 million, as well as the impact of the REIT requirements as our portfolio has become more UK focused. The total dividend in relation to 2018 will be 6.2p per share (2017: 6.1p). The second ongoing dividend of 3.8p will be paid as a Property Income Distribution (PID) on 17 May 2019. The associated record date is 5 April 2019 and the ex-dividend date is 4 April 2019.

Going forward, the Board expects to continue with a prudent progressive dividend policy adjusted for the 25% reduction in the capital base.

Long-term performance

2018 was the sixth consecutive year that Hansteen has produced double-digit total returns to shareholders (measured by EPRA NAV growth, dividends and other returns to shareholders). When the Group was listed in 2005, a Founder Long-Term Incentive Plan (Founder LTIP) for the two Joint Chief Executives was approved by the shareholders, since when only one award has been made, relating to the three-year period ended 31 December 2015. However, as a result of the high returns made in the last three years, adding value of approximately £400 million or 50% return on capital, the Joint Chief Executives have received an award, under the Founder LTIP, of 11.6 million shares each after the deduction of PAYE and National Insurance Contributions. Although in the near term each of the Joint Chief Executives intends to sell some shares, following those sales their ownership will be more than treble their previous shareholdings. The Board believes that those substantial shareholdings provide a powerful motivation for the Joint Chief Executives going forward and align their interests directly with those of the shareholders. Full details of both the plan and the award are set out in the Financial review.

It has already been agreed that the Founder LTIP will be terminated following this award. Furthermore, in recognition of the reduced portfolio size and the need to right-size business costs, the Joint Chief Executives are reducing their remuneration packages by approximately half, compared to 2018 excluding the Founder LTIP. Other members of the Board have also agreed to zero uplifts in their remuneration for 2019. Full details are set out in the Report of the Remuneration Committee.

Board changes

As previously announced, Margaret Young retired as a Non-Executive Director and Chair of the Remuneration Committee of the Company. Margaret has been a Non-Executive Director of the Company since October 2015 and departed the Board on 31 December 2018. On behalf of the Board, I should like to thank Margaret for her significant contribution to our deliberations generally and especially as Chair of the Remuneration Committee. The Board has benefited from her considerable corporate and governance experience during her time with us. David Rough has replaced Margaret as Chair of the Remuneration Committee. Details of our approach to replacing the Non-Executive Directors is set out in the Reports of the Nomination and Remuneration Committees.

Brexit and the warehouse property investment market

The current period contains a high degree of uncertainty with questions over the general economy and the property investment market whilst the issue of the EU exit process and its aftermath remain unresolved. The uncertain outcome of the negotiations makes it difficult to assess the future impact on Hansteen but the Board believes that the fundamentals of occupational supply and demand will continue to be strong despite the short-term economic and political volatility. To date we have not seen any negative impact on our tenants' take-up of space with each of our regional offices reporting good levels of enquiries and good levels of new lettings so far in 2019. The impact of e-commerce has benefited the industrial and logistics property sector, partly at the expense of retail. There is unlikely to be any material new development of multi-let light industrial property unless rents and capital values rise further and our diverse portfolio of tenants (both by number and by sector) brings resilience to our income stream and the prospect of further rental growth.

"The Hansteen management platform is, we believe, among the best in the sector and is a significant asset to the Group.

We have a strong balance sheet with a prudent level of gearing (net debt to property value ratio of 29.7%), with a main bank facility that does not expire until July 2021. The Group has a cash balance of £55.1 million and further funds that can be drawn under this existing debt facility. The Board therefore considers the Group to have adequate available resources to moderate the impact of any future macro-economic challenges while being able to take advantage of any investment opportunities that may arise.

Outlook

The Hansteen management platform is, we believe, among the best in the sector and is a significant asset to the Group. As a result of the quantity of property sold in the last few years, the size of the management platform has decreased and accordingly we have reduced the cost of running the business in line with the reduced capital base and the reduced property portfolio.

The team is well placed to manage the portfolio going forward. We believe that our diverse portfolio and management focus presents a rare combination in today's property sector that can achieve both income and capital growth.

Melvyn Egglenton
Chairman
24 March 2019

Our business model

The Group buys undervalued portfolios, often with high levels of vacancy or other tangible opportunities to add value, applies an intensive programme of improvement using its local management teams, and sells to realise the value added.

We target two types of investments: one that provides a high yield, and the other that, although lower yielding, offers the potential for capital growth through intense asset management initiatives.

We seek to produce sustainable growth in our rental income and occupancy, which should lead to increased values. We then aim to realise and distribute the profits to our shareholders.

1. Fundamentals

We buy

Disciplined investment

We pick our investments based on a thorough assessment of the opportunities to create a high-yielding portfolio with potential to add value.

Our balance sheet is strong and we remain committed to financing on a prudent basis.

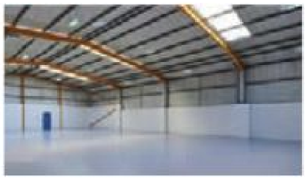
£56.9m
of property purchased in 2018

We manage

Local expertise

We have seven offices with experienced management teams across the UK.

We work hard at creating the right relationships with our stakeholders so that we are in prime position to react when opportunities arise. We apply an active asset management strategy to our properties to improve occupancy and drive rental income which should lead to increased values.



874
new lettings and lease renewals in 2018 generating £17.2 million per annum of contracted rent

We sell

Realise value

Returns come from rental income and selling at increased value.

We supplement our buy, manage, sell business model with other opportunity types where we think good profits can be made, including deals in other sectors, especially land where we believe we can make planning gains.

£294.5m
of property disposals in 2018

2. Our resources

Properties

Total valuation
£650m

Square feet of lettable space
13.6m


Our portfolio is made up of 256 properties and is focused on urban distribution and light industrial warehouses, predominantly across the UK. Generally, our assets are located outside of the South East and we buy assets in well-connected locations.

Tenants

Total tenants
2,399

Total occupancy
91.3%


Our occupiers are generally local businesses that serve the towns and cities around which they are based. We have a very diverse tenant base, both by sector and by number, which brings resilience to our income stream as well as asset management opportunities.

Team

We have seven UK offices that contain a successful mix of experienced surveyors and graduate surveyors. In addition to this established asset management team, Hansteen has a group of senior managers and financial executives that have worked together for many years and have considerable experience in the industrial property sector.

Our asset managers are focused primarily on direct tenant relationships and the marketing of vacant units either for sale or to rent. They are heavily involved in the management of the properties in their region, although the day-to-day management is undertaken by local property managers who are contracted on a third-party basis.

3. Our strengths

Diverse

Industrial property is the most flexible and economical commercial property type with the widest occupational audience

Our properties appeal to a huge range of occupiers which means we have an extremely diverse tenant base without reliance on any particular tenants or industries. Occupational demand is currently strong and with 13.6 million sq ft of predominantly industrial property, we have a wide range of space to meet the requirements of a diverse mix of tenants.

Strategic

The fundamental value dynamics are strong

Our properties are valued at significantly below replacement cost, which limits new supply.

Value

Opportunities exist for adding value

Part of our business model is to reshape our portfolio through the trade of assets as and when the business plans have been completed to realise the value added. In addition, we have a significant bank of UK land at various stages of gaining planning permission which will, in time, add value.

Our strategy

Strategic priority

Acquire selectively

We are an entrepreneurial investor who looks for opportunistic investments that will create a high-yielding property portfolio.

Manage intensively

Our locally based, in-house asset management teams have the skills to meet the most complex occupier requirements and improve occupancy.

For more information see pages 12–15

Increase values

After purchase we aim to maximise rental income and occupancy through active asset management initiatives leading to increased values.

Realise and distribute profits

We focus on realised returns through rental income and profit on sales generated from a strong and diversified tenant base. This allows Hansteen to pay a well-covered and progressive dividend.

Progress in 2018

We acquired a mixed-use portfolio of 34 properties located throughout the UK, with a focus on the North West and the West Midlands, for £56.9 million. With a yield on the passing rent of over 9.2% and a low capital value of £41 per sq ft, the acquisition represented a good opportunity to acquire a significant amount of light industrial property at an attractive price.

Our team has completed

874

new leases or renewals at contracted rents that are

10.4%

ahead of ERV at 31 December 2017.

The total uplift in the value of the portfolio was

£39.6 million

or 6.5%.

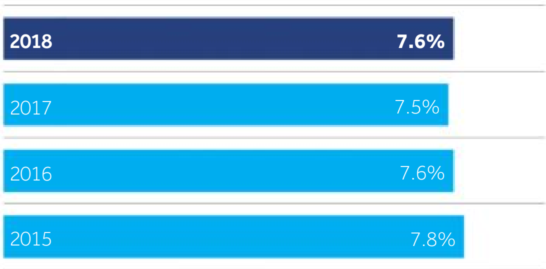
The 2018 dividend has been increased to

6.2p per share

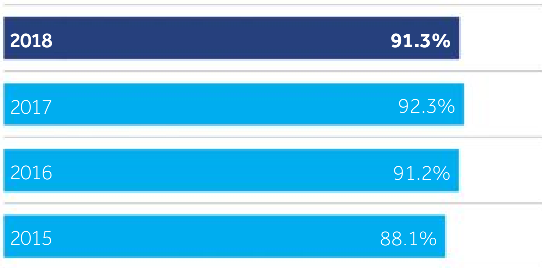
which is the highest ever full year dividend.

Key performance indicators

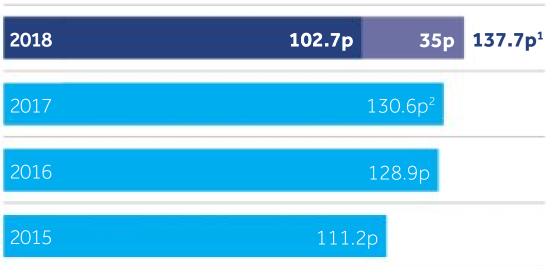
Portfolio yield



Occupancy

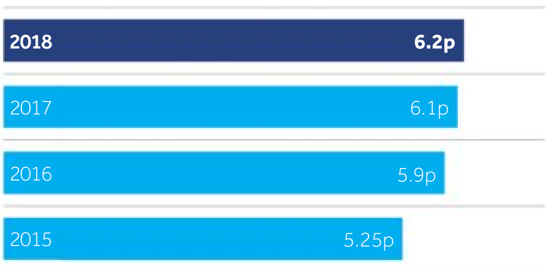


EPRA NAV (per share)



1 31 December 2018 EPRA NAV of 102.7p is after return of capital of 35p per share.
2 After return of capital of 140p per share during 2017 which was at an 11.1p premium to the 31 December 2016 EPRA NAV.

Dividend (per share)



Joint Chief Executives' Statement

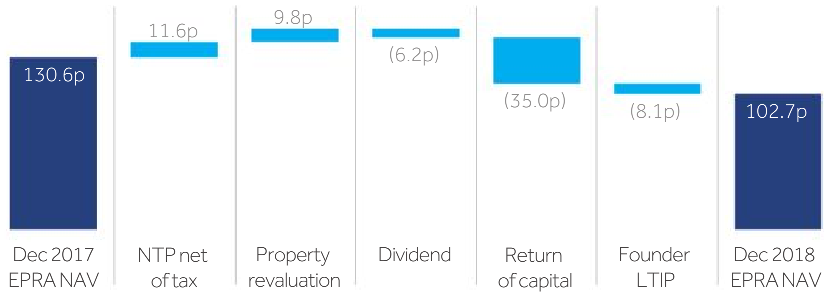
"Our UK management platform is unrivalled for its presence (six regional offices), experience (many of the team have been specialising in regional urban multi-let industrial properties since the early 2000s) and proven performance (year after year our team has grown occupancy, rent roll and value). We genuinely believe our team is "best in class" for what we do.

Ian Watson and Morgan Jones
Joint Chief Executives

During 2017 and 2018 the business experienced a tremendous amount of change with significantly more than half of the property portfolio sold in several transactions and substantially more than half of the Company's capital returned to shareholders.

From 2008 to 2013 the property market was distressed and, in this period, Hansteen raised capital to acquire properties. In the period 2013 to 2018, we made high returns in excess of 18% per annum[1], much of which has been crystallised. We believe that we are at a turning point for the business.

Table 2: Movement in EPRA NAV per share



Many of our shareholders are aware that in May 2005 we sold Ashtenne, the UK urban multi-let industrial specialist company which we founded in 1989 and floated on the main market of the Stock Exchange in 1997. Our stewardship of that business was successful, with our shareholders receiving consistently high returns through the life of the business. Following the sale of Ashtenne, we felt that there was an opportunity to repeat the Ashtenne business model in Continental Europe, where yields were still much higher than in the UK, occupancy and rents were low and there was limited competition to buy urban multi-let industrial property. Accordingly, at the IPO of Hansteen on AIM in November 2005, we said that we would assemble a portfolio of urban, multi-let industrial properties in Continental Europe with a view to providing investors with consistently high and realised returns, managing the properties for income and capital growth and at some stage realising the value that had been added. We also said that we would extend our geography back into the UK when we believed real value had returned.

From the time of the IPO, we were able to identify high-yielding opportunities enabling us to pay a strong, progressive and covered dividend from the end of the first full year of trading. Our task was complicated by the financial crisis, however Hansteen was one of only a very limited number of AIM listed property companies that survived. There were even established main market quoted property companies who were only saved by value destroying, rescue rights issues. But, we were able to position the business to take advantage of the excellent opportunities arising from the crisis. As a result, since the IPO, the weighted average return on capital has been approximately 13% per annum[1].

During 2018, we purchased £56.9 million of property that we believed would be value enhancing, worked our assets to increase the rent roll and capital values, sold £294.5 million of property at a good profit and returned £144.5 million of capital to our shareholders. We set out the full details of these transactions in this report as we summarise what has been another very successful year for the business.

Financial results for 2018

We are pleased to present another set of strong financial results with high realised profits and growth in NAV per share when adjusted for the material return of capital during the year. Comparisons with 2017 figures require adjustments to reflect the reduced capital base following the return of capital to shareholders.

The Group's IFRS profit from continuing operations was £59.5 million compared with £71.1 million in 2017. Basic IFRS EPS was 14.4p (FY 2017: 9.8p) and adjusted EPS was 6.3p (FY 2017: 4.2p). Adjusted EPS is based on EPRA EPS adjusted for the fair value of the Founder LTIP charge as shown in note 14.

The Board believes that our normalised profit measures of NIP and NTP (Normalised Income Profit and Normalised Total Profit) reflect the underlying realised profits from the business before considering property and other revaluation movements. Table 1 below sets out the calculation and results for NIP and NTP with a breakdown between continuing operations and discontinued operations.

As the Group were net sellers of £237.6 million of property during 2018, the substantial sales have reduced our NIP from continuing operations to £25.8 million (FY 2017: £31.3 million) but the profits on those sales have increased our NTP from continuing operations by 22.1% to £45.8 million (FY 2017: £37.5 million).

The Board regards EPRA NAV per share plus dividends and other returns to shareholders as the best measure of value growth. The Group's EPRA NAV per share at 31 December 2018 was 102.7p (31 December 2017: 130.6p), after the payment of 6.2p per share of dividends and a 35p per share return of capital during the year. The movement in EPRA NAV from 31 December 2017 is summarised in table 2 above.

The Group uses Alternative Performance Measures (APMs) which are not defined within IFRS. The Board use these measures to assess the underlying realised profits from the business and as such these

Table 1: Normalised Income Profit and Normalised Total Profit

	Continuing 2018 £m	Discontinued 2018 £m	Total 2018 £m	Continuing 2017 £m	Discontinued 2017 £m	Total 2017 £m
Property rental income	51.7	0.3	52.0	59.0	35.8	94.8
Direct operating expenses	(4.6)	0.2	(4.4)	(5.0)	(4.2)	(9.2)
Administrative expenses	(13.0)	(0.4)	(13.4)	(13.4)	(4.4)	(17.8)
Net interest payable	(8.3)	0.5	(7.8)	(9.3)	(6.6)	(15.9)
Normalised Income Profit (NIP)	25.8	0.6	26.4	31.3	20.6	51.9
Profit on sale of properties	19.4	(0.2)	19.2	5.6	49.3	54.9
Other operating income	0.6	–	0.6	0.6	0.2	0.8
Normalised Total Profit (NTP)	45.8	0.4	46.2	37.5	70.1	107.6

1 Measured by EPRA NAV growth plus dividends assuming that investors reinvested any capital returns from Hansteen back into Hansteen at the EPRA NAV post the return of capital and invested pro-rata in all the fund raises.

Joint Chief Executives' Statement continued

Table 3: Property Portfolio Summary

	No. of properties	Built area (million sq ft)	Vacant area	Passing rent (£m)	Contracted rent (£m)	Value (£m)	Yield on passing rent	Yield on contracted rent	Yield on ERV
UK	248	12.9	8.5%	43.7	47.2	576.4	7.6%	8.2%	9.2%
Belgium & France	8	0.7	12.0%	2.4	2.4	27.2	8.7%	8.7%	9.3%
Total built portfolio	**256**	**13.6**	**8.7%**	**46.1**	**49.6**	**603.6**	**7.6%**	**8.2%**	**9.2%**

measures should be considered alongside the IFRS measures. Definitions of these APMs are shown in the glossary to this report. The reconciliation of NIP and NTP to the IFRS profit before tax is contained in note 6 to the financial statements. Basic NAV per share is reconciled to EPRA NAV per share in note 14 to the financial statements.

Property portfolio

Our portfolio is focused more on smaller, urban distribution and light industrial warehouses rather than big box logistics properties. The average size of 4,800 sq ft across our 2,700 UK units generally means that our occupiers are local trades undertaking a wide variety of activities as opposed to larger national or international businesses. Our portfolio is geographically well spread throughout the UK with the majority of our properties being located north of the Watford Gap services.

The built portfolio has a yield of 7.6% on the passing rent (31 December 2017: 7.5%), 8.2% on the contracted rent (31 December 2017: 8.0%) and 9.2% on the valuer's ERV. Including the 453.7 acres of undeveloped land, the total portfolio has a yield on the passing rent of 7.1% and a yield on the contracted rent of 7.7%. The summary analysis of the built portfolio, at 31 December 2018, is set out in table 3 above.

Property valuation, acquisitions and disposals

A key part of the Hansteen business model is to selectively acquire properties that we believe have a tangible opportunity to add value. This is achieved through the methodical and detailed assessment of investment opportunities and despite the increased competition for our type of properties, the last few years have shown that our opportunistic and often management intensive approach to acquisitions has produced significant capital growth. In August 2018, we managed to secure the purchase of 34 assets located throughout the UK for £56.9 million (including costs). The 1.4 million sq ft of space had a passing rent of £5.3 million per annum at acquisition which reflects a high yield of over 9.2%. We have already sold eight of these assets at a £2.7 million or 11.4% increase over the gross acquisition cost and have initiated various other asset management plans across the remaining properties.

In addition to the disposal of the IMPT portfolio and the Saltley CPO (explained in further detail below), the sustained investor appetite for UK multi-let light industrial property allowed for the disposal of a further 43 assets during the year for a combined consideration of £118.5 million. Purchasers ranged from individual owner occupiers to listed property companies and the sales generated profits of £9.2 million or 8.6% above the 31 December 2017 valuation. The Group used part of the proceeds to repay £55.0 million of debt on the revolving credit facility with Royal Bank of Scotland, in December 2018.

The like-for-like value of the portfolio has increased by £39.6 million or 6.5% since 31 December 2017. The Midlands and the North West showed the largest increases of c.14% with the North East, Yorkshire and the South West & Wales showing increases of c.6%. Values in Scotland remained broadly static and values in Belgium and France went down €1.9 million. Despite the overall valuation increase, the built portfolio has a higher yield at 31 December 2018 of 7.6% than the 7.5% yield at 31 December 2017.

Saltley Compulsory Purchase Order (CPO)

On 13 March 2018, the Secretary of State for Transport acquired Saltley Business Park, Birmingham by way of a CPO under the High Speed Rail (London – West Midlands) Act 2017, to enable construction of the first phase of the HS2 route. As part of the CPO process, High Speed Two (HS2) Limited, acting on behalf of the Secretary of State, made a down payment of £37 million in March 2018 and a further £19 million was received in March 2019. Hansteen are due a further £4 million in due course bringing the total for the settlement to £60 million. Hansteen purchased the property in 2010 for £24.4 million and the value of the property at 31 December 2017 was £55.2 million which, after fees and expenses, has produced a profit of £4.2 million.

Industrial Multi Property Trust (IMPT)

On 27 March 2018, Hansteen completed the sale of the IMPT portfolio for £116.0 million. After acquiring the portfolio in the first half of 2017 for £88.8 million, our UK asset management team was able to increase the occupancy, rent roll and ERV and the sale generated a profit, after costs, of £6.1 million over the 31 December 2017 valuation of £109.7 million.

Rental growth

All of our UK regions are experiencing levels of rental growth and as our portfolio has a relatively short weighted average unexpired lease term (WAULT) of approximately three years, any growth in market rents can be

Table 4: Rent growth statistics

	2018	2017	Change	% Change
Average passing rent (per let sq ft)	**£3.73**	£3.51	£0.22	6.3%
Average contracted rent (per let sq ft)	**£4.03**	£3.73	£0.30	8.1%
Valuation ERV (per sq ft)	**£4.14**	£3.82	£0.32	8.4%
Increase in contracted rent above previous valuation ERV for new lettings and renewals	**10.4%**	3.3%	7.1%	–
Like-for-like increase in contracted rent	**£1.7m**	£0.9m	£0.8m	–

captured relatively quickly. Rent growth can be measured in a variety of different ways and we set out some statistics in table 4 above to illustrate the excellent performance of our in-house team which has, yet again, excelled during 2018, securing 874 new lettings and lease renewals generating £17.2 million per annum of contracted rent.

The statistics are calculated on a like-for-like basis for the properties that were held at 31 December 2018 with the corresponding 2017 numbers being for the same properties adjusted for any acquisitions during 2018.

Return of capital

The sale of the IMPT portfolio and the Saltley Business Park CPO generated net cash proceeds in excess of £150 million. Owing to the high level of demand for industrial property investments, opportunities to reinvest these substantial cash deposits in properties that fitted the Hansteen business model were limited. As the cash deposits would have earned virtually no interest and, therefore, materially diluted the returns from the business, the Board considered that returning the £144.5 million of capital to the shareholders by means of a reduction and return of capital was in the best interests of all shareholders. Each shareholder received 35p per share in cash on or around 11 May 2018.

Outlook

We have a reputation as a cyclical investor, reflected in our business model of "buy, work and sell". We have acquired over £2.2 billion of property since the IPO, mainly during the early part of the current cycle, and profitably sold approximately £2 billion of property, largely in the last few years. Having raised £718 million of capital from our shareholders (including the convertible bond), we have returned £723 million and our remaining business has a market capitalisation of c.£400 million, with a property portfolio valued at £650 million. During that period, we have distributed £349 million through strongly progressive and covered dividends.

Since we sold our German and Dutch properties, many of our shareholders have assumed that we would keep selling to draw the business to a conclusion and indeed we were again net sellers during 2018. We had an approach from Warehouse REIT PLC to purchase a major part of our business although it ultimately did not proceed. This process has focused our minds on the future of the business.

We still believe that it is right to crystallise much of the value that we have created before the cycle turns and indeed, to a large extent, we have done so. However, over the last year, two matters have become clearer: Firstly, investing in urban multi-let industrial property is likely to outperform most other property investments, both in terms of total return and earnings over the next few years. Secondly, that our UK management platform is unrivalled for its presence (six regional offices), experience (many of the team have been specialising in regional urban multi-let industrial properties since the early 2000s) and proven performance (year after year our team has grown occupancy, rent roll and value). We genuinely believe our team is "best in class" for what we do.

Accordingly, in the near term our emphasis will be to manage our portfolio for income and value growth, rather than sales. We will continue to seek acquisitions that fit our approach and sell opportunistically but we do not envisage that we will be significant net sellers until we have a clearer view on this current property cycle. Our judgement today reflects what we said in our full year report in March 2016 – "Our reading of the current cycle continues to be that of a long, grinding, corrugated stretch of low interest rates and low returns which should play to the strengths of our business". On the one hand, there is considerable uncertainty and risk at present, both politically, domestically and globally, which is clouding the property market. On the other hand, there is an unprecedented amount of capital being allocated to property globally. If in the future, that uncertainty clears, and the market moves ahead, we may recommence significant selling. If, however, the market falls back, we will look to acquire properties and grow the business once again. We have meaningful fire power for acquisitions if opportunities present themselves.

The strength of our position is that in the meantime we have an enormously diverse portfolio producing a solid and growing income. In the regions in which we specialise, supply of properties is not growing and will not do so while rents and values remain well below those required for development. On the other hand, tenant demand is strong, driven by a plethora of local economy businesses together with the positive effect on demand of the continuing growth of e-commerce. We are proud of our consistent and progressive dividend record since IPO and expect this to continue. However, in times such as this, the key strength for a property company is the ability to attract and retain tenants, grow rents and identify and exploit opportunities to add value. We are grateful to our team which has proven consistently over the years to be able to do all of these things.

Ian Watson and Morgan Jones
Joint Chief Executives
24 March 2019

Financial review

Richard Lowes
Finance Director

Results

As discussed in the Chairman's Statement and the Joint Chief Executives' Statement, the Group's IFRS profit from continuing operations was £59.5 million compared with £71.1 million in 2017. Basic IFRS EPS was 14.4p (FY 2017: 9.8p) and adjusted EPS was 6.3p (FY 2017: 4.2p). Adjusted EPS is based on EPRA EPS adjusted for the fair value of the Founder LTIP charge as shown in note 14.

Net asset value

The net assets attributable to equity shareholders at 31 December 2018 were £470.1 million (2017: £557.5 million). The movement in IFRS net assets is summarised in table 5.

Table 5: Movement in IFRS Net Asset Value

	2018 £m
Normalised Total Profit from all operations	46.2
Property revaluation	39.6
Tax, exchange and fair value movements	1.5
Share-based payments including Founder LTIP	(2.3)
Acquisition of own shares	(2.1)
Dividends paid	(25.6)
Return of capital (including costs)	(144.7)
IFRS NAV movement	(87.4)

Table 6: Gearing

	2018 £m	2017 £m
Lease liabilities – Belgium finance lease	2.2	2.5
Lease liabilities – Other leases	3.2	–
Bank borrowings	245.5	297.1
Capitalised bank loan fees	(1.9)	(3.0)
Cash and cash equivalents	(55.1)	(71.2)
Net debt	193.9	225.4
Carrying value of investment and trading properties externally valued	650.0	818.1
Carrying value of head leases	2.2	–
Total carrying value of investment and trading properties	652.2	818.1
Net debt to value ratio	29.7%	27.6%

Gearing

At 31 December 2018, net debt was £193.9 million (31 December 2017: £225.4 million) and net debt to value was 29.7% (31 December 2017: 27.6%). Table 6 sets out the calculation of net debt and the net debt to value ratio.

As at 31 December 2018, the Group had total bank facilities of £333.5 million (31 December 2017: £334.1 million), of which £245.5 million were drawn (31 December 2017: £297.1 million). Borrowings are in the same currency as the assets against which they are secured. Cash resources at the year-end were £55.1 million (31 December 2017: £71.2 million). The weighted average debt maturity at 31 December 2018 was 2.6 years and the weighted average maturity of hedging was 2.6 years.

Analysis of the Group's bank loan facilities at 31 December 2018 is set out in table 7.

In addition to the bank loan facilities, the Group has a £2.2 million finance lease in place to fund a property in Belgium. As at 31 December 2018, the lease had an unexpired term of four years and an interest rate implicit in the lease of 1.7%.

Including the obligations under the Belgium finance lease, the Group had total borrowings of £247.7 million (31 December 2017: £299.6 million) of which £150.0 million was swapped at an average rate of 0.53% and £50.0 million was capped at an average rate of 0.75%. The average all-in borrowing rate for the Group at 31 December 2018 was 3.1% (31 December 2017: 2.7%).

Founder Long-Term Incentive Plan (Founder LTIP)

The Founder LTIP was established at IPO in November 2005. Under the scheme, if the growth in the Group's EPRA NAV per share plus dividends (and other returns to shareholders) exceeds compound growth of more than 10% per annum over a fixed three-year period, the Joint Chief Executives will each receive an award of shares with a value of 12.5% of the outperformance multiplied by the number of ordinary shares in issue at the end of the performance period. The latest performance period ran from 1 January 2016 to 31 December 2018 and as previously reported, after consultation with shareholders and the Directors, this will be the final performance period for which Founder LTIP shares can be awarded.

Table 7: Bank loan facilities

Lender	Facility millions	Amount undrawn millions	Unexpired term years	All-in interest rate	Loan to value covenant	Interest cover covenant
BNP Paribas Fortis	£3.5	–	4.6	1.54%	–	–
Royal Bank of Scotland	£330.0	£88.0	2.6	3.15%	55%	2.00:1
Total facilities	**£333.5**	**£88.0**	**2.6**	**3.13%**		

The calculation of performance in this final period has been materially affected by the tender offer of November 2017 and as explained in the return of capital circular and the 2017 Annual Report and Accounts, the Founder LTIP calculation has been adjusted and measured over two periods, being pre and post the return of capital date of 14 November 2017.

During the first part of the final performance period (1 January 2016 – 14 November 2017), the Company benefited from the sale of the German and Dutch businesses, achieving a total return of 32.1% or 16.0% per annum compound over the period, which exceeds the 10% per annum compound growth target by 14.0p per share, equivalent to £115.8 million. During the second part of the final performance period (15 November 2017 – 31 December 2018), the Company benefited from further profitable property disposals and valuation growth, achieving a total return of 19.1% or 16.7% per annum compound over the period, which exceeds the 10% per annum compound growth target by 10.1p per share, equivalent to £42.0 million.

The outperformance in the two periods is aggregated to arrive at an outperformance for the three-year period of £157.8 million. The participation in 12.5% of the excess performance results in an award to each of the Founder Directors of 21.8 million shares. The Founder Directors have agreed to forgo part of their awards equal in value to their PAYE and Employee National Insurance Contributions due on the vesting of the awards, which will be settled on their behalf by the Company. After settlement of the PAYE and National Insurance Contributions, the two Founder Directors will be issued with 11.6 million ordinary shares each.

The 2018 IFRS pre-tax profit includes a charge of £25.9 million (2017: £19.1 million, 2016: nil) related to the potential Founder LTIP awards and associated National Insurance Contributions. Only the effect of the associated National Insurance Contributions on the Founder LTIP awards affects the NAV because, in accordance with IFRS, the charge for the potential Founder LTIP awards excluding the associated National Insurance Contributions is credited back through equity.

Following the announcement of these results on Monday 25 March 2019, the Hansteen Employee Benefit Trust (HEBT) will need to obtain approximately 25 million shares to meet the obligations under the Founder LTIP and Performance Share Plan (PSP). The Group has surplus cash and the market value of the shares are currently at a small discount to the Net Asset Value and therefore the HEBT will be seeking to acquire shares up to a value of £11 million in the market on reasonable terms. Depending on the outcome of the market purchases, the share awards under the Founder LTIP and PSP will be met by a maximum of 25 million newly issued shares if no shares are purchased in the market, or a combination of share purchases and newly issued shares.

In the near term, each of the Joint Chief Executives intends to sell some or all of their existing shareholdings (3.7 million shares each) but will each be retaining the 11.6 million shares that they receive in relation to the Founder LTIP period ending 31 December 2018. This will increase their ownership to more than treble their previous shareholdings.

Corporate and social responsibility

The present and future success of Hansteen is dependent upon its ability to recruit, motivate, manage and retain appropriately qualified staff.

Environment
In line with Hansteen's policy of being environmentally and socially responsible, environmental legislation and relevant codes of practice are adhered to. Where possible, Hansteen seeks to reduce emissions and pollution. Details of our greenhouse gas emissions are detailed in the Directors' Report on pages 60 and 61.

Community
Hansteen continues to support local and national charities. Regular events are held in each office to support charitable causes. We will support staff who voluntarily give up their time to participate in charitable programmes during working hours. We continue to offer work experience opportunities to local schools in London.

People
The present and future success of Hansteen is dependent upon its ability to recruit, motivate, manage and retain appropriately qualified staff.

Hansteen has been running a successful summer internship programme in the regional offices for a number of years, providing students who are studying Real Estate with an opportunity to gain hands-on experience in many aspects of Asset Management. This has proved a valuable entry point for our graduate trainee programme as many of the graduates return to us for their first step on their career ladder.

This year Hansteen has helped a further four team members to successfully complete their Assessment of Professional Competence (APC). The APC gives the graduates the practical training and experience which, when combined with academic qualifications, leads to full RICS membership. This sponsorship involves providing the graduates with peer-to-peer learning, workshops, senior mentorship and mock interview panels. We continue to support a further four graduates and expect them to complete their APC in 2019–2020.

We continue to seek new and innovative ways to enhance our support of the regional universities. We have conducted student workshops designed and led by our Asset Managers, and for the past four years we have joined course leaders on judging panels to formally assess student presentations. In providing direct and constructive feedback, we aim to support and stretch the students' personal and professional development in boardroom and interview scenarios.

Underpinned by our values

Trust
We are honest, open and direct in our dealings

Entrepreneurship
We forge opportunities by considering investment prospects from multiple angles

Excellence
We strive for excellence in everything that we do

Teamwork
Our people are at the heart of our success

"

We continue to seek new and innovative ways to enhance our support of the regional universities.

As at 31 December 2018, the composition of Hansteen's employees, including both Executive and Non-Executive Directors, was as follows:

	Number		Percentage	
	Male	Female	Male	Female
Directors – including Non-Executive Directors	6	–	100%	0%
Senior managers	3	2	60%	40%
All other staff	20	18	53%	47%

Equality and diversity

Hansteen has a diverse workforce and commitment to being an equal opportunities employer. We understand that the performance and engagement of our employees is critical to our business success. We hire people from a multitude of backgrounds and our training takes a comprehensive and personal approach allowing us to focus on matching the right people to the right roles. Our employment policies and practices reflect a culture where decisions are made solely on the basis of individual capability and potential in relation to the needs of the business.

We are committed to providing equal opportunities and an entirely non-discriminatory working environment. Our diversity policy aims to ensure that no job applicant or employee receives less favourable treatment because of gender, marital status, race, age, sexual preference, religion, belief or disability. All decisions are based on the merits of the individual concerned. The Group is dedicated to undertaking its business operations in a way which respects individual human rights, treats individuals with dignity and allows freedom of association. We value the contribution of each and every one of our employees and together we have created an inspiring working environment where everyone is engaged, motivated and safe from discrimination so they can fulfil their potential.

All employees are eligible to participate in career development and promotion opportunities. Support also exists for employees who become disabled to continue in their employment or to be retrained for other suitable roles.

Corporate and social responsibility continued

Gender pay gap

We have many years of industry experience which we are keen to combine with increasingly flexible ways of working. We believe this will help attract and retain skilled and diverse employees equipped to drive returns for our shareholders. We remain confident that men and women in our business are paid equally for doing similar roles. They join us on the same salary and can progress their careers at the same rate.

While we are aware of our gender pay gap, we are also clear about the reason for it. In common with much of the property industry, our gender pay gap is a result of the roles men and women hold within the business and the salaries that those roles attract. We are continuing to work on narrowing the gap and we are confident that our actions and flexible approach will help us gradually close the gap. There is complete commitment at senior management level in Hansteen to achieving a higher number of women in senior roles but we recognise that in common with the rest of the industry, this will take time.

Gender pay gap figures

The gender pay gap is defined as the difference between the mean or median hourly rate of pay that male and female colleagues receive.

Our figures are based on the hourly rate of pay as at 5 April 2018 and bonuses paid in the full 12 months to April 2018.

Mean gender hourly pay gap On average women earn **50.5%** less than men	**Median gender hourly pay gap** Women earn **39.2%** less than men
Mean gender bonus pay gap On average women earn **73.4%** less than men	**Median gender bonus pay gap** Women earn **19%** less than men

The gender bonus gap is higher than the gender pay gap because bonus payments are more substantial for more senior and more responsible roles. In Hansteen these are currently filled by significantly more men than women.

Proportion of male and female colleagues receiving a bonus payment

Bonuses are used to reward and retain our best people.

Proportion of male colleagues receiving a bonus 80.0%	**Proportion of female colleagues receiving a bonus 22.2%**

"We are continuing to work on narrowing the gap."

Proportion of men and women in each pay quartile

This data demonstrates the underlying reason for our pay gap. The hourly rate of pay is divided into four equal quartiles. In the lowest quartile women represent 54.5% of our population, whereas in the highest quartile they represent 30.0%.

Description	Males	Females
Lower quartile	36.6%	54.5%
Lower middle quartile	54.5%	45.5%
Upper middle quartile	63.6%	36.4%
Upper quartile	70.0%	30.0%

Why we have a gender pay gap

While men and women are paid equally for doing similar roles in our business, the main reason for our gender pay gap remains structural – women are more absent from the senior roles which attract higher salaries.

We know that culturally the property sector can be seen as a more attractive career option for men than women and we are playing our part in trying to alter this view.

What are we doing to address our gender pay gap?

Adjusting the balance between males and females in higher paid roles has been on our Board's agenda since before the requirement to publish data and we know it will take time to achieve.

We have non-discriminatory recruitment practices and we are clear that the starting salaries of men and women for the same roles are the same. Men and women have the same career opportunities and both men and women can and do progress throughout the business. We are actively working on our culture to encourage a truly diverse team and have identified behaviours which support our values. We support flexible working and have seen an increase in the number of our colleagues who have chosen to work flexibly. Currently, 7% of our colleagues work flexibly and a number now elect to work remotely on an ad hoc basis. We are increasingly working with women's networks and businesses encouraging diversity.

Recruitment

We recruit without any form of discrimination and encourage our colleagues to recommend potential candidates to us. We look for colleagues with the right skills and knowledge who are willing to espouse the behaviours which underpin our culture, and we are continuing to broaden our methods of recruitment with a view to attracting an increasingly diverse population. We actively work with schools in our communities and will continue to encourage more women to pursue careers in finance.

Slavery and Human Trafficking Statement

The slavery and human trafficking statement made by Hansteen, pursuant to section 54(1) of the Modern Slavery Act 2015, which relates to the Company and its subsidiaries in respect of the financial year ended 31 December 2018, can be found on the Company's website https://www.hansteen.co.uk/about-us/our-governance/modern-slavery-act-disclosure. The statement sets out the measures that Hansteen has taken to address the risk of slavery and human trafficking taking place in our business and within our supply chain throughout the year.

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We are increasingly working with women's networks and businesses encouraging diversity.

Principal risks and uncertainties

The Board recognises that effective risk management is essential to Hansteen achieving its objectives and has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

The Board, senior management and staff continually monitor the significant risks which they believe the Group is facing. There will always be some risk when undertaking property investments and the control process is aimed at mitigating and minimising these risks where possible, rather than eliminating them. Appropriate controls are established to mitigate newly identified risks, parameters are set under which management can operate and, where necessary, action is taken to improve existing controls. The Audit Committee, as part of its remit, also consider in detail the significant risks faced by the Group and the adequacy of the controls in place. Further details regarding the Group's internal control and risk management procedures are set out in the Report of the Audit Committee on pages 32 to 35.

The Board has and continues to monitor the developments in the Brexit negotiations with a view to assessing the potential impact on the business. The uncertain outcome of the negotiations makes it difficult to assess the potential impact on the business, but the Board considers that the principal risks set out below deal with the potential consequences that might result from the failure to agree satisfactory terms with the EU such as tenant failure, recession and reduced profitability and lack of availability of capital.

The current key risks identified by the Board, their potential impact and the steps taken to mitigate them are presented below.

1. Over reliance on key executives.

Cause:
High dependence on Joint Chief Executives.

Impact:
High

Probability:
Medium

Risk management
The Board believes such risk is to some extent mitigated through the appointment and support of high-calibre employees and professional advisers. All such appointments are approved by a member of the Board and performance is monitored regularly.

2. Tenant failure. Recession and reduced profitability.

Cause:
Over reliance on income from one particular type of tenant exposing the Group to industry specific periods of recession.

Impact:
High

Probability:
Low

Risk management
Whilst there is always a risk that recession or new legislation may affect specific industry types, the Board is satisfied that Hansteen's exposure is mitigated by operating with an extremely diverse tenant base without reliance on any particular tenants or industries. Vacancy rates, arrears and bad debts are monitored on a regional basis with trends investigated to determine any systematic problems with a portfolio or type of tenant.

3. Lack of availability of capital.

Cause:
Banks under internal pressure to improve liquidity.

Banks considering unutilised loans too expensive.

Impact:
High

Probability:
Medium

Risk management
The Board acknowledges that there may be occasions when banks are under internal pressures which may conflict with existing financing arrangements and it may prove more difficult to secure the more challenging properties. Detailed due diligence is carried out prior to the purchase of each property. Regular meetings are held with a portfolio of banks to keep them fully appraised of commercial opportunities and alert to any potential issues early on. Hansteen also considers alternative sources of finance to develop its strategy and reduce exposure.

Risk	Cause / Impact / Probability	Risk management
4. Information and cyber security breaches resulting in data leakage, financial loss, reputational damage or business disruption.	**Cause:** Failure to protect information and information systems from unauthorised access, misuse, disruption, modification or destruction. **Impact:** High **Probability:** Medium	**Risk management** The Board believes this risk to be mitigated to some extent by the Group outsourcing much of its day-to-day processing to reputable third party organisations. Due diligence designed to assess the integrity of third party processes and systems is undertaken by management as part of the tendering and appointment process and is maintained on an ongoing basis. Internally, the Group has developed policies and procedures designed to mitigate information and cyber security risk as far as possible; these include: the secure encryption of all payroll and personal data, rigorous use of passwords and firewall defences, externally facilitated staff training programmes, bulletins to raise risk awareness and encourage good practice, development of secure mobile working policies, incident response and disaster recovery procedures and the establishment of anti-malware defences.
5. Poor return on investment and deterioration in operating results.	**Cause:** Overpaying for an acquisition. Prices driven up by increased competition. Reduced number of investment opportunities. **Impact:** High **Probability:** Low	**Risk management** Supply and demand is reviewed continuously through direct information from Hansteen's network of managing agents and managers. Experienced members of management review each acquisition and due diligence is carried out by external parties. The Board is required to approve all acquisitions and disposals over a prescribed amount.
6. Banking counterparty disruption. Lack of liquidity.	**Cause:** Financial difficulties within institutions holding significant deposits. **Impact:** Medium **Probability:** Medium	**Risk management** The Board believes such risks are reduced by adherence to a Cash and Liquidity Management Policy that sets out how funds can be invested. Cash balances and borrowings are maintained with a portfolio of considered counterparties. The Group Treasurer reviews the cash balances on a daily basis and where possible, surplus cash is put on interest-bearing deposit.

Board of Directors

The Board currently comprises three Non-Executive Directors, including the Chairman, all of whom are considered to be independent, and three Executive Directors. The Board is responsible to the shareholders of the Company for the strategy and future development of the Group and the efficient management of its resources.

Executive Directors

Ian Watson
Joint Chief Executive

N

Founder Director of Hansteen.

Member of the Nomination Committee[1].

Experience
Qualified as a solicitor with Gouldens. Founder Director and Joint Chief Executive of Ashtenne from 1989 to 2005.

Morgan Jones
Joint Chief Executive

N

Founder Director of Hansteen.

Member of the Nomination Committee[1].

Experience
Qualified as a Chartered Accountant with Touche Ross. Founder Director and Joint Chief Executive of Ashtenne from 1989 to 2005.

Other appointments
Morgan joined the Board of Trustees of St Christopher's Hospice in January 2002 and was appointed Chairman of the Trustees on 10 December 2013.

Richard Lowes
Finance Director

Joined Hansteen on 1 January 2006 as Chief Financial Officer and appointed Finance Director in October 2011.

Experience
Prior to this he worked in a similar role for Ashtenne between 1997 and 2005 and as Finance Director of Trafalgar House Property Limited and a Director of Ideal Homes Holdings PLC from 1988 to 1995. Fellow of the ACCA.

1 Either Morgan Jones or Ian Watson attends the Nomination Committee as only one joint Chief Executive is entitled to attend any one meeting.

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- S Senior Independent Director
- Committee Chair

Non-Executive Directors

Melvyn Egglenton
Non-Executive Chairman

A N R

Appointed an Independent Non-Executive to the Board in June 2014 and was considered independent on appointment as Non-Executive Chairman on 23 August 2016. Chair of the Nomination Committee and a member of the Remuneration Committee. Fellow of the ICAEW.

Experience
Melvyn is a qualified Chartered Accountant and has over 30 years of broad business experience and knowledge gained in practice and commerce.

Other appointments
Currently he is also a Director of the James Family Trusts, a Non-Executive Director of Soho Estates Holdings Limited and Irwin Mitchell Holdings Limited.

Formerly he was Chairman of Pendragon PLC and Regional Chairman of KPMG Midlands.

David Rough
Independent Non-Executive Director

A N R S

Appointed to the Board in October 2015. Senior Independent Director, Chair of the Remuneration Committee and a member of the Audit and Nomination Committees.

Experience
David has spent his career working in the financial services sector, predominantly in investment management and has prior experience in the real estate sector.

Other appointments
Currently a Non-Executive Director and Senior Independent Director at John Laing Group PLC. Formerly a Non-Executive Director at Land Securities PLC and Xstrata PLC.

Jim Clarke
Independent Non-Executive Director

A N R

Appointed to the Board in February 2018. Chair of the Audit Committee and a member of the Remuneration and Nomination Committees.

Experience
Jim, a Chartered Accountant, has extensive board experience of listed companies in the property and leisure sectors.

Other appointments
Formerly Group Chief Financial Officer of Countrywide plc, the UK's largest and most successful estate agency and property services group, for ten years. Prior to joining Countrywide, he was Finance Director and Company Secretary of JD Wetherspoon PLC for nine years and Finance Director of David Lloyd Leisure (then a division of Whitbread Plc) for three years.

Chairman's Corporate Governance Statement

Melvyn Egglenton
Non-Executive Chairman

This Corporate Governance Statement describes the Group's corporate governance framework in the context of Leadership, Effectiveness, Accountability, Remuneration and Relations with shareholders.

As Chairman, I am pleased to introduce you to the 2018 Corporate Governance Report. The Board of Hansteen is committed to maintaining high standards of corporate governance, which we believe enables the Board to promote the success of the Company for the benefit of its members.

The Directors and Board are accountable to the shareholders and must act in the way in which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. This includes overseeing that all colleagues act in the right way by creating the right culture and tone in which the business will operate. The Board has maintained a set of guiding principles which defines the character of the business. As a Board we look to lead by example by making decisions that reflect the culture we wish to encourage, and which is then reinforced by the Executive management and aligns with the Group values. These enduring qualities are a fundamental strength of our business and we bring all of them to our professional and personal conduct:

- Trust – we are honest, open and direct in our dealings;
- Entrepreneurship – we forge opportunities by considering investment prospects from multiple angles;
- Teamwork – our people are at the heart of our success; and
- Excellence – we strive for excellence in everything we do.

It is the Directors' duty to promote the success of the Company having regard to the likely consequences of any decision in the long term and the interest of the differing stakeholders. We considered carefully the consequences of the sale of the property portfolio owned by the Group's wholly-owned subsidiary, Industrial Multi Property Trust Limited (the "IMPT portfolio") and the return of £144.5 million capital during the year to ensure that these decisions were in the best interests of our stakeholders. After increasing the occupancy, rent roll and ERV of the portfolio since its acquisition in July 2017, the disposal of the IMPT portfolio at a significant premium to the acquisition cost was in line with the Company's strategy of adding value through its business model of "buy, work and sell". The proceeds from the disposal of the IMPT portfolio together with cash received from the Compulsory Purchase of the Group's property at Saltley gave rise to a significant amount of surplus cash. Owing to the high level of demand for industrial property investments, the opportunities to reinvest this cash in properties that fit the Hansteen model were limited. As cash deposits were earning virtually no interest and would have diluted the returns from the business it was decided that returning the capital was in the best interest of the stakeholders.

This Corporate Governance Statement describes the Group's corporate governance framework in the context of Leadership, Effectiveness, Accountability, Remuneration and Relations with shareholders. Details are also provided on the extent of the Company's compliance with the relevant provisions of the UK Corporate Governance Code published in April 2016 (the "2016 Code") and the ways its principles have been applied. The 2016 Code was updated in July 2018 and is applicable for accounting periods beginning on or after 1 January 2019 (the "2018 Code") and reference is also made where appropriate to the relevant provisions of the 2018 Code.

Board changes

The Board was assisted by the Nomination Committee in carrying out a process to recruit a Non-Executive Director to the Board, as a replacement for Rebecca Worthington, who resigned with effect from 20 March 2018. Following completion of the recruitment process, the Board was delighted to be joined by Jim Clarke as an Independent Non-Executive Director on 27 February 2018. Jim Clarke replaced Rebecca Worthington as Audit Committee Chair with effect from 20 March 2018.

On 1 October 2018, Margaret Young advised the Board of her intention to step down as a Non-Executive Director of the Company and Chair of the Remuneration Committee after the end of 2018. David Rough, who has served as a member of the Remuneration Committee since his appointment to the Board on 1 October 2015, replaced Margaret as Chair of the Remuneration Committee with effect from 1 January 2019.

When deciding whether to recruit a new Non-Executive Director to replace Margaret Young, the Board considered the requirements of the 2018 Code in the context of the significant reduction in the size of the Company from net assets of £924.2 million at 31 December 2016 to £470.1 million at 31 December 2018 and its expectations for the future. The reduction in net assets resulted from the disposal of property assets realising substantial profits followed by the return of capital to shareholders of £578.1 million in November 2017 and £144.5 million in May 2018. The effect of the return of capital to shareholders in November 2017 has meant that from the start of trading on 19 March 2018 the Company ceased to be a constituent of the FTSE 250 and FTSE 350 indices.

The 2018 Code requires that at least half of the Board of the Company, excluding the Chair, should be Non-Executive Directors whom the Board considers to be independent. The 2018 Code also requires that the Audit Committee should have a minimum membership of three Independent Non-Executive Directors, or in the case of smaller companies two, and the Chair of the Board should not be a member. A smaller company is defined by the 2018 Code as a company that is below the FTSE throughout the year immediately prior to the reporting year.

Although there has been a significant reduction in the net assets, market capitalisation of the Company and complexity of the Group in the two years to 31 December 2018, the Company has maintained, and continues to maintain its strong control environment, high level of internal controls and robust processes. In light of the foregoing, the Board has decided not to replace Margaret Young with another Non-Executive Director at this stage. This decision will be kept under review by the Board, taking into account any significant changes in the activities and size of the Company in the future.

With effect from 1 January 2019, the Company will have two Non-Executive Directors (excluding the Chair) and three Executive Directors and will therefore not be compliant with the 2018 Code requirement that at least half of the Board of the Company, excluding the Chair, should be Non-Executive Directors whom the Board considers to be independent. In addition, since the Company was below the FTSE from 19 March 2018, the Company will not be compliant with the 2018 Code requirement that the Audit Committee should have a minimum membership of three Independent Non-Executive Directors.

Diversity policy

Details of our diversity policy are given in the Report of the Nomination Committee on page 37 and the Corporate and social responsibility section of the Strategic Report on page 18.

Gender pay gap

With less than 50 employees, the Company is not required to report on its gender pay gap in accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, which apply to companies with 250 or more employees.

However, we are supportive of transparency and have decided voluntarily to disclose our gender pay gap, details of which are given in the Corporate and social responsibility section of the Strategic Report on page 19.

Board and Committee evaluation

The Directors participated in a formal external Board and Committee evaluation process in 2016 which was conducted by independent external consultants and internal Board and Committee evaluations were undertaken in 2017 and 2018. I am pleased to confirm that, as a result of the 2018 review, the Board and Committees were found to be working well with no significant concerns being identified. Following the Board evaluation, I have also conducted individual Director evaluations and remain satisfied with the performance of the Directors proposed for re-election and that each Director demonstrates commitment to their role. David Rough, as the Senior Independent Director, led my own evaluation and remains satisfied that my performance continues to be effective and that I also continue to demonstrate commitment to my role. Further details of the Board and Committee evaluation process can be found on page 30.

Melvyn Egglenton
Chairman
24 March 2019

Corporate governance framework

This report outlines the key features of the Company's corporate governance framework and sets out how the Company has applied the principles of the 2016 Code and the extent to which it has complied with the Code's provisions. A copy of the 2016 Code is available on the Financial Reporting Council (FRC) website at www.frc.org.uk.

The Board and its Committees report on how the Company has complied with the 2016 Code published by the FRC in April 2016. In July 2018, the FRC issued the 2018 Code which will be applicable to all companies with a premium listing and will apply to accounting periods beginning on or after 1 January 2019. The Company will report in full on its compliance with the 2018 Code in its Annual Report and Accounts for the year ending 31 December 2019.

The Directors acknowledge their responsibility for the Group's system of internal controls, including the review of its effectiveness and suitable monitoring procedures, to safeguard shareholders' investment and the assets of the Group as well as the integrity of its accounting records and provide reliable information for use within the business and for publication. The Group's system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board has reviewed the effectiveness of the system of internal control for the period under review and up to the date of this report. The process of this review is summarised within the Report of the Audit Committee on pages 32 to 35. During its review, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore, a confirmation in respect of necessary actions is not considered necessary. The internal control environment will continue to be monitored and reviewed by the Board.

Compliance with the 2016 Code

Throughout the year ended 31 December 2018, the Company adhered to all principles of the 2016 Code and complied with all of the provisions.

The Company also complies with the Corporate Governance Statement requirements of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules by virtue of the information included in this Corporate Governance Statement supplemented by the information contained in the Directors' Report on pages 56 to 61, the Report of the Audit Committee on pages 32 to 35, the Report of the Nomination Committee on pages 36 and 37 and the Report of the Remuneration Committee on pages 38 to 55.

Leadership

The role of the Board of Directors

The Board is responsible and accountable to the shareholders of the Company for the long-term success of the Company, strategy and future development of the Group and the efficient management of its resources. Accordingly, there is a clear division of responsibilities, with the Executive Directors running the Company's day-to-day business and the Non-Executive Directors and Chairman constructively challenging the Executive Directors; please refer to page 29. To facilitate this teamworking, the Board has a schedule of matters reserved for its decision, which includes approval of annual budgets, acquisition and divestment policy, approval of major capital projects, the raising of finance and management policies. The Non-Executive Directors also meet the property valuers independent of management to discuss the year-end and half-year property valuations. The Board meets at least five times a year with ad hoc meetings as required.

Board and Committee meeting attendance

The Board has established three Committees to assist its operations: the Audit Committee, the Remuneration Committee and the Nomination Committee. Each Committee's delegated responsibilities are clearly defined in formal terms of reference, which are available on the Company's website www.hansteen.co.uk.

There were six scheduled Board meetings held during the year and six Board meetings are scheduled for 2019, including one strategic-specific meeting. At the strategic meeting the Board reviews, considers and discusses the ongoing strategic development of the Group and the key strategic focuses for the year and beyond. Two additional ad hoc Board meetings were also held during the year to discuss specific business matters, which included the appointment of Jim Clarke to the Board as an Independent Non-Executive Director and the return of £144.5 million capital to shareholders. Each of the scheduled Board and Committee meetings have standing agenda items, which ensures that all aspects of the business are given due consideration as appropriate. The Board regularly reviews strategic matters as part of the standing Board agenda items. The standard agenda of items for each Board and Committee meeting are regularly considered by the Board and are continually updated to include any topical matters that arise.

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Melvyn Egglenton	6	–	2	3
Ian Watson[1]	6	–	–	–
Morgan Jones[1]	6	–	1	–
Richard Lowes	6	–	–	–
David Rough	6	3	2	3
Margaret Young	6	3	2	3
Jim Clarke	6	3	2	3
Rebecca Worthington[2]	2	1	1	2
Number of meetings during the year	**6**	**3**	**2**	**3**

1 Either of the Joint Chief Executives attends the Nomination Committee meetings.
2 Rebecca Worthington was eligible to attend two Board meetings, one Audit Committee meeting, one Nomination Committee meeting and two Remuneration Committee meetings before her retirement.

Board activities during the year

The Board dedicates one of its meetings every year to focus on reviewing the Group's strategy and to consider annual objectives. The Board monitors the achievement of the Company's objectives through regular reports which include updates from the Joint Chief Executives, the Finance Director and other key personnel. There is a rolling agenda of items that are regularly considered by the Board and this agenda is continually updated to include any topical matters that arise.

The main topics considered by the Board during the year included:

Area	Agenda items
Financial reporting	› Review of management accounts. › Approval of trading updates. › Review of cash, debt forecasts and gearing levels. › Review of hedging instruments. › Review of dividend policy, dividend payment/recommendation (as appropriate).
Budget	› Approval of 2019 and 2020 annual budget.
Internal control and risk management (in conjunction with the Audit Committee)	› Consideration of risk appetite and principal risks. › Assessment of effectiveness of internal controls and risk management systems. › Consideration of viability statements and going concern. › Consideration of cyber-risk and mitigation. › Consideration of the potential impact of Brexit.
Operations	› Disposal of the IMPT property portfolio for £116.0 million. › Return of £144.5 million of capital to shareholders. › Acquisition of a mixed-use portfolio of 34 properties for £53.7 million. › Negotiations with HS2 to agree the compensation for the acquisition of Saltley Business Park by way of a Compulsory Purchase Order. › Negotiations for the subsequently aborted disposal of a portfolio of properties to Warehouse REIT. › Disposal of a portfolio of properties for £67.9 million.
Strategy	› Consideration of overall strategy, strategic projects and monitoring progress.
Shareholder engagement	› Regular updates on views of investors, including independent feedback from brokers following investor meetings and Annual General Meeting. › Consideration of market reaction to key announcements. › Monthly review of share register and share-dealing reports.
Board	› Consideration of Board evaluation results for 2018. › Approval of the 2017 Annual Report and Accounts and related documents.
Governance	› Review of Terms of Reference of Committees and matters reserved for the Board. › Review of membership of Board Committees, diversity and independence. › Review of Company policies and approval of changes to Board delegated authorities. › Updates on governance, legal and regulatory matters and the impact of regulatory changes, including corporate governance reform proposals and Market Abuse Regulations.

The roles of the Chairman and Joint Chief Executives

The division of responsibilities between the role of Chairman and the roles of the Joint Chief Executives is clearly defined, set out in writing and reviewed annually by the Board.

The Chairman is responsible for the leadership and effective working of the Board, ensuring that all members of the Board, including, in particular, the Non-Executive Directors, have an opportunity to contribute effectively, and that there is appropriate and timely communication with shareholders.

The Joint Chief Executives are responsible for the strategic direction and operational and financial performance of the Group, having been delegated this responsibility by the Board.

Effectiveness

Composition of the Board

To meet the business requirements, the Board during the year has comprised of the Chairman, three Independent Non-Executive Directors (except for the period from 27 February 2018 to 20 March 2018 during which there were four Independent Non-Executive Directors as both Rebecca Worthington and her successor, Jim Clarke, both served on the Board) and three Executive Directors. The biographies of the current Directors are set out on pages 24 and 25. Non-Executive Directors are typically expected to serve two three-year terms and may be invited by the Board to serve for an additional three-year period. Any term renewal is subject to Board review and annual re-election by the shareholders at the Company's Annual General Meeting. In accordance with the 2016 Code, all the current serving Directors will retire and offer themselves for re-election at the forthcoming 2019 Annual General Meeting.

Margaret Young, Non-Executive Director and Remuneration Committee Chair, gave notice of her resignation on 1 October 2018 and stepped down from the Board on 31 December 2018.

All of the Directors are considered to be able to allocate sufficient time to the Company to discharge their responsibilities effectively. At the time of appointment, all Directors are made aware of the time commitment necessary to discharge their responsibilities and the letters of appointment for the Chairman and each Non-Executive Director set out an anticipated time commitment. In addition to his role as Chairman of Hansteen Holdings PLC, Melvyn Egglenton is a Director of the James Family Trusts and a Non-Executive Director of Soho Estates Holdings Limited and Irwin Mitchell Holdings Limited.

The Board is satisfied that the Chairman, who was independent on appointment, and the Non-Executive Directors, each of whom have no day-to-day involvement in the running of the Company, are independent from management, have no commercial, financial or other connection with the Company, other than as a shareholder, and are able to exercise independent judgement.

The service agreements of the Executive Directors and terms and conditions of the Non-Executive Directors' appointments are available for inspection at the Company's Annual General Meeting or at the Company's registered office.

Corporate governance framework continued

Appointments to the Board
In compliance with the 2016 Code, the Board has established a Nomination Committee. The primary role of the Nomination Committee is to keep under review the composition of the Board, to plan for its refreshment, with regard to balance of skills, experience, independence, knowledge and structure, and to consider issues of succession. The appointment of new Directors will follow a formal, rigorous and transparent procedure and is a matter for the Board as a whole, following recommendations made by the Nomination Committee.

The Nomination Committee operates within defined terms of reference which are regularly reviewed and updated, where necessary. The terms of reference are available on the Company's website www.hansteen.co.uk.

The Nomination Committee's report is set out on pages 36 and 37 and should be read in conjunction with this Corporate Governance Statement.

Directors' induction and professional development
The Company has in place an induction programme, led by the Chairman and the Joint Chief Executives, for new Directors to provide them with a full, formal and tailored introduction on joining the Board, which ensures that they attain sufficient knowledge of the Company to discharge their duties and responsibilities effectively. The programme includes meeting with senior management and advisers and visits to the Group's operational locations. The Board calendar is planned to ensure that Directors are briefed on a wide range of topics, including updates on accounting standards or on corporate governance and regulatory matters.

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that the Board and committee procedures are being followed and applicable regulations are complied with. The Company Secretary is also responsible for ensuring that the statutory obligations of the Company are met. The Directors also have access to independent and professional advice at the Company's expense, where they judge this to be necessary to discharge their responsibilities as Directors.

Information and support provided to the Board
The Board is supplied, in a timely fashion, with the information it needs to enable it to discharge its duties. In between Board meetings, the Board receives a monthly performance pack containing detailed information on the entire property portfolio. The Board is also kept informed of changes in relevant legislation and changing commercial risks, and each Director has access to independent professional advice and the advice and services of the Company Secretary.

Evaluation of the Board and its Committees
In line with the requirements of the 2016 Code, during 2018, the Board and Committees undertook an informal review of their performance, having completed a formal evaluation in 2016 which was facilitated by Independent Audit Limited (Independent Audit Limited has no other connection with the Company). In addition, the Chairman met with each of the Non-Executive Directors to evaluate and discuss their individual performances, those of the Executive Directors and the Board's effectiveness as a whole. The Non-Executive Directors, led by the Senior Independent Director, met without the Chairman present to evaluate his performance as Chairman.

This informal review required the Directors to complete a tailored, high-level questionnaire. The questionnaire provided the Directors with an opportunity to express their views concerning:

› the performance of the Board and its Committees generally, such as including how the Directors work together as a whole, as well as the balance of skills, experience, independence and knowledge of the Directors; and
› specific topics, including strategy and risk, reward strategy, performance and engagement with the auditor.

The responses to the evaluation of the Board and its Committees were reviewed by the Chairman and then considered by the relevant Committees and Board. The results of the evaluation indicated that the Board continues to work well and there are no significant concerns among the Directors about its effectiveness.

The results of the evaluation of the Chairman's performance were considered by the Senior Independent Director and the Non-Executive Directors and were also discussed between the Senior Independent Director and the Chairman. In accordance with the Code, the Board will be undertaking an externally facilitated evaluation in 2019.

The Board is confident that the performance of the Board and its Committees was and is effective and that all Directors make an effective contribution, have the requisite skills and experience to provide able leadership and direction and demonstrate full commitment in their respective roles.

Accountability
In compliance with the 2016 Code, the Board has established an Audit Committee. The primary role and responsibility of the Audit Committee is to:

› monitor the integrity of the financial statements and announcements of the Company relating to the Company's financial performance, including any significant financial judgements;
› review the Company's internal financial controls and risk management systems;
› make recommendations to the Board, for consideration by the shareholders for their approval in general meeting;
› review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process;
› develop and implement policy on the engagement of the external auditor to supply non-audit services; and
› report to the Board on how it has discharged its responsibilities.

Thereby providing shareholders with increased confidence in the credibility and objectivity of the Group's published financial information.

The Audit Committee operates within defined terms of reference which are regularly reviewed and updated, where necessary. The terms of reference are available on the Company's website www.hansteen.co.uk.

The Audit Committee's report is set out on pages 32 to 35 and should be read in conjunction with this Corporate Governance Statement.

Remuneration
In compliance with the 2016 Code, the Board has established a Remuneration Committee. The primary role of the Remuneration Committee is to determine and recommend to the Board the specific pay and benefits packages for the Executive Directors which are designed to promote the long-term success of the Company and to ensure that performance related elements are transparent, stretching and rigorously applied.

The Remuneration Committee operates within defined terms of reference which are regularly reviewed and updated, where necessary. The terms of reference are available on the Company's website www.hansteen.co.uk.

The Remuneration Committee's report is set out on pages 38 to 55 and should be read in conjunction with this Corporate Governance Statement.

Relations with shareholders

The Board recognises the importance of maintaining a purposeful relationship with shareholders. The Executive Directors regularly meet and engage with institutional shareholders and analysts. The Board receives regular updates at Board meetings on the views of its shareholders, and the Chairman and Senior Independent Director are available to meet shareholders if they wish to raise issues separately. The Chairman and Joint Chief Executives also ensure that there is effective communication with shareholders on matters such as governance and strategy and are responsible for ensuring that the Board understands the views of major shareholders.

The Board invites shareholders to attend and vote at general meetings of the Company and the Chairs of the Audit, Nomination and Remuneration Committees are available to answer questions, where appropriate, at the Annual General Meeting. The Senior Independent Director is available to shareholders if they have concerns where contact through the normal channels has failed to resolve or for which such contact is inappropriate.

In March 2018, the Chair of the Remuneration Committee wrote to the Company's major shareholders to discuss proposed changes to the remuneration packages of the Joint Chief Executives. Further details are set out in the Report of the Remuneration Committee on pages 38 to 55.

The 2019 Annual General Meeting will be held on 11 June 2019 at 21 Tudor Street, London, EC4Y 0DJ.

A separate notice convening the Annual General Meeting has been distributed to shareholders along with the Annual Report, which includes an explanation of the items of business to be considered at the meeting. This notice can also be found on the Company's website.

All shareholders are encouraged to attend and vote at the Annual General Meeting, during which the Board will be available to discuss issues affecting the Company.

Statement of voting at general meeting

The Company is committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. Where there are significant votes against any resolution at the Annual General Meeting, the Company will liaise with investors and agree on the actions it intends to take going forward.

At the last Annual General Meeting, held on 12 June 2018, 95.35% of shareholders voted for the resolution to approve the Directors' Remuneration Report.

Report of the Audit Committee

Jim Clarke
Chair of the Audit Committee

The objectives of the Committee are to:

- increase shareholder confidence in the credibility and objectivity of the Group's published financial information;
- assist the Board in meeting its financial reporting responsibilities by ensuring the adequacy and effectiveness of the Group's risk management and internal control procedures and to ensure that the principles, policies and practices adopted in the preparation of the Annual Report and Financial Statements comply with applicable statutory requirements; and
- strengthen the independent position of the external auditor by providing channels of communication between them and the Non-Executive Directors.

Introduction by the Chairman of the Audit Committee

I am pleased to present my first report as Chair of the Audit Committee (the "Committee").

The objectives of the Committee are to:

- increase shareholder confidence in the credibility and objectivity of the Group's published financial information;
- assist the Board in meeting its financial reporting responsibilities by ensuring the adequacy and effectiveness of the Group's risk management and internal control procedures and to ensure that the principles, policies and practices adopted in the preparation of the Annual Report and Financial Statements comply with applicable statutory requirements; and
- strengthen the independent position of the external auditor by providing channels of communication between them and the Non-Executive Directors.

The Committee is required to report its findings to the Board, identifying any matters on which it considers that action or improvement is needed, and make recommendations on the steps to be taken.

This report sets out:

- information regarding the composition of the Committee, the meetings it held during the year and the evaluation of its performance;
- the responsibilities of the Committee and the way it discharges them; and
- the areas of significant judgement considered by the Committee during the year.

Composition of the Committee

The current members of the Committee are shown on page 25; these individuals have been selected to provide the right balance of knowledge, skill and experience to support the business in pursuing its strategy and achieving its objectives.

All Committee members are considered by the Board to be independent. Jim Clarke and David Rough have recent and relevant financial experience as required by the UK Corporate Governance Code published in April 2016 (the "2016 Code"), further details of which are given on page 25. Rebecca Worthington and Margaret Young, both of whom served on the Committee until their resignations from the Board and its Committees on 20 March 2018 and on 31 December 2018 respectively, also have recent and relevant financial experience as required by the 2016 Code. The Chair of the Committee, Jim Clarke, is considered to have the necessary competence in accounting. The Committee as a whole has relevant industrial property experience. No members of the Committee have links with the Company's external auditor, Deloitte LLP ("Deloitte").

Jim Clarke, who was appointed to the Board as an Independent Non-Executive Director, succeeded Rebecca Worthington as Audit Committee Chair, with effect from 20 March 2018.

Meetings

The Committee meets regularly during the year, with its meetings being aligned to the financial reporting timetable. Senior representatives of the external auditor, Executive Directors and senior management may be invited to attend the meetings at the Committee's discretion. The Committee holds a private session with the external auditor after the March meeting at which the Annual Report is reviewed and at other times during the year without members of management being present, where necessary. The Company Secretary acts as secretary to the Committee.

During 2018, the Committee met three times for scheduled meetings. Details of members' attendance at each meeting are shown on page 28.

Annual evaluation of performance

An internal evaluation of the performance of the Committee was carried out during the year, following the externally facilitated Board evaluation exercise undertaken during the previous year and the Committee was found to be operating effectively. Further details of the evaluation are given on page 27 of the Corporate Governance Statement.

Responsibilities of the Committee

The Committee has been established in accordance with the 2016 Code.

The full terms of reference of the Committee, reviewed in 2018, are available on the Company's website www.hansteen.co.uk.

The Committee's principal responsibilities include:

- reviewing the content of the Annual Report and Financial Statements and advising the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy;
- reviewing the interim and full year financial statements prior to their submission to the Board, considering whether the Group's chosen accounting policies have been properly applied and whether any changes to financial reporting requirements have been properly dealt with;
- reviewing the Group's principal risks on a bi-annual basis;
- ensuring that the Group has in place the internal controls, systems and procedures reasonably needed to mitigate its identified risks and ensure the integrity of financial information;
- monitoring the Group's internal audit requirements;
- ensuring that the Group has in place the systems and procedures necessary to comply with relevant legislation, regulation and best practice concerning social, environmental and ethical matters;
- reviewing the Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters, reviewing the systems and controls for the prevention of bribery and the procedures for detecting fraud;
- considering all matters relating to the recommendation for appointment, reappointment, remuneration and terms of engagement of the Group's external auditor;
- maintaining an appropriate relationship with the Group's external auditor, reviewing their effectiveness, objectivity and independence, considering both the scope of their work and the fees paid to them for audit and non-audit services; and
- developing and implementing the policy for the provision of non-audit services by the external auditor.

The Committee is satisfied that it receives sufficient, reliable and timely information from management to allow it to fulfil its responsibilities. The ways in which the Committee discharged its responsibilities during the year are described below.

Oversight of the Financial Reporting Process

On behalf of the Board, the Committee reviewed and considered the following areas in respect of financial reporting and the preparation of the interim and annual financial statements:

- appropriateness of the accounting policies applied by management;
- extent of compliance with external and internal financial reporting standards and policies;
- appropriateness of the significant judgements made by management;
- adequacy of statutory disclosures;
- completeness and adequacy of the disclosure of the principal risks and uncertainties faced by the Group; and
- whether the Annual Report and Financial Statements are fair, balanced and understandable.

To carry out this work, the Committee considered the work and recommendations of the finance team led by the Finance Director, Richard Lowes. In addition, the Committee received regular reports from the external auditor setting out their views of the accounting treatments and judgements included in the financial statements. The reports from the external auditor are based on a full audit of the annual financial statements and a review of the unaudited interim financial statements.

Internal Control and Risk Management

An ongoing process for identifying, evaluating and managing the most significant risks faced by the Group has been in place throughout the year and up to the date of approval of the Annual Report and Financial Statements. That process, which accords with the *2014 FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting*, is designed to manage rather than eliminate risk and applies to all material controls, including financial and compliance controls. This is supported by regular meetings of the Board and Committee along with:

- *Formalised management structure* – comprising a clear organisational structure with well-defined lines of reporting and responsibility, along with set parameters under which the business can operate without further or specific consideration by the Board;
- *Financial reporting disciplines* – covering performance monitoring, profit and cash flow forecasting and the preparation of the consolidated financial statements;
- *Investment appraisal procedures* – a clearly defined framework for capital and development expenditure and subsequent ongoing appraisals; and
- *Risk identification and management procedures* – risk identification and management are an integral part of the system of internal control. Identified risks, along with the associated controls and monitoring procedures intended to mitigate them, are documented in a risk register. The risk register is reviewed bi-annually and updated where appropriate; reports are received from the executive on control procedures, and any areas for improvement are agreed for subsequent action. Information regarding the key risks the Group faces in pursuing its strategy and achieving its objectives is reported in the Strategic Report on pages 22 and 23.

The Committee has concluded that the systems of internal control and risk management within the Group are effective.

Internal audit

The majority of the processing and accounting for the day-to-day transactions of the Group is outsourced to third-party suppliers. Management maintains a close relationship with these suppliers and performs regular detailed reviews of their work, reporting to the Committee if any significant concerns are raised by these reviews. The Committee regularly reviews the internal controls to ensure that they are adequate for the size and complexity of the business.

The Committee believes that the outsourcing of day-to-day processing and accounting routines, the internal control environment within the outsourced providers, combined with the oversight and review procedures performed by management provides three lines of defence that mitigate the need for an internal audit function at this time. In addition, there is the independent challenge and assurance provided by the external auditor. The Committee and the Board will continue to monitor this position on an ongoing basis.

Whistleblowing

The Group has a formal whistleblowing policy in place, so that employees can report any matters of concern. The Board reviews the policy annually and is responsible for monitoring reports, if any, that arise from its operations. The Board has appointed the Audit Committee Chair as the Designated Whistleblowing Officer and the Audit Committee monitors and reviews the policy and arrangements in place regularly to ensure they remain fit for purpose and to recommend any necessary changes to the Board. The whistleblowing policy was reviewed by the Committee and the Board during the year and the arrangements in place are considered to be appropriate for the reporting of any matters of concern.

External audit – appointment

Deloitte has been the Group's external auditor since 2006 when the Group prepared its first Annual Report and Financial Statements. The audit partner responsible for the Group's audit matters is changed every five years in accordance with the FRC Ethical Standard. The current audit partner, Stephen Craig, was appointed to that position with effect from 12 June 2018.

The Committee has established an audit tendering policy that requires an audit tender to be carried out every ten years. The last audit tender was carried out in 2015, following which the Board approved the reappointment of Deloitte, for the year ended 31 December 2016.

External audit – independence and objectivity

In forming their opinion on the independence and objectivity of the external auditor, the Committee takes into account the safeguards operating within Deloitte and they are asked to provide a formal statement of their independence annually.

Report of the Audit Committee continued

To safeguard the independence of the external auditor, the Committee ensures compliance with its policy governing the provision of non-audit services by the external auditor under which Deloitte may not provide a service which places them in a position where they may be required to audit their own work. Specifically, Deloitte are precluded from providing services relating to bookkeeping or other services relating to the accounting records or financial statements of the Group, financial information system design and implementation, appraisal or evaluation services, actuarial services, any management functions, investment banking services, legal services unrelated to the audit, remuneration related services or advocacy services.

To further fulfil its responsibilities regarding the independence and objectivity of the external auditor, the Committee reviewed:

- the scope of the audit as set out in the external auditor's engagement letter;
- the external auditor's overall work plan;
- the external auditor's fee proposal;
- a report from the external auditor describing their arrangements to ensure objectivity and to identify, report and manage any conflicts of interest; and
- the extent, nature and associated fees of non-audit services provided by the external auditor.

The Committee believes that it receives particular benefit from certain non-audit services being provided by the external auditor due to their wide and detailed knowledge of the Group and so discretion is used, subject to the controls set out above, in obtaining such services from Deloitte.

In accordance with the Ethical Standards issued by the Auditing Practices Board, the Group prohibits the engagement of the external auditor to provide services including *inter alia* taxation, internal audit, the design of internal controls and HR services.

Where non-audit services are provided, the fees are based on the work undertaken and are not success related. Consideration is given to the nature of, and remuneration received for, other services provided by Deloitte to the Group and confirmation is sought from them that the fee payable for the annual audit is adequate to enable them to perform their obligations, in accordance with the scope of the audit.

In addition to acting as external auditor to the Group during 2018, the main engagement by Deloitte, under permitted non-audit services, related to abortive fees in connection with a working capital review in respect of the potential disposal of a portfolio of UK industrial property assets. In line with EU Audit Directive and Regulation on Audit Reform, the Committee is responsible for approving all non-audit services provided by the auditor.

Payments made by the Group for non-audit fees for the year represented 18% of the audit fees paid to Deloitte. Further details of audit and non-audit fees for the year are disclosed on page 84. The Committee has fully evaluated all non-audit work undertaken by Deloitte during the year against its policy and remains comfortable that it is appropriate, the fees justified, and that Deloitte remain independent.

External audit – effectiveness

The Committee has adopted a formal framework in its review of the effectiveness of the external audit process which includes:

- considering how the audit process can support the work of the Committee;
- determining the scope of the audit, including the completeness of the risks of material misstatement identified in the independent auditor's report;
- monitoring the planning and execution of the audit;
- reviewing communications received from the auditor;
- assessing the quality of the formal audit report to shareholders;
- appraising the audit partner and the audit team;
- evaluating the extent to which the audit contributes insights and adds value; and
- assessing the effectiveness of the management team in the audit process.

A comprehensive auditor assessment questionnaire is completed annually by each member of the Committee. The responses are collated, and the resulting analysis considered by the Committee with any concerns being discussed with the auditor. In addition, feedback is obtained from the Finance Director and members of the senior management team which is shared with the auditor. Every year the external audit partner meets with the Committee Chair and Finance Director to formally discuss the quality of the external audit process using this evaluation framework and the outcome of those discussions feeds into the audit process for the subsequent three years.

The Committee meets as considered necessary with the external auditor without management being present. The effectiveness of the management team's role in the external audit process is assessed principally using the following performance measures:

- the timely identification and resolution of areas of accounting judgement;
- the quality and timeliness of papers analysing those judgements;
- the management team's approach to the value of independent audit and the booking of any audit adjustments arising; and
- the timely provision of draft public documents for review by the auditor and the Committee.

The Committee concluded that it was satisfied with the performance and independence of Deloitte as external auditor and recommended their reappointment which will be put to shareholders at the forthcoming Annual General Meeting.

Areas of significant accounting judgement considered by the Audit Committee during 2018

The areas of significance considered by the Committee in relation to the financial statements and its responses to them were as given below. In each case, the Committee agreed and approved the action taken.

Area considered	Audit Committee response	Audit Committee conclusion
Accounting for the valuation of the amounts due under the Saltley Compulsory Purchase Order (CPO)	› The Committee considered the accounting for the downpayment of £37.0 million received from High Speed Two (HS2) Limited and the additional sum receivable in 2019 following agreement on the property's market value.	› The Committee concluded that it was appropriate to include the whole of the amount received from High Speed Two (HS2) Limited in 2018 and 2019 in the accounts for the year ending 31 December 2018.
Accounting for the return of £145 million capital to the shareholders and the reduction of the Company's share premium and cancellation of the Company's capital reserve as approved by the High Court of Justice Business and Property Courts of England and Wales (the "Court")	› The Committee considered the accounting for: a) the reduction of £103.5 million in the Company's share premium; b) the cancellation of the £41.3 million capital redemption reserve of the Company; and c) the return of £144.5 million capital to the shareholders.	› The Committee concluded that the accounting was consistent with the Court approval. › Further information is given in note 29 to the financial statements.

Area considered	Audit Committee response	Audit Committee conclusion
Investment property valuations	› Members of the Committee with relevant and current expertise in property valuations met with the external valuers of the Group's property portfolio twice during the year to understand and challenge, where necessary, the valuations. › The Committee considered and debated the external auditor's findings in this area.	› The Committee concluded that the external property valuations were reasonable. › Further information is given in note 18 to the financial statements.
Judgements and disclosures made in relation to going concern and long-term viability	› The Committee reviewed and challenged the underlying assumptions used in the going concern forecasts and long-term viability calculations as well as the reasonableness of the stress tests carried out by management in relation to those forecasts. › The Committee considered the support for, and adequacy of, the disclosures made in the Annual Report and Financial Statements in relation to going concern, long-term viability, debt maturity and covenant compliance. › The Committee considered and debated the external auditor's findings in this area.	› The Committee concluded that the Company remained a going concern and that long-term viability calculations were suitably stress tested. › The Committee also determined that the disclosures in the Annual Report and Financial Statements were justified. › Further information is given in the Directors' Report on pages 56 to 61.
Basis for qualification for REIT status and the recognition of overseas deferred tax assets	› The Committee considered the Group's process for monitoring and maintaining REIT status. › The Committee considered the supporting evidence for recognition of overseas deferred tax assets, particularly in relation to tax losses. › The Committee considered the reasonability of management's assessment of the likelihood of future utilisation of tax losses in each relevant entity and jurisdiction. › The Committee considered and debated the external auditor's findings in this area.	› The Committee has assessed management's processes of monitoring and maintaining REIT status and overseas income and conclude that the Group had complied with the REIT Status requirements. › Further information is given in note 12 to the financial statements.
Recognition of charge for the Founder Long-Term Incentive Plan (Founder LTIP)	› The Committee reviewed the calculation of the Founder LTIP charge recognised in the financial statements and the dilutive impact on the calculation of earnings per share and EPRA NAV. › The Committee considered the adequacy of the presentation and disclosure regarding the Founder LTIP in the Annual Report and Financial Statements. › The Committee considered and debated the external auditor's findings in this area.	› The Committee concluded that the calculation of the Founder LTIP charge recognised in the financial statements and the dilutive impact on the calculation of earnings per share and EPRA NAV were correct. The Committee also concluded that the presentation and disclosure regarding the Founder LTIP in the Annual Report and Financial Statements is adequate. › Further information is given in notes 4, 14 and 32 to the financial statements and in the Remuneration Report on pages 38 to 55.

An ongoing focus of the Committee in its work is assisting the Board in ensuring that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable (FBU) and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Committee considers the 2016 Code provisions which require the Board to make this statement on the report, together with information on the processes to support the statement to be made.

Robust year-end governance processes are in place to support the Committee's considerations, which include:

- Ensuring that all of those involved in the preparation of our Annual Report have been appropriately trained and fully briefed on the FBU requirements;
- Regular engagement with and feedback from senior management on proposed content and change;
- Feedback from external advisers (corporate reporting specialists, remuneration and strategic reporting advisors, external auditor) to enhance the quality of our reporting; and
- Early opportunity for review and feedback on our Annual Report by Committee members.

The Committee, having completed its review, recommended to the Board that, when taken as a whole, the Annual Report and Financial Statements are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Jim Clarke
Chair of the Audit Committee
24 March 2019

Report of the Nomination Committee

Melvyn Egglenton
Chairman of the Nomination Committee

The role of the Committee is to keep under review the composition of the Board and its Committees, to plan for their refreshment, with regard to the balance of skills, experience, knowledge and structure, and to consider issues of succession.

Introduction by the Chairman of the Nomination Committee

The report below describes the Nomination Committee, its responsibilities and its key activities during the year.

A key objective of the Nomination Committee is to ensure that the Board has the right balance of skills and experience to enable it to provide leadership and accountability. It was therefore pleasing to see that the feedback from the Board effectiveness evaluation process undertaken during the year provided confirmation that the Board, and its Committees, continue to operate effectively.

In the period since 31 December 2016, the Group has been significantly reduced in terms of net assets, geographical spread and number of employees. Following the return of capital of £722.6 million to shareholders over the period the market capitalisation of the Group has reduced from £844 million at 31 December 2016 to £382.6 million at 31 December 2018. In light of this significant reduction in the size and complexity of the Group and the decision of Margaret Young to resign from the Board with effect from 31 December 2018, the Nomination Committee deliberated the ongoing requirements of the Board and its Committees for the future.

As set out in the Chairman's Corporate Governance Statement on page 27, although there has been a significant reduction in the net assets, market capitalisation of the Company and complexity of the Group in the two years to 31 December 2018, the Company has maintained, and continues to maintain, its strong control environment, high level of internal controls and robust processes. In light of the foregoing the Board has decided not to replace Margaret Young with another Non-Executive Director at this stage. This decision will be kept under review by the Board, taking into account any significant changes in the activities and size of the Company in the future.

Composition of the Committee

The Board has established a Nomination Committee (The "Committee"), the majority of members of which are independent Non-Executive Directors as required by the 2016 Code.

Throughout the year the Committee comprised Melvyn Egglenton (Chairman), Margaret Young, David Rough and either of the Joint Chief Executives, Morgan Jones and Ian Watson, at any one time. In addition, Jim Clarke succeeded Rebecca Worthington as a member of the Committee following her retirement from the Board and its Committees on 20 March 2018.

During November 2017, the Company engaged the services of an independent external executive search consultancy, Lomond Consulting ("Lomond"), which has no other relationship with the Company, to assist in the recruitment process for the appointment of a replacement Independent Non-Executive Director on the Board and Audit Committee Chair following Rebecca Worthington's decision to resign from the Company.

The Committee considered the Company's diversity policy together with the desired expertise and background of potential candidates to complement the skills already on the Board during its recruitment process. Lomond were also requested to consider gender and ethnicity when conducting their search. From an initial list of eight candidates put forward by Lomond, and meeting the criteria agreed by the Committee, a shortlist of four potential candidates was drawn up based on their level of relevant experience. The candidates on the shortlist were invited to meet me and other members of the Board and, as a result of those discussions, we welcomed Jim Clarke to the Board on 27 February 2018. Full details of the Committee's process of appointment of Directors can be found on page 30 of this report.

During 2018 the Committee met twice for scheduled meetings and once for an ad hoc meeting. Details of members' attendance at each meeting are shown on page 28. The Company Secretary acts as secretary to the Committee.

Role and responsibilities of the Committee

The role of the Committee is to keep under review the composition of the Board and its Committees, to plan for their refreshment, with regard to the balance of skills, experience, knowledge and structure, and to consider issues of succession.

The Committee is responsible for a number of matters relating to the composition of the Board and its Committees and in discharging its responsibilities gives careful consideration to the Group's policies on diversity, including those relating to gender and ethnicity. The Committee's responsibilities include:

- regularly reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and making recommendations to the Board with regard to any changes required;
- considering succession planning for Directors and senior executives, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future;
- keeping up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates;
- identifying and nominating, for Board approval, candidates to fill Board vacancies as and when they arise;
- before any appointment is made by the Board, evaluating the balance of skills, knowledge, experience and diversity on the Board and, in the light of this evaluation, preparing a description of the role and capabilities required for a particular appointment;
- reviewing the results of the Board performance evaluation process;
- reviewing annually the time commitment required of Non-Executive Directors; and
- making recommendations to the Board regarding membership of the Board, Audit, Nomination and Remuneration Committees in consultation with the Chair of each Committee.

The Committee is required, in accordance with its terms of reference, to meet at least twice a year. During 2018, the Committee held two scheduled meetings and one ad hoc meeting.

The full terms of reference of the Nomination Committee, which were last reviewed in October 2018, are available on the Company's website www.hansteen.co.uk.

Diversity

Hansteen strives to have an equal, diverse and inclusive workforce and has considered the recommendations and targets in the Hampton Alexander and Parker reviews. The Company embraces diversity, including age, background, gender and ethnic diversity, and provides an environment where every employee has the opportunity to achieve their full potential. It is one of Hansteen's core values that people treat each other with dignity and respect. The Board approved Hansteen's diversity and inclusion policy in 2013 and last reviewed it in October 2018.

The policy is set out in the Employee Handbook and, as part of their induction, all new employees must confirm that they have read and understood the policy. The Board's policy on diversity, including gender and ethnicity, together with objectives that it has set for implementing the policy, and progress on achieving these objectives, are set out in the Corporate and social responsibility section of the Annual Report on pages 18 to 21.

The Board's policy on diversity is to ensure that the Directors on the Board have a broad range of experience, skills and knowledge, with diversity of thinking and perspective. Appointments to the Board are always made on merit against objective criteria, having regard to the benefits of diversity, including gender and ethnic diversity, and the current and future needs of the business. The Board has not set any specific gender or diversity targets. When identifying candidates for appointment to the Board or senior position any search firm engaged will be instructed to include a range of candidates, including women and people from diverse backgrounds, for consideration.

Committee evaluation

The performance of the Committee was evaluated as part of the internal Board and Committee questionnaire this year, as an externally facilitated evaluation exercise was undertaken during 2016, and the Committee was found to be operating effectively. Further details of the evaluation are given on page 27 of the Corporate Governance Statement. The Chairman led on the evaluation of the Directors' performance whilst the Senior Independent Director led the review of the Chairman and the Committee has confirmed that the Chairman's and Directors' performance was effective.

Activities during 2018

The Committee's focus in 2018 was to:

- approve the Nomination Committee report included in the 2017 Annual Report;
- review the re-election of the Directors at the 2018 Annual General Meeting;
- review the size, structure and composition of the Board and Committees;
- review diversity and ethnicity at Board and senior management level;
- consider the calibre of internal senior managers for development and succession planning;
- review its terms of reference;
- identify a replacement for Rebecca Worthington as Audit Committee Chair and as an Independent Non-Executive Director resulting in the appointment of Jim Clarke to the Board as Audit Committee Chair and as an Independent Non-Executive Director; and
- consider the future requirements of the Board and its Committees following the decision of Margaret Young to resign as Remuneration Committee Chair and as an Independent Non-Executive Director.

The Committee has a rigorous and transparent procedure for appointments to the Board and its Committees, which involves undertaking an assessment of the skills and capabilities required, drafting a description of the role, and carrying out an assessment of potential candidates, before making a recommendation to the Board.

The process for the appointment of a Director

Stage 1	**Role requirement** The Committee is responsible for preparing a detailed specification for the role specifying the skills, knowledge, experience, diversity, ethnicity and attributes required.
Stage 2	**Process** The Committee directs the selection process, appointing a sub-committee to manage the process and the engagement of an external search consultant, to facilitate the search and selection process.
Stage 3	**Search** Once potential candidates have been identified, they are assessed against the role specification and shortlisted for interview. Interviews focus on each candidate's skills and experience for the role.
Stage 4	**Selection** Following interviews, the Committee debates the shortlist of candidates and makes a recommendation to the Board. The Board discuss the preferred candidate and decide on making an offer.

Directors' performance and re-election

Following consideration and taking into account the results of the recent internal Board Evaluation, the Committee has concluded that each Director on the Board standing for election/re-election at the Annual General Meeting continues to demonstrate the necessary skills, experience and commitment to contribute effectively and add value to the Board. Taking into account the continuing effective performance of the Directors, the Committee has recommended to the Board that all of the Directors should be put forward for re-election, at the Annual General Meeting.

Melvyn Egglenton
Chairman of the Nomination Committee
24 March 2019

Report of the Remuneration Committee

David Rough
Chair of the Remuneration Committee

The primary role of the Committee is to determine and recommend to the Board the specific pay and benefits packages for the Executive Directors and senior employees, to ensure that they are fairly but responsibly rewarded for their individual contributions to the Group's overall performance, taking into account their contractual entitlements.

1. Annual Statement of the Chair of the Remuneration Committee

On behalf of the Board, I am pleased to introduce the Report of the Remuneration Committee (the "Committee") for the year ended 31 December 2018.

The current members of the Committee are shown on page 25.

Margaret Young served as Chair of the Committee throughout the year to 31 December 2018. Having served as a member of the Committee since my appointment to the Board as a Non-Executive Director in October 2015, I have succeeded Margaret as Chair of the Committee with effect from 1 January 2019 following her decision to step down from the Board at the end of 2018.

Melvyn Egglenton served as a member of the Committee throughout the year together with Jim Clarke, who was appointed to the Committee on 27 February 2018, and Rebecca Worthington, who served as a member of the Committee until stepping down from the Board on 20 March 2018.

The primary role of the Committee is to determine and recommend to the Board the specific pay and benefits packages for the Executive Directors and senior employees, to ensure that they are fairly but responsibly rewarded for their individual contributions to the Group's overall performance, taking into account their contractual entitlements. The Committee's objective is to support the business strategy of the Group (details of which are set out in the Strategic Report on pages 10 and 11), to promote the Group's long-term success and to align remuneration with shareholders' returns. The Committee also administers the Group's share incentive schemes.

During the year, the Committee carried out the following activities:

- reviewed the achievement of the 2017 annual bonus scheme performance measures against target;
- reviewed and approved the Directors' Remuneration Report for the year ended 31 December 2017;
- reviewed the base salaries for the Executive Directors for the year ended 31 December 2018;
- approved awards under the Performance Share Plan (PSP);
- agreed the design of, and targets for, the annual bonus scheme for the year ended 31 December 2018;
- reviewed the pay and benefits packages of senior employees for the year ended 31 December 2018;
- reviewed and approved the adjustment to awards under the PSP to allow for the impact of the return of capital to shareholders during 2018;
- reviewed the Committee's terms of reference and performance during the year; and
- reviewed the potential awards in respect of the Founder Long-Term Incentive Plan (Founder LTIP).

An internal evaluation of the performance of the Committee was carried out during the year, and the Committee was found to be operating effectively.

Performance and reward during 2018

Base salaries – Executive Directors

Base salaries for the Joint Chief Executives (Morgan Jones and Ian Watson) in 2018 were unchanged from the previous year. The base salary for the Finance Director (Richard Lowes) was increased by 4%, which compared with increases of 6.4% for employees across the Group as a whole excluding the Executive Directors.

Performance related bonus – Executive Directors
The Group performed well in 2018 and achieved a variety of goals set out at the start of the year. Normalised Total Profit (NTP) in relation to continuing operations increased by 22.1%, from £37.5 million to £45.8 million.

The EPRA NAV at 31 December 2018 was 102.7p per share (2017: 130.6p) and shareholders received capital and income distributions of 41.2p per share, giving a total return to shareholders of 10.2%.

In 2017, following the disposal of the German and Dutch portfolios and the changes to its capital structure, the Group reviewed its strategic options for the future. Following this review, the Group implemented a further programme of property disposals which, together with the compulsory purchase of the Group's Saltley property, reduced the property portfolio from £818 million at 31 December 2017 to £652 million at 31 December 2018. This enabled a further £145 million return of capital to shareholders whilst maintaining the Group's net debt to property gearing at a prudent 29.7%. The Group also began the process of simplifying its administrative structure and related expenses. This is an ongoing exercise, but significant steps were taken during the year. The liquidation of 21 subsidiaries during 2018 reduced the number of subsidiary entities in the Group from 49 at 31 December 2017 to 28 at 31 December 2018. Since the year end, a further three entities have been liquidated and three more entities are in liquidation.

During 2018, the management of the property portfolio led to 874 new lettings and lease renewals, generating £17.2 million per annum of contracted rent. In aggregate, the rents secured on these new lettings and lease renewals during the year were 10.4% above the valuation ERV at the start of 2018. The average contracted rent per square foot on new lettings and renewals increased from £4.09 in 2017 to £4.23 in 2018, helping to generate a £1.7 million increase in like-for-like contracted rent during 2018.

In this context, the Committee is satisfied that the level of payment under the annual bonus scheme for the Executive Directors is appropriate at 100% of the maximum.

Share schemes – Executive Directors
PSP awards – The PSP awards have a three-year performance period and compare performance with competing REITs. 50% of each award is measured against Net Asset Value (NAV) growth and 50% against Total Shareholder Return (TSR). For the performance period ending 31 December 2018, Hansteen's return was in the top quartile in both measures.

In accordance with the current Remuneration Policy, the Joint Chief Executives have not participated in the PSP since 2017 in view of their participation in the Founder LTIP. They have not received awards under the PSP since 2016.

Founder LTIP awards – The Founder LTIP was established at IPO in November 2005 to reward the Joint Chief Executives (as founder Directors) for the delivery of high absolute returns over an extended period. Under this plan, if the growth in net asset value adjusted in accordance with the guidelines issued by the European Public Real Estate Association ("EPRA NAV") per ordinary share (plus dividends and other returns to shareholders) exceeds compound growth of more than 10% per annum over a fixed three-year performance period, the Joint Chief Executives each receive awards in ordinary shares equivalent in value to 12.5% of the excess growth. As set out in the current Remuneration Policy, the Founder LTIP terminated following the three-year performance period which ended on 31 December 2018 (the "final performance period").

The Committee considered that an adjustment to the calculation of the performance in the final performance period was necessary due to the material effect of the share buyback (by way of tender offer) in November 2017. Accordingly, the Committee adjusted the performance condition to measure EPRA NAV per share growth over two periods. The first period ran from the beginning of the performance period on 1 January 2016 to the date immediately before the share buyback, and the second period ran from the date immediately after the share buyback to the end of the final performance period. Full details of this adjustment were set out in the tender offer circular to shareholders on 4 October 2017 and in the 2017 Report of the Remuneration Committee.

As set out in more detail on pages 42 and 43, based on the EPRA NAV per share growth in the final performance period, each of the Joint Chief Executives is entitled to a Founder LTIP award of 21,797,715 ordinary shares.

The Joint Chief Executives have agreed to forgo part of their awards equal in value to their PAYE and employee's national insurance liabilities due on the vesting of the awards, which will be settled on their behalf by the Company. After settlement of these liabilities, each of the Joint Chief Executives will be issued with 11,552,789 ordinary shares.

Fees – Non-Executive Directors
Fees paid to Non-Executive Directors remain unchanged from those agreed and implemented on 23 August 2016.

Proposed amendments to the Remuneration Policy and the Directors' remuneration
In response to the concerns that some shareholders expressed about the Founder LTIP at meetings held with the Chairman and the Chair of the Committee and major shareholders, the Joint Chief Executives agreed to the termination of the Founder LTIP following completion of the three-year performance period ended 31 December 2018 and the share awards in respect of that performance period. The various amendments to the Founder LTIP and the overall remuneration packages of the Joint Chief Executives were duly implemented through the current Remuneration Policy approved by shareholders in 2017.

As part of the review of the remuneration of Executive Directors, particularly following the termination of the Founder LTIP, it was noted in last year's Annual Statement that the Committee would propose changes to the Remuneration Policy in 2019, These changes would include changing the maximum potential annual bonus from 100% to 150% and re-admitting the Joint-Chief Executives to participation in the PSP.

However, in the light of the substantially reduced portfolio size, the Joint Chief Executives have agreed to reduce the size of their remuneration package from 2019 (excluding the Founder LTIP) by more than half compared to 2018. This is in addition to the termination of the Founder LTIP without compensation. Reflecting the desire to "right-size" the business costs, other members of the Board have agreed to zero uplifts in their remuneration for 2019.

For 2019 the remuneration packages of the Joint Chief Executives include a reduction in base salary to £350,000 per annum (2018: £440,000), maximum annual bonus reduced to 50% of base salary (2018: 100%) and percentage pension contribution reduced to 8% of base salary (2018: 16%).

This realignment of remuneration will be broadly maintained unless there is a material change to the size of the business or responsibilities of the Joint Chief Executives.

Report of the Remuneration Committee continued

The Board nevertheless intends to make a number of changes to the policy to enable the appropriate flexibility in the case of new Directors or changing roles and changing circumstances for existing Directors. The following key elements will be implemented subject to approval by shareholders at the forthcoming Annual General Meeting.

› there is no prescribed maximum base salary, but salary increases for Executive Directors will generally be limited to the average increase in salary for employees across the Group as a whole. The Committee will have the discretion to award increases above this level to take account of individual circumstances (such as an increase in scope and responsibility, individual development and performance in role), and to align salaries to market level. As noted above, this might include a substantial increase in the portfolio size or change in a Director's responsibilities;
› employer pension contribution rates for new Executive Directors will be the same as those available to the general workforce in line with the new 2018 UK Corporate Governance Code (the "2018 Code");
› Executive Directors will be eligible to participate in an annual performance related bonus scheme and bonus awards in any year will be subject to a maximum value of 150% of base salary (instead of the current 100% of base salary);
› all Executive Directors will be eligible to participate in the PSP, and PSP awards in any year will be subject to a maximum value at grant of 150% of base salary (currently, the Joint Chief Executives are not eligible to participate in the PSP); and
› the requirement for the existing Joint Chief Executives to hold the ordinary shares received on vesting of their Founder LTIP awards for the final Founder LTIP performance period ending 31 December 2018 for two years from vesting will be amended to permit sales of such shares on the same terms as are made available to all other shareholders in the event of a change of control of the Company or any changes in the capital structure of the Company or the Group.

The single figure table on page 41 shows the total remuneration for each of the Joint Chief Executives as £1.5 million (excluding the Founder LTIP awards). For 2019 this would be a reduction by approximately 60% to £0.6 million as a result of the proposed changes to their remuneration packages.

The Committee has also commenced to consider the post-employment shareholding requirements set out in the 2018 Code and is in the process of developing an appropriate policy that may be implemented for Executive Directors. This is a new and developing area and I will report further on this next year.

The Committee's report has been prepared in accordance with the Companies Act 2006 and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and meets the relevant requirements of the Listing Rules of the Financial Conduct Authority and the 2016 UK Corporate Governance Code. Following the Chair's Statement, the report is presented in two parts – the Annual Report on Remuneration and the Remuneration Policy Report. The parts of the Annual Report on Remuneration that are subject to audit are indicated in that report. The Chair's Statement and the Remuneration Policy Report are not subject to audit.

Ordinary Resolutions will be proposed at the forthcoming Annual General Meeting on 11 June 2019 to approve separately the Remuneration Policy Report (which is subject to a binding shareholder vote) and the Annual Report on Remuneration and this Statement (which are subject to an advisory vote).

David Rough
Chair of the Remuneration Committee
24 March 2019

2. Annual report on remuneration

Introduction

This part of the Report of the Remuneration Committee provides details on how the Group's current Remuneration Policy was applied in the year ended 31 December 2018 and will be subject to an advisory vote by shareholders at the Annual General Meeting.

Audited information

A. Single total figure table

The remuneration of the Directors during 2018 and 2017 was as follows:

	Salary/fees £000	Taxable benefits £000	Performance related bonus £000	Share schemes £000	Pension £000	Total £000
Executive Directors						
Morgan Jones						
2018	440	52	440	21,195[4]	70	22,197
2017	*440*	*52*	*440*	*421*	*70*	*1,423*
Ian Watson						
2018	440	60	440	21,195[4]	70	22,205
2017	*440*	*57*	*440*	*421*	*70*	*1,428*
Richard Lowes						
2018	322	43	322	328[5]	52	1,067
2017	*310*	*39*	*310*	*271*	*50*	*980*
Non-Executive Directors						
Melvyn Egglenton						
2018	150	–	–	–	–	150
2017	*150*	–	–	–	–	*150*
David Rough						
2018	56	–	–	–	–	56
2017	*56*	–	–	–	–	*56*
Jim Clarke[1]						
2018	48	–	–	–	–	48
2017	–	–	–	–	–	–
Margaret Young[2]						
2018	58	–	–	–	–	58
2017	*58*	–	–	–	–	*58*
Rebecca Worthington[3]						
2018	13	–	–	–	–	13
2017	*58*	–	–	–	–	*58*
Total 2018	**1,527**	**155**	**1,202**	**42,718**	**192**	**45,794**
Total 2017	*1,512*	*148*	*1,190*	*1,113*	*190*	*4,153*

Notes:

1 Jim Clarke was appointed to the Board on 27 February 2018.
2 Margaret Young retired from the Board on 31 December 2018.
3 Rebecca Worthington retired from the Board on 20 March 2018.
4 Includes £20,728,000 relating to Founder LTIP awards and £467,000 relating to PSP awards both for the three-year performance period ending 31 December 2018.
5 Relates to PSP awards for the three-year performance period ending 31 December 2018.

Salary and fees

Salaries and fees comprise base salary for Executive Directors and fees for Non-Executive Directors.

The fees for the Non-Executive Directors remained unchanged in 2018 from those set on 23 August 2016.

Taxable benefits

Taxable benefits comprise the monetary or deemed monetary value of the car allowance, private fuel and private medical insurance for the Executive Director and immediate family, and life assurance and income protection insurance provided by the Group. No analysis of the individual elements of taxable benefits has been given as the amounts are not considered to be significant in the context of an understanding of total remuneration.

Report of the Remuneration Committee continued

Performance related bonus
The maximum potential bonus for the year ended 31 December 2018 for each of the Executive Directors was 100% of base salary (2017: 100%).

The 2018 bonus awards were measured against the following targets:

Target	Performance Measure	Actual achieved	% Award Granted
Financial Targets (up to 40% of award)	› NTP before tax from £29 million to £34 million, with adjustment for any material change in capital excluding the Founder LTIP and PSP shares, to achieve full award.	› NTP before tax £46.9 million.	40% awarded.
ERV (up to 10% of award)	› The ERV target is to achieve an increase in lease renewals, rent reviews and lettings in the year in excess of the ERV for those properties at 31 December 2017 by a range of 0% – 5%.	› ERV increased by 10.4% in respect of lease renewals, rent reviews and lettings in the year in excess of the ERV for those properties at 31 December 2017.	10% awarded.
Cost Efficiency Target (up to 10% of award)	› The cost efficiency target is to reduce administration costs in respect of the continuing business to be in the range £13.3 million to £12.8 million.	› Administrative costs in respect of continuing business reduced to £11.8 million.	10% awarded.
Corporate Target (up to 20% of award)	› To prepare a detailed plan of action to close down the surplus corporate entities following the disposal of the Dutch and German businesses in 2017 and to make meaningful progress during 2018 to implement the plan.	› Of the 49 companies in the Group at 31 December 2017, 21 companies were liquidated in 2018 and six were in liquidation at 31 December 2018 of which three have completed since the year-end.	20% awarded.
Discretionary Element (up to 20% of award)	› Following recent changes to the composition of the Group and its capital structure, to fully investigate strategic options and agree a clear path to implementation.	› A further rationalisation of the property portfolio and return of capital was successfully implemented.	20% awarded.

In total, the Committee awarded bonuses to each Joint Chief Executive (Morgan Jones and Ian Watson) of £440,000, representing 100% of his maximum potential bonus, and £322,400 to the Finance Director (Richard Lowes), representing 100% of his maximum potential bonus.

Share schemes – Performance Share Plan
The value included under share schemes includes an estimate of the value of the PSP awards that will vest subject to TSR and NAV performance targets for the three-year period that ended on 31 December 2018. Based on an assessment of performance targets as at the date of this report, it is estimated that the Group will achieve 100% of the TSR ranking and 100% of the NAV growth ranking (i.e. a total vesting of 100%). The value of the share awards expected to vest is based on £0.95, being the average share price over the last quarter of 2018. To the extent that the share awards vest, the options over the vested shares will become exercisable in three equal annual tranches from March 2019 to March 2021.

In the Annual Report on Remuneration for the year ended 31 December 2017, the share price used to calculate the value of the awards in 2017 was £1.37. The share price on the day that the awards vested was £1.27. The comparative amounts disclosed in the 2017 table on page 41 have been restated to reflect these changes to the estimated value.

Share schemes – Founder LTIP
Each Joint Chief Executive is entitled to a share award dependent on Company performance over the three-year performance period from 1 January 2016 to 31 December 2018 (the "final performance period").

Any amount payable under the Founder LTIP is to be satisfied by the award of ordinary shares of the Company. The number of ordinary shares awarded depends on the growth in the Company's EPRA NAV per ordinary share (plus dividends and other returns to shareholders) exceeding compound growth of more than 10% per annum over the final performance period (Target EPRA NAV). The Joint Chief Executives are each entitled to receive an award of ordinary shares with a value equal to 12.5% of the EPRA NAV per share growth in excess of the Target EPRA NAV per share, multiplied by the number of ordinary shares in issue at the end of the final performance period.

As detailed in the 2017 Annual Report on Remuneration, the rules of the Founder LTIP require the Committee to make alterations to the calculation of performance under the Founder LTIP if, for example, there are changes in the capital structure, and to do so in a way that achieves the intended original objective of this plan. The share buyback (by way of tender offer) in November 2017, at the price of 140p per ordinary share, constituted such an event, and the Committee therefore adjusted the performance condition in the final performance period to measure EPRA NAV per share growth over two periods.

The first period ran from 1 January 2016 to the date immediately before the share buyback proceeds were paid to the shareholders on 14 November 2017 and performance was calculated by reference to the number of ordinary shares in issue at such date. The second period ran from the date immediately after the buyback proceeds were paid to the shareholders on 14 November 2017 to the end of the final performance period and performance was calculated by reference to the number of ordinary shares in issue at the end of that period. The outperformance or underperformance in the two periods was aggregated to arrive at the performance over the entire final performance period.

The EPRA NAV at 1 January 2016 was 111.2p per share and the Target EPRA NAV at 14 November 2017 was 132.9p per share. The actual EPRA NAV (plus dividends and other returns to shareholders) achieved at the end of the first period was 146.9p per share, resulting in an entitlement for each Joint Chief Executive to a Founder LTIP award of ordinary shares with a value of £14.5 million.

The EPRA NAV at the start of the second period was 131.1p per share and the Target EPRA NAV at 31 December 2018 was 145.9p per share. The actual EPRA NAV (plus dividends and other returns to shareholders) achieved at the end of the second period was 156.0p per share, resulting in an entitlement for each Joint Chief Executive to a Founder LTIP award of ordinary shares with a value of £5.2 million.

In aggregate, therefore, each Joint Chief Executive has an entitlement to a Founder LTIP award of ordinary shares with a value of £19.7 million in respect of the final performance period.

In accordance with the terms of the Founder LTIP, the ordinary share entitlement of the Joint Chief Executives has been calculated using the average mid-market quotation of an ordinary share for the first 20 dealing days after 31 December 2018, which was £0.90488p per share. This results in an entitlement for each Joint Chief Executive of 21,797,715 ordinary shares.

The Joint Chief Executives have agreed to forgo part of their Founder LTIP awards equal in value to their PAYE and employee's national insurance liabilities due on the vesting of the awards, which will be settled on their behalf by the Company. After settlement of these liabilities, each of the Joint Chief Executives will receive 11,552,789 ordinary shares.

The PAYE and employer's and employee's national insurance liabilities due on the vesting of the Founder LTIP awards, based on the average mid-market quotation of an ordinary share for the first 20 dealing days after 31 December 2018 (which was £0.90488p per share) amounts to £24.181,878. This comprises £18,540,755 in respect of the PAYE and employee's national insurance liabilities, £5,443,881 in respect of the employer's national insurance liabilities and £197,242 in respect of the apprenticeship levy. The actual amounts payable will be based on the share price when the Founder LTIP awards vest on approval by the Board of the audited accounts of the Company for the year ending 31 December 2018.

In accordance with the Companies Act 2006 and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (Part 3), the value of the Founder LTIP awards has been included in the Single Figure Table based on the average share price over the last quarter of 2018, being £0.95 per ordinary share, resulting in £20,727,732 being attributable to each of the Joint Chief Executives.

The value included under share schemes for each of the Joint Chief Executives' Founder LTIP awards in 2017 is nil because no awards vested in that financial year.

Pensions
The value included represents the amounts paid by the Company to each Executive Director to facilitate his own pension arrangements. None of the Executive Directors have a prospective right to a defined benefit pension.

Payments to past Directors
No payments were made during the year.

Payments for loss of office
No payments were made during the year.

B. Share scheme interests awarded during the year

Performance Share Plan
Awards made to the Executive Directors under the PSP during the year were as follows:

	Award date	Share price for award at date of grant	Face value	Performance period	Exercise period	Number of nil cost options awarded
Richard Lowes	20 April 2018	129.10p	£322,400	01/18–12/20	04/21–04/23	249,729

Notes:

- Face value has been calculated using the average of the mid-market closing share price from the Daily Official List for each of the five days preceding the date of grant.
- The award made during the year has neither lapsed nor vested.
- In accordance with the current Remuneration Policy, an annual award is made to Richard Lowes under the PSP in the form of nil-cost share options subject to a maximum value at grant of 150% of base salary. The award granted on 20 April 2018 represented 100% of base salary.
- In accordance with the current Remuneration Policy, no new awards have been made during 2018 to Ian Watson and Morgan Jones under the PSP.
- As noted on page 42, the PSP awards vest based on a TSR and NAV growth ranking and 25% of the PSP awards vest if the minimum performance threshold is met.

C. Directors' shareholdings and share interests

Shareholding guidelines
In accordance with the current Remuneration Policy, Executive Directors are required to maintain a minimum holding of shares in the Company. Within three years of their appointment, Executive Directors are expected to build, and then maintain, a holding of shares in the Company equal to one year's pre-tax base salary. The Chairman and Non-Executive Directors are not required to hold any shares in the Company. In the case of each of the Joint Chief Executives, this requirement is 200% of their pre-tax base salary in view of their participation in the Founder LTIP.

The shareholdings of the Executive Directors on 31 December 2018 compared to their respective base salaries are: Ian Watson – 765%, Morgan Jones – 765% and Richard Lowes – 168%. The shareholdings exceed the required shareholdings of 200% of their respective base salaries for Ian Watson and Morgan Jones and 100% of base salary for Richard Lowes.

Report of the Remuneration Committee continued

Directors' interests as at 31 December 2018

	Shares	Shares subject to PSP awards				Shares subject to Founder LTIP awards
	Ordinary shares	Unvested with performance measures	Vested but not exercisable	Vested and exercisable	Exercised during the year	Vested
Morgan Jones	3,752,039	393,694	310,528	–	183,112	21,797,715
Ian Watson	3,752,040	393,694	310,528	–	183,112	21,797,715
Richard Lowes	661,089	949,093	198,969	–	116,790	–
Melvyn Egglenton	27,657	–	–	–	–	–
David Rough	1,423	–	–	–	–	–
Jim Clarke	–	–	–	–	–	–

The ordinary shares include those held by connected persons. None of the ordinary shares held by Directors are subject to performance measures.

The number of shares subject to Founder LTIP awards included in the table above are the gross amounts to which each of the Joint Chief Executives are entitled. The Joint Chief Executives have agreed to forgo part of their awards equal in value to their PAYE and employee's national insurance liabilities due on the vesting of the awards, which will be settled on their behalf by the Company. After settlement of these liabilities, each of the Joint Chief Executives will receive 11,552,789 ordinary shares.

There have been no changes to the beneficial and other interests of the Directors in the ordinary shares of Hansteen Holdings PLC as shown on this page from 31 December 2018 to the date of this report, other than the increase in the holding of ordinary shares of Morgan Jones and Ian Watson following the vesting of shares in the Founder LTIP. The interest in ordinary shares of Morgan Jones and Ian Watson will increase by 11,552,789 shares each, to 13,304,828 shares for Morgan Jones and 15,304,829 shares for Ian Watson on 25 March 2019.

Review of the impact on the Founder LTIP and PSP of the return of capital to shareholders during 2018
As indicated in the Circular of 20 March 2018 concerning the £145 million return of capital to shareholders, participants' entitlements under the Company's share schemes would be dealt with according to the rules of the individual schemes. The PSP requires the Committee to make fair and reasonable adjustments to the awards under the plan in the event of any variation in the share capital of the Company. The Committee considered it necessary to adjust the performance conditions attaching to PSP awards to reflect the return of capital, but no adjustment to the terms of the Founder LTIP was made. The Committee, having taken independent advice, agreed that the adjustments set out below to the operation of the PSP were appropriate.

Under the PSP, participants are entitled to a share award dependent on Company performance. The number of ordinary shares of the Company vesting under the PSP will depend on the following:

› 50% of the award will vest depending on the Company's EPRA NAV per share growth (plus dividends and other returns to shareholders) relative to a comparator group.
› 50% of the award will vest depending on the Company's TSR per ordinary share (being the increase in share price plus dividends and other returns to shareholders) relative to a comparator group.
› For both EPRA NAV and TSR, median performance will result in 25% vesting of their respective elements, with 100% vesting at upper quartile performance or above.

As at 2 May 2018, which was the last day of trading before the return of capital, there were three outstanding sets of PSP awards within their performance periods: PSP 6 (1 January 2016 – 31 December 2018), PSP 7 (1 January 2017 – 31 December 2019) and PSP 8 (1 January 2018 – 31 December 2020).

The performance calculations for the outstanding PSP 6, PSP 7 and PSP 8 awards have been amended so that the overall performance over each performance period is not distorted by this one-off reduction in the Company's EPRA NAV and the reduction in the share price from 131.2p on 2 May 2018, immediately before the return of capital, to 97.75p immediately after the return of capital.

In addition, as the holders of these outstanding PSP awards and of previous PSP awards which had vested but were not exercisable could not participate in the return of capital, the number of ordinary shares subject to their awards were also amended so they were not disadvantaged. As a result, 251,512 ordinary shares were added to the awards over 734,981 ordinary shares which had vested but were not exercisable, and 801,947 ordinary shares were added to the awards over 2,343,508 ordinary shares which were unvested and subject to performance measures.

Non-audited information
D. External directorships
The Executive Directors are permitted, subject to the prior written consent of the Board, to accept appointments as Non-Executive Directors on other boards so long as none of such interests prejudice the business interests of the Company or of any Group Company. None of the Executive Directors have any fee paying external directorships.

E. Performance graphs and Joint Chief Executives' remuneration table
The following graphs compare the Company's TSR to two FTSE Real Estate indices. TSR measures share price growth, with dividends deemed to be reinvested on the ex-dividend date. The comparator indices used have been chosen by the Committee as they are considered the most appropriate benchmarks against which to assess the relative performance of the Company for this purpose and for these time periods. The graphs are based on underlying data provided by Thomson Reuters Datastream.

Performance since flotation

The following graph details the Company's TSR performance since flotation. Prior to 6 October 2009, the index used for comparison is the FTSE All-Share Real Estate Investment & Services Index (which up until that point the Company would have been a constituent member of). From 6 October 2009, the index used for comparison is the FTSE All-Share Real Estate Investment Trusts Index, to reflect the Company's conversion into a REIT with effect from that date.

Ten-year performance

The following ten-year performance graph compares solely against the FTSE All-Share Real Estate Investment Trusts Index.

Three-year performance

The following three-year performance graph, covering the same period as the final performance period for the Founder LTIP, compares solely against the FTSE All-Share Real Estate Investment Trusts Index.

Report of the Remuneration Committee continued

Joint Chief Executives' remuneration table

The following table shows the single figure remuneration and percentage of bonus and incentive vesting for the Joint Chief Executives for the last ten years.

Year	Joint Chief Executive	Single figure £000	Annual bonus payout against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
2018	Morgan Jones	22,197	100.0	100.0
	Ian Watson	22,205	100.0	100.0
2017	Morgan Jones	1,423	100.0	100.0
	Ian Watson	1,428	100.0	100.0
2016	Morgan Jones	1,007	85.0	50.0
	Ian Watson	1,011	85.0	50.0
2015	Morgan Jones	25,863	61.7	37.5
	Ian Watson	25,866	61.7	37.5
2014	Morgan Jones	1,106	97.5	50.0
	Ian Watson	1,109	97.5	50.0
2013	Morgan Jones	1,050	97.5	56.25
	Ian Watson	1,052	97.5	56.25
2012	Morgan Jones	789	82.9	–
	Ian Watson	793	82.9	–
2011	Morgan Jones	667	95.0	–
	Ian Watson	671	95.0	–
2010	Morgan Jones	600	87.7	–
	Ian Watson	604	97.7	–
2009	Morgan Jones	497	89.8	–
	Ian Watson	499	89.8	–

As described on pages 42 and 43, the Joint Chief Executives participated in the Founder LTIP until 31 December 2018. The potential share entitlement under the Founder LTIP is not subject to a maximum opportunity but based on performance against set criteria. The long-term incentive vesting rates against maximum opportunity therefore relate only to the PSP.

F. Percentage change in remuneration

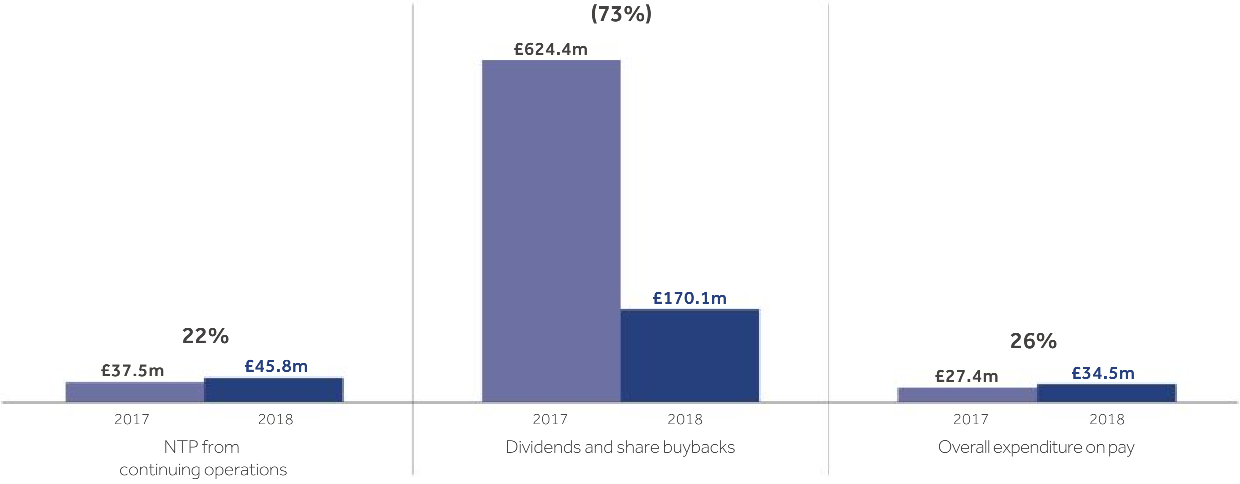
The table below shows the percentage change in remuneration of the Joint Chief Executives for the last financial year compared with the remuneration of all employees.

% change 2017 to 2018	Salary/fees %	Taxable benefits %	Performance related bonus %
Joint Chief Executives	0.0	2.8	0.0
All other employees[1]	6.4	36.2	31.0

1 Excluding joiners and leavers during the year.

G. Relative importance of spend on pay

The chart below shows the relative importance of overall expenditure on pay by the Group compared to the Group's key financial measures and dividends paid to shareholders in the year.



NTP, which includes profits on property sales as well as NIP, has been chosen as a metric for this comparison as the Directors believe that it represents underlying earnings of the Group and is a key performance indicator. This is a change from the previous year when only NIP was used as the metric because the increased frequency of property sales in recent years has made this a more meaningful comparison. The percentage movement reflects the year-on-year change. The principal reason for the increase in the overall expenditure on pay in 2018 is due to the £27.1 million IFRS 2 charge in the year (2017: £20.4 million) for the Founder LTIP awards, PSP awards and associated social security costs. The increase in the IFRS 2 charge in the year reflects, in turn, the substantial increase in the EPRA NAV in the year, principally because of the disposal of investment properties and the increase in investment property valuations in the year. Excluding the effect of the IFRS 2 charges, the overall expenditure on pay would have increased by 6% from £7 million in 2017 to £7.4 million in 2018.

H. The Committee and its advisers

During the year, the Committee comprised Margaret Young (Chair), Melvyn Egglenton, Rebecca Worthington and David Rough, all being Independent Non-Executive Directors. Jim Clarke, having been appointed to the Board as a Non-Executive Director on 27 February 2018, was also appointed a member of the Committee with effect from the same date. Rebecca Worthington resigned from the Board and the Committee with effect from 20 March 2018. Melvyn Egglenton, the Chairman of the Board, was a member but not the Chair of the Committee. Accordingly, the membership of the Committee complied with provision D2.1 of the Corporate Governance Code 2016.

The Committee meets regularly, and no less than twice a year. In 2018, the Committee met three times for scheduled meetings. Details of attendance at meetings can be found in the Corporate Governance Report on page 28.

The full terms of reference of the Remuneration Committee, updated following a review undertaken in December 2018, are available on the Company's website at www.hansteen.co.uk.

The performance of the Committee was assessed during the year as part of the internal evaluation of the Board and its Committees and was found to be operating effectively. Further details of the evaluation are given on page 30 of the Corporate Governance Statement.

The Committee seeks external advice to assist it where appropriate. PricewaterhouseCoopers were appointed by the Committee in September 2015 following a review of the Company's remuneration advisers, through a tender process. The Committee consulted PricewaterhouseCoopers during 2018 and approved fees to them of £37,650, excluding VAT, for independent remuneration advice, charged on a time and expenses basis. Having considered that PricewaterhouseCoopers provided tax advisory and compliance services to the Company during the year, the Committee is satisfied that the advice provided by PricewaterhouseCoopers is both independent and objective. PricewaterhouseCoopers adhere to the Remuneration Consultants' Group Code of Conduct.

The Committee seeks internal support from the Executive Directors and the Company Secretary where necessary. They may all attend Committee meetings by invitation but are not present for any discussions that relate directly to their own remuneration.

I. Implementation of policy for 2019

We summarise below the key elements of the 2019 remuneration package for the Executive Directors in line with the current Remuneration Policy and subject to adjustment in line with the proposed Remuneration Policy set out on pages 49 to 55 if the proposed policy is approved by shareholders at the forthcoming annual General Meeting on 11 June 2019. Those key elements are:

› Fixed pay/benefits – base annual salary and benefits, pension contributions and insurance cover.
› Variable annual pay – cash payments under the annual performance related bonus scheme.
› Variable long-term pay – share-based long-term incentives under the PSP with performance criteria.

Fixed pay/benefits

The Committee has approved a reduction to the base annual salary of Morgan Jones and Ian Watson of 20.5% and no increase to the base annual salary for Richard Lowes with effect from 1 January 2019 as set out below:

	2019 Salary £000	**2018 Salary £000**
Executive Directors		
Ian Watson	350	**440**
Morgan Jones	350	**440**
Richard Lowes	322	**322**

The pension provision for Morgan Jones and Ian Watson will be reduced from 16% of base salary to 8% of base salary in line with the pension contributions paid in relation to the general workforce and no change will be made to the pension provision for Richard Lowes, which remains at 16% of base salary. No changes will be made to benefit provision.

Report of the Remuneration Committee continued

Variable annual pay

The Board has set new targets for the Executive Directors for the annual bonus in line with the Group's strategic, financial and operational objectives. The maximum potential bonus is set at 50% of base salary for Morgan Jones and Ian Watson and 100% of base salary for Richard Lowes. The changes to the annual bonus targets are within the scope of the current Remuneration Policy. The bonus criteria for 2019 include four elements:

Target	Performance Measure	% of Potential Award
Financial Targets (up to 60% of award)	› NIP before tax and PSP costs from £20.7 million to £21.7 million.	0% to 20% of award on a sliding scale, with 0% for achievement of the minimum target.
	› NTP before tax and PSP costs from £21.7 million to £23.7 million.	0% to 20% of award on a sliding scale, with 0% for achievement of the minimum target.
	› EPRA NAV per share after adding back capital and dividend distributions to shareholders from 107p to 109p.	0% to 20% of award on a sliding scale, with 0% for achievement of the minimum target.
ERV (up to 10% of award)	› The ERV target is to increase the contracted rent on lease renewals, rent reviews and lettings in the year in the range 0% – 5% compared to the ERV at 31 December 2018.	0% to 10% of award on a sliding scale, with 0% for achievement of the minimum target.
Cost Efficiency Target (up to 10% of award)	› The cost efficiency target is to reduce administration costs before PSP costs to be in the range £10.9 million to £11.9 million.	0% to 10% of award on a sliding scale, with 0% for achievement of the minimum target.
Corporate Target (up to 20% of award)	› To investigate the strategic options concerning non-core property holdings and implement a clear plan.	Up to 20% of award.

Performance Share Plan

No awards will be made to either Morgan Jones or Ian Watson for 2019. Richard Lowes will be awarded nil-cost share options under the PSP with a value at grant of 100% of his base salary. The award will vest based on two separate performance conditions: 50% will vest by reference to the Group's TSR ranking and 50% by reference to the Group's EPRA Net Asset Value ranking, in each case relative to a comparator group over a three-year performance period. To the extent that an award vests, the options over the vested shares will become exercisable in three equal annual tranches following the end of the performance period.

The comparator group is determined by the Committee and comprises a peer group of companies in the property sector. When granting awards, the Committee reserves the right to vary the constituents of the comparator group or take such other actions as it considers reasonable in the event that any member of the comparator group ceases to exist, or its shares cease to be listed in the Official List of the London Stock Exchange or other recognised stock exchange, or it is so changed as to make it, in the opinion of the Committee, unsuitable as a member of the comparator group. The percentage of the award that vests is subject to the following schedule:

TSR/NAV Growth Ranking	Vesting
Below Median	Nil
Median	25%
Between Median and Upper Quartile	On a straight-line basis between 25% and 100% in proportion to the Company's ranking between Median and Upper Quartile.
Upper Quartile	100%

J. Voting at the Annual General Meeting

At the Annual General Meeting held on 12 June 2018, votes cast by proxy and at the meeting in respect of the Annual Report on Remuneration were as set out below. The current Remuneration Policy was most recently put to shareholders and approved at the Annual General Meeting on 13 June 2017, and votes cast by proxy and by a poll at the meeting were as set out below.

Resolution text	Votes for	% For	Votes against	% against	Total votes cast	Votes withheld (abstentions)
12 June 2018						
Approval of Annual Report on Remuneration	303,199,184	95.35%	14,787,354	4.65%	317,986,538	179,364
13 June 2017						
Approval of Remuneration Policy	548,913,834	96.85%	17,856,786	3.15%	567,770,620	855,210

Full details of the current Remuneration Policy can be found in the 2016 Annual Report available on the Company's website at www.hansteen.co.uk/investors.

3. Directors' Remuneration Policy Report

This part of the Report of the Remuneration Committee sets out the proposed Remuneration Policy for Directors of the Company which will be subject to a binding vote by shareholders at the 2019 Annual General Meeting. This policy is intended to take effect immediately following shareholder approval.

Policy overview

In setting the Remuneration Policy for the Executive Directors, the Remuneration Committee will take into account the following:

- the strategy of the Company;
- the need to attract, retain and motivate high-calibre individuals;
- alignment between remuneration of the Executive Directors and the Group's business objectives;
- alignment between remuneration and the interests of the shareholders;
- pay and benefits practice and employment conditions within the Group and the geographic regions in which the Group operates; and
- current market trends and practices with regard to equivalent roles in groups of similar size, complexity and geographic spread as well as their relative performance.

Consideration of shareholder views

The Committee will be committed to an ongoing dialogue with shareholders and will seek the views of significant shareholders when any major changes are being made to remuneration arrangements. The Committee will take into account the views of significant shareholders when formulating and implementing the policy. The Committee will also consider shareholder feedback received in relation to the Annual General Meeting each year.

Consideration of employment conditions elsewhere in the Group

Whilst it does not consult with the Group's employees directly, the Committee will consider pay and employment conditions elsewhere in the Group when considering the Remuneration Policy for the Executive Directors. When considering base salary increases, the Committee will consider the general level of salary increases across the Group. Salary increases for Executive Directors will be aligned with those received elsewhere in the Group unless the Committee considers that specific circumstances require a different level of salary increase for any of the Executive Directors.

The remuneration arrangements for employees below the main Board will reflect the seniority of the role and, therefore, the components and levels of remuneration for different employees may differ from the policy for Executive Directors as set out in the Future Policy Table on page 50. The structure of the remuneration package for the Executive Directors is generally consistent with that for senior management except that the Finance Director has a legacy contractual right to pension contributions equivalent to 16% of base salary.

Legacy arrangements

The Committee reserves the right to make remuneration payments and payments for loss of office that fall outside the Remuneration Policy as described below where the terms of payment remain unchanged and were agreed before the policy came into effect or at a time when the relevant individual was not a Director of the Company. Such payments could be made where, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes, payments include the Committee satisfying awards of variable remuneration and, in relation to an award of shares, the terms of payment agreed at the time the award was granted. Details of any payments will be disclosed in the Annual Report on Remuneration for that year.

Operation of the annual bonus arrangements and share schemes

In operating and administering the annual bonus scheme and the Group share schemes in accordance with their respective rules and in accordance with the Listing Rules, where relevant, the Committee will retain certain discretions which will include, but not be limited to, the following:

- the selection of participants;
- the timing of the grant of an award and payments;
- the size of an award within the limits of the contractual obligations if part of a legacy agreement or, if not subject to a legacy arrangement, in accordance with the Future Policy Table as set out below;
- the determination of the extent to which performance measures have been met and the corresponding vesting or payment levels, including time pro-rating of awards;
- the action to be taken when dealing with a change of control or restructuring of the Group;
- determination of the treatment of leavers in accordance with the relevant rules of each incentive plan and the appropriate treatment chosen, including pro-rating of awards;
- adjustments to awards, if any are required, in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends); and
- the method by which awards can be satisfied (i.e. through the issue of new shares, the funding of the Company's employee benefit trust to purchase shares, the use of treasury shares, by way of cash payment or by settlement of income tax and national insurance liabilities on the employee's behalf).

The Committee will also retain the ability to adjust the targets and/or set different performance measures for the annual bonus scheme and PSP if events occur (e.g. a material acquisition and/or divestment of a Group business) which cause it to consider that the targets and measures are no longer appropriate to achieve the original purpose of incentivising the Executive Directors, provided that the revised targets/performance measures are no less challenging bearing in mind the revised circumstances.

Any use of the above discretions would be explained in the Annual Report on Remuneration for the relevant year and may, as appropriate, be the subject of consultation with the Company's major shareholders.

Report of the Remuneration Committee continued

A. Future policy table

EXECUTIVE DIRECTORS	
FIXED PAY	
Element	Base salary
Purpose and link to strategy	› To attract, retain and motivate high-calibre individuals. › To provide competitive non-variable remuneration relative to the external market. › To recognise and reward performance, skills and experience.
Operation	Normally reviewed in January each year having regard to market practice, to Group and individual performance, to salary increases across the Group and to the individual's experience, skills, qualifications and scope of responsibility.
Maximum opportunity	There is no prescribed maximum. Salary increases will generally be limited to the average increase in salary for employees across the Group as a whole, although the Committee has discretion to award increases above this level to take account of individual circumstances, such as an increase in scope and responsibility of a particular role, individual development and performance in a role, and alignment to market level, also taking into account the nature and size of the Group.
Performance measures	None, but individual and Group performance will be considered when deciding salary levels.

Element	Pension
Purpose and link to strategy	To help recruit and retain high-calibre individuals reflecting their skills and experience.
Operation	Individuals will be responsible for their own pension arrangements and funds will be provided by the Company to enable them to facilitate those arrangements.
Maximum opportunity	Employer contribution of a maximum of 16% of base salary in the case of legacy arrangements. Where legacy arrangements do not apply and for new appointments, employer contribution rates will be the same as those available to the general workforce.
Performance measures	None.

Element	Benefits
Purpose and link to strategy	To provide a competitive and cost-effective benefits package appropriate to the role and location of individuals.
Operation	Benefits will comprise the provision of a company car allowance, private fuel, private medical insurance for the individual and immediate family, life assurance and income protection insurance. Individuals will also be provided with the technology required to enable them to carry out their duties effectively and efficiently. The benefits package may be adjusted by the Committee from time to time to reflect an individual's circumstances and to align to market level. In addition to the above, other benefits such as relocation allowances may be offered if considered appropriate and reasonable by the Committee.
Maximum opportunity	There is no prescribed maximum as the costs of provision may fluctuate depending on individual circumstances and changes in provider costs, but the Committee must be satisfied that the cost is reasonable in the individual's circumstances.
Performance measures	None.

VARIABLE PAY	
Element	Annual performance related bonus scheme
Purpose and link to strategy	To reward excellent financial performance and achievement of strategic, financial and operational objectives of the Group at the beginning of the year, linked to investor expectations. The scheme will be designed each year to incentivise individuals to achieve near-term strategic business, financial and operational targets.
Operation	Measures and targets will be reviewed and set annually by the Committee at the beginning of the financial year and the levels of award will be determined by the Committee after the year-end based on the performance against targets. Bonus awards will be paid in cash, will be non-pensionable and will be subject to malus and clawback, with potential awards subject to cancellation or reduction and actual awards subject to clawback over a period of two years from vesting if there has been a material misstatement of the Company's financial results or fraud or gross misconduct on the part of the individual.
Maximum opportunity	Up to 150% of base salary.
Performance measures	A combination of targets, of which approximately 80% will be financial and approximately 20% will be non-financial targets, such as occupancy and cost-efficiency targets, corporate targets and a discretionary element to reward overall performance. The exact measures, weightings and targets will be determined by the Committee each year taking into account the Group's key strategic priorities, financial and operational objectives, the budget for the year and external expectations. Payments will depend on performance against each target. For threshold levels of performance in respect of the measurable targets, 0% of the awards vest. The aim will be to set stretching targets that promote the long-term creation of shareholder value and motivate the individual.

Element	Performance Share Plan
Purpose and link to strategy	To incentivise and reward outstanding performance and ensure alignment with shareholders' interests.
Operation	Awards of conditional shares or share options on an annual basis. Awards will normally vest no earlier than three years from grant, subject to continued employment and performance conditions. Awards will be subject to malus and clawback, with awards subject to cancellation or reduction and, after awards have vested, to clawback over a period of two years from vesting if there has been a material misstatement of the Company's financial results or fraud or gross misconduct on the part of the individual.
Maximum opportunity	Annual awards subject to a maximum value at grant of 150% of base salary.
Performance measures	Two separate performance measures will be applied, with 50% of an award vesting by reference to the Group's TSR ranking and 50% by reference to the Group's EPRA net asset value ranking, in each case relative to a comparator group of companies in the property sector over a three-year performance period. For threshold levels of performance, 25% of the awards vest. These measures may be adjusted by the Committee having regard to the strategic, financial and operational objectives of the Group at the time the awards are granted, taking into account internal plans and investor expectations. Performance measures are chosen and targets will be set to incentivise creation of sustainable long-term value for shareholders, to reward individuals for long-term outperformance relative to competitors, and to align the long-term interests of individuals and shareholders.

Element	Shareholding requirement
Purpose and link to strategy	To demonstrate the commitment of individuals to the Company and to ensure alignment of their personal interests with those of the Company and the shareholders.
Operation	Within three years of their appointment, individuals will be required to build and then maintain a shareholding in the Company equal in value to their pre-tax base salary. In the case of each of the Joint Chief Executives, this requirement will be 200% of their pre-tax base salary in view of their participation in the Founder LTIP, but that will revert to 100% of their pre-tax base salary when the holding period restrictions on the ordinary shares received on vesting of their Founder LTIP awards for the final performance period ending 31 December 2018 (the "Final Founder LTIP shares") fall away, as described below. Unvested shares, which are not subject to a further performance condition, count towards the shareholding requirement on a net of tax basis. Shares which have vested, but which remain subject to a holding period and/or clawback, also count towards the shareholding requirement. The Joint Chief Executives will be required to hold their Final Founder LTIP shares for a period of two years following vesting and whilst each remains employed as Joint Chief Executive, except in the following circumstances. In the case of a change of control of the Company, or a variation in the share capital of the Company, or any capital restructuring of the Company or the Group within that two-year period, the Joint Chief Executives may reduce their interests in the Final Founder LTIP shares on the same terms as are made available to all other shareholders.

NON-EXECUTIVE DIRECTORS	
Element	Fees
Purpose and link to strategy	To attract and retain high-calibre individuals.
Operation	Fees will be reviewed annually. Non-Executive Directors will not participate in the annual bonus or long-term incentive schemes and will receive no other benefits. Fees will be paid in cash.
Maximum opportunity	There will be no individual maximum fee or maximum fee increase. Fees will be set at a level to reflect time commitment and responsibilities of the relevant role and by reference to surveys of fees paid to Non-Executive Directors of companies with comparable market capitalisation. The Chairman will be paid an all-inclusive fee for all Board responsibilities determined by the Board on the recommendation of the Remuneration Committee. Non-Executive Directors will be paid a basic fee plus additional fees for chairing Board Committees or for acting as Senior Independent Director. These will be determined by the Board on the recommendation of the Nomination Committee. Neither the Chairman nor the Non-Executive Directors will participate in the determination of their own pay. Overall fees will be required to remain within the limit in the Articles of Association of £750,000 in aggregate.
Performance measures	None.

Report of the Remuneration Committee continued

The key changes to the current Remuneration Policy that are proposed in this new policy, and that are intended to be effective from the date of approval of the Remuneration Policy, are as follows:

- the potential annual bonus for Executive Directors will be increased from 100% of base annual salary to 150% of base annual salary;
- employer pension contribution rates for new Executive Directors will be the same as those available to the general workforce;
- the Joint Chief Executives will be eligible for annual awards under the PSP, subject to a maximum value at grant of 150% of base salary; and
- during the two-year holding period following vesting of their Founder LTIP awards, the Joint Chief Executives may, in the case of a change of control of the Company, or a variation of the share capital of the Company or any capital restructuring of the Company or the Group, reduce their interests in the Final Founder LTIP shares on the same terms as are made available to other shareholders.

B. Recruitment and promotion policy

If it becomes necessary for the Company to appoint a new Executive Director, whether recruited externally or promoted from within the Company, the Committee will seek to align his/her remuneration package in accordance with the policy outlined below:

Element of Remuneration	Policy
Base salary	Starting base salary will be set in accordance with the roles and responsibilities of the individual together with his/her relevant skills and experience, taking into account the market rates for companies of comparable size and complexity, the existing remuneration arrangements for other Executive Directors and the business circumstances. Where it is appropriate to offer a lower salary initially, to reflect the individual's experience at the date of appointment, the Committee may award a series of increases over time, potentially above inflation, and increases offered to the wider employee population, to achieve the desired salary position subject to performance and market conditions.
Pension	An employer contribution in respect of the individual's own pension arrangements will be provided at the same level as that provided to senior management.
Benefits	Benefits will be provided to a new appointee on the same basis as those provided to existing Executive Directors. Where necessary, the Committee may approve the payment of reasonable relocation expenses to facilitate recruitment, and flexibility is retained for the Company to pay reasonable legal fees and other costs incurred by the individual in relation to his/her appointment.
Annual bonus	The annual bonus will operate and be assessed on an ongoing basis in the same manner as outlined in the Remuneration Policy and in the Annual Report on Remuneration. However, depending on the timing and nature of appointment, it may be necessary to set tailored performance criteria for the first bonus award. Depending on the timing of the appointment, it may be inappropriate to provide a bonus for the initial year if there is insufficient time to assess the individual's performance for that period. In such circumstances, the amount relating to the months he/she is employed in the initial year may be transferred to the subsequent year so that the reward is provided on a fair and appropriate basis. The maximum potential bonus will be 150% of base salary. However, in the year of appointment, it would be pro-rated to reflect the employment period during the bonus year.
Performance Share Plan	The new appointee will be eligible for consideration for an award under the PSP, as set out in the Remuneration Policy, at a maximum annual award value of 150% of base salary. The Committee may apply different performance measures, performance periods and/or vesting periods for initial awards made following appointment, subject to the rules of the PSP, if it determines that the circumstances and timing of the recruitment merit such alteration. The rationale behind any such decision will be clearly explained in the Annual Report and Financial Statements of the relevant year under report. Subsequent awards would be measured against the same performance metrics as existing Executive Directors. In respect of an internal promotion, the individual's existing awards will continue over their original vesting period and remain subject to their original terms.
Buy-out awards	In order to facilitate an external recruitment, the Committee will have discretion to offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by the new appointee leaving a previous employer. When determining the amount and structure of any buy-out awards, the Committee will take into account the following: › the form of remuneration e.g. cash or shares; › the timing of expected payment/vesting; and › expected value taking into account the likelihood of achieving the existing performance criteria. The Committee's intention will be to make any replacement awards to reflect the expected value of the forfeited awards. If used, replacement awards will, to the extent possible, be granted using the Company's existing share schemes. If necessary, however, awards may be granted outside these schemes and as permitted under the Listing Rules.

New Non-Executive Directors will be appointed by way of letters of appointment. Non-Executive Directors' base fees, including those of the Chairman, will be set at a competitive market level reflecting experience, responsibility and time commitment. Fees will be reviewed annually. Additional fees will be payable in line with those paid to existing Non-Executive Directors for the Chairmanship of the Audit and Remuneration Committees, for individual membership of the Audit and Remuneration Committees and for the additional responsibilities of the Senior Independent Director.

The Committee will always seek to ensure that arrangements in respect of appointments to Executive Director and Non-Executive Director positions are in the best interests of both the Company and its shareholders and that the pay is appropriate.

C. Service contracts

It is the Company's policy that Executive Directors should have rolling contracts providing for a maximum of 12 months' notice.

Executive Directors

	Effective date of contract	Notice period by either Company or Director
Morgan Jones (Joint Chief Executive)	22 November 2005	not less than 12 months
Ian Watson (Joint Chief Executive)	22 November 2005	not less than 12 months
Richard Lowes (Finance Director)	18 October 2010	not less than 12 months

The Non-Executive Directors each have specific terms of engagement and do not have service contracts with the Company. They do not participate in the annual bonus scheme or long-term incentive schemes and they do not receive any other benefits.

Non-Executive Directors

	Effective date of engagement	Notice period by either Company or Director
Melvyn Egglenton[1]	9 June 2014	Not less than 3 months
David Rough	1 October 2015	Not less than 3 months
Jim Clarke	28 February 2018	Not less than 3 months

1 Melvyn Egglenton entered into a new letter of engagement with effect from 23 August 2016 following his appointment as Chairman of the Company.

In accordance with the UK Corporate Governance Code, all the Directors, both Executive and Non-Executive, will retire and offer themselves for re-election at the forthcoming Annual General Meeting. Copies of the Directors' service contracts or letters of engagement are available for inspection at the Company's registered office.

D. Loss of office

Existing Executive Directors

The Joint Chief Executives' service agreements are each terminable by either party giving not less than 12 months' notice.

If the Company gives notice to the relevant Executive (except where termination is for cause), the Company must make a payment in lieu of notice of the Executive's base salary plus an amount equal to the cost to the Company of providing all other contractual benefits over the immediately preceding 12-month period, including any contractual cash bonus payment made in that period, net of tax. The Company reserves the right to require the Executive to take any outstanding holiday during any notice period or to make payment in lieu thereof.

The Company also has the right to terminate each of the Joint Chief Executive's service agreements summarily without notice or payment in lieu of notice for material breach by the Executive of the relevant agreement (that is "for cause", e.g. gross misconduct).

Richard Lowes' service agreement is terminable by either party giving not less than 12 months' notice. Once notice has been given by either party, the Company may, in its absolute discretion, terminate his employment at any time during the applicable notice period by making a payment in lieu of the remaining period of notice consisting of his base salary and the cost to the Company of providing all other contractual benefits under his service agreement for the remaining period of notice, net of tax (but excluding any other entitlements or benefits referable to his employment, including annual bonus). The Company reserves the right to require him to take any outstanding holiday during any notice period or to make payment in lieu thereof.

The Company may terminate Richard Lowes' employment by giving less than 12 months' notice and may require that he mitigates his losses by seeking alternative employment. The Company shall assess his mitigation prospects in determining the amount of any payment in lieu of notice.

The Company also has the right to terminate Richard Lowes' service agreement summarily without notice or payment in lieu of notice for cause.

New Executive Directors

Notice periods for new Executive Directors will be limited to 12 months.

Once notice has been given by either party, the Company will reserve the right to terminate the Executive Director's employment at any time during the applicable notice period by making a payment in lieu of the remaining period of notice. Consistent with best practice, any payment in lieu of notice will consist solely of the Executive Director's base salary and the cost to the Company of providing all other contractual benefits under his/her service agreement for the remaining period of notice, net of tax, but will exclude annual bonus and other entitlements or benefits referable to his/her employment.

The Company will also reserve the right to give less than 12 months' notice and require the Executive Director to mitigate his/her losses by seeking alternative employment and will assess the Executive Director's mitigation prospects in determining the amount of any payment in lieu of notice.

Report of the Remuneration Committee continued

Performance Share Plan

The PSP rules incorporate the following leaver provisions:

- For good leavers (e.g. on death or for ill health, disability, retirement or redundancy), prior to the end of the relevant performance period, awards will vest over the number of shares reasonably determined by the Committee taking account of factors that the Committee reasonably considers relevant (including, but not limited to: the proportion of the performance period which has elapsed and the extent to which any performance conditions have been or would have been satisfied if pro-rated to the date of cessation of employment).
- For good leavers, after the end of the performance period but before the vesting date of an award (or a proportion of the award), awards will vest over the number of shares reasonably determined by the Committee, but the only factor the Committee may take into account in that determination is the proportion of the vesting period which has elapsed.
- Where departure is for another reason, such as resignation or termination for cause, unvested awards are generally forfeited, although the Committee has discretion to permit vesting up to a level not exceeding the good leaver level as determined above.
- Vesting occurs on the date of the Committee's determination on early vesting (as described above), and exercise of options (if appropriate) is permitted for a period determined by the Committee, but not exceeding 12 months from the date of cessation of employment.

Non-Executive Directors

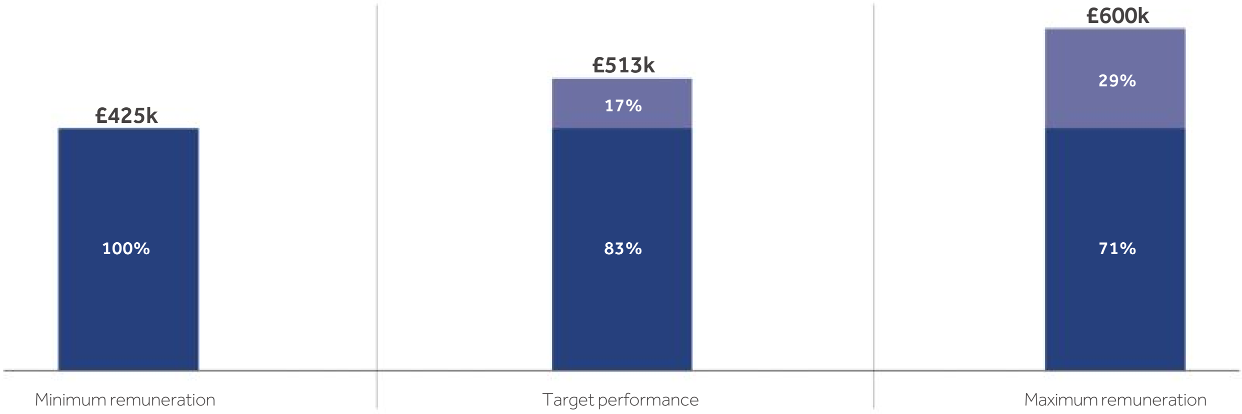
The appointments of Non-Executive Directors are terminable at any time by either party giving the other not less than three months' written notice. Non-Executive Directors will not receive compensation for loss of office except in the following circumstances:

- when an offer for the entire issued share capital of the Company becomes wholly unconditional (unless requested to continue in office by the Board), except where an offer is wholly unconditional from the outset, in which case the appointment will terminate at the end of the offer period and the Non-Executive Director will be entitled to a payment of a quarter of the annual fee; and
- if the Non-Executive Director resigns voluntarily but solely because of having a reasonable objection to, or reasonable disagreement with, a Board decision on a material matter of policy or a material commercial matter affecting the Company or the Group. In this case, the Non-Executive Director will be entitled to a severance payment equivalent to a quarter of the annual fee or, if less, the total amount of fees that would have been paid had the Non-Executive Director continued in office until the date of expiry of the Non-Executive Director's appointment, whether of the initial appointment or any extension thereof.

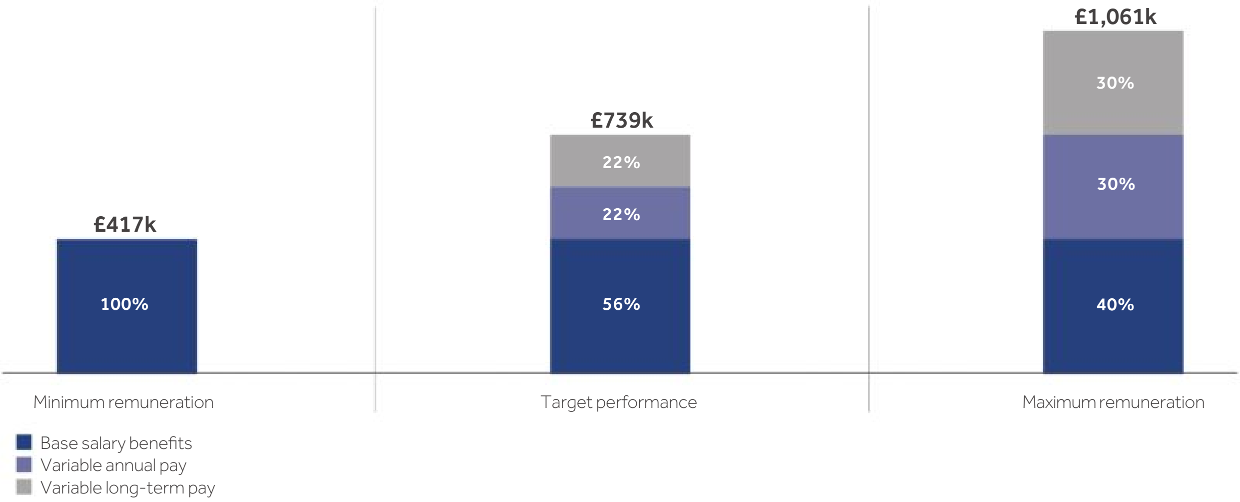
E. Illustration of application of Remuneration Policy

The following charts illustrate the application of the proposed Remuneration Policy for the Executive Directors in the first year to which the policy would apply.

Joint Chief Executives (Ian Watson and Morgan Jones)



Finance Director (Richard Lowes)



The following assumptions have been made in preparing the charts:

- Base salary, pension, performance related bonus and awards under the PSP are based on the amounts and percentages set out in the section "Implementation of Policy for 2019" on pages 47 and 48.
- Benefits have been assumed at 2018 levels.
- Target performance is based on the Group achieving the middle of the range of performance measures relevant to annual and long-term bonus.
- The maximum remuneration for variable long-term pay for the Finance Director, assuming share price appreciation of 50% during the performance period, would be an additional £161,200. The basis of the calculation of the share price appreciation is that the share price embedded in the calculation for the maximum remuneration in the chart above is assumed to increase by 50% across the performance period.

This report was approved by the Board of Directors on 24 March 2019 and signed on its behalf by:

David Rough
Chair of the Remuneration Committee

Directors' Report

The Directors are pleased to present their Report for the year ended 31 December 2018. This report on pages 56 to 61 together with the Strategic Report on pages 1 to 23 and the Corporate Governance Statement and Framework on pages 26 to 31 form the Management Report as required by the Financial Conduct Authority's (FCA) Disclosure and Transparency Rule 4.1.5R. Other information that is relevant to the Directors' Report, and which is incorporated by reference into this report, can be located as follows:

Information	Section in Annual Report	Page numbers
Financial instruments and risk management	Notes to the financial statements	101 to 104
Future developments	Joint Chief Executives' Statement	15
Directors in office during the year	Corporate governance framework	24 to 37
Directors' interest in shares	Annual Report on Remuneration	44
Employee involvement	Corporate and social responsibility	18 to 21

The Company has chosen, in accordance with Section 414 C (1) of the Companies Act 2006 and as noted in this Directors' Report, to include certain matters in its Strategic Report that would otherwise be required to be disclosed in the Directors' Report. The Strategic Report can be found on pages 1 to 23.

Principal activities

The Company is the parent company of a group whose principal activities comprise property investment, development, management and associated business, focusing on industrial property investments, principally in the UK, although it will also seek to profit from opportunistic acquisitions in other property sectors both in the UK and abroad.

The subsidiary undertakings of the Group in the year are listed in note 19 to the financial statements.

Business review

The Group's focus is principally on UK industrial investments, which in the opinion of the Board have high income yields compared to relatively low financing costs. A smaller part of the Group's activity is dedicated to opportunistic property investment opportunities which to date have included land and other commercial property investments. More detailed information about the Group's business, activities and financial performance is incorporated into this report by reference and can be found in the Strategic Report on pages 1 to 23.

There are no further matters to report under Section 417 of the Companies Act 2006.

Results

The results for the year ended 31 December 2018 are shown in the income statement on page 70 of the financial statements. The pre-tax profit from continuing operations for the year ended 31 December 2018 was £59.5 million (2017: £70.3 million) and the net assets as shown in the balance sheet on page 72 were £470.1 million (2017: £557.5 million). The EPRA NAV per share was 102.7p (2017: 130.6p). In the Directors' view, the Normalised Income Profit, Normalised Total Profit and EPRA NAV are the most appropriate performance measures for the Group. These terms are defined in the Strategic Report on page 1.

Key performance indicators

The Directors consider the following to be key performance indicators (KPIs), as disclosed in the Strategic Report:

Continuing operations	2018	2017
Normalised Income Profit	£25.8m	£31.3m
Normalised Total Profit	£45.8m	£37.5m
IFRS net asset value (NAV) per share	103.3p	135.1p
EPRA NAV (per share)	102.7p	130.6p
Annualised rental income	£46.1m	£57.5m
Net debt to value	£29.7%	27.6%
Dividend (per share)	6.2p	6.1p
Yield	7.6%	7.5%
Occupancy (area)	91.3%	92.3%

Dividend

For the year ended 31 December 2018, an interim dividend of 2.4p per share was paid on 26 October 2018 (2017: 2.3p), of which 2.4p per share (2017: 2.1p) was attributable to a REIT Property Income Distribution (PID) in respect of the Group's tax-exempt property rental business. The second dividend of 3.8p per share will be payable on 17 May 2019 (2018: 3.8p) to shareholders on the register on 5 April 2019 of which 3.8p per share (2018: 3.7p) will be attributable to a PID.

The total dividend payable in relation to the 2018 results will be £25.6 million (2017: £34.6 million). Details of the Company's dividend policy are explained on page 7 of the Strategic Report.

Post balance sheet events

A second dividend in respect of the year ended 31 December 2018 of 3.8p per share will be payable on 17 May 2019 to shareholders on the register on 5 April 2019. Based on the number of shares in issue at 31 December 2018, this will result in a distribution of £15.6 million.

Financial instruments and risk management

The Board agrees and reviews policies and financial instruments for risk management. Further information on financial instruments is contained in note 35 to the financial statements.

Principal risks and uncertainties

The principal risks and uncertainties to which the Group is exposed are detailed in the Strategic Report on pages 22 and 23.

Going concern and future developments

The Group's business activities, together with the factors likely to affect its future development, performance and position as well as the financial position of the Group, its cash flows, liquidity position and the borrowing facilities, are described in the Strategic Report on pages 1 to 23. In addition, note 35 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group's debt maturity profile for its long-term funding is detailed in the Strategic Report on page 16. None of the Group's significant current bank loan facilities are due to expire within the next 12 months. As part of its risk management process, the Group has considered its forecast cash flows and forecast covenant compliance taking into account:

- the impact on the various loan covenants of reasonable reductions in the property valuations, decline in rental income and increase in interest rates; and
- the impact of potential events arising from adverse movements in general economic conditions on the Group's operating cash flow generation, including tenancy failures and increased vacancies.

These forecasts show that the Group has sufficient headroom and available finance to manage its business risks successfully. Based on this assessment, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of these financial statements. Thus, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Long-term viability statement

A robust assessment is carried out in relation to the Group's current position and the principal risks and uncertainties detailed on pages 22 and 23. The Directors have considered each of the principal risks and assessed the Group's prospects and viability.

The Group's future prospects are assessed primarily through its annual strategy review. This review is led by the Joint Chief Executives, drawing on expertise from across the management team. It includes an assessment of the macro-economic environment, forecasts of key property market metrics (including yields and value growth), and annual valuation progressions for the portfolio.

The Directors' assessment for the purposes of viability is over a three-year period to December 2021, in line with the typical lease lengths of its tenants. The review is based on a detailed three-year forecast, taking into account financial and operating positions, forecast cash flows, debt maturity and renewal prospects, forecast covenant compliance and REIT compliance along with current and available mitigating actions.

The Group's principal borrowing facility is a £330.0 million corporate revolving credit facility. It is assumed that the Group will be able to renew or replace this facility on similar terms when it matures in July 2021.

The financial model has been stress tested for severe but plausible scenarios, such as increases in interest rates, reduction in property valuations and a material reduction in rental income, both individually and in aggregate, specifically to understand the impact of reductions in property valuations, declines in rental income and therefore operating profit and increases in interest rates along with current and available mitigating actions. The stress tests enable the Group to model the impact of a variety of external and internal events that could threaten its business model, future performance, solvency or liquidity and allow the Board to assess the effectiveness of any management actions that may be required to mitigate the impacts of the events. As a result of this stress testing the Directors consider that the Group can withstand the likely threats from such severe but plausible scenarios and remain viable.

The nature of the Group's business as the owner and asset manager of a diverse high-yielding portfolio of industrial property, principally located throughout the UK and let to a wide variety of tenants, reduces the impact of adverse changes in the general economic environment or market conditions in any one sector on the overall Group.

The Group's property portfolio comprises predominantly light industrial units. These are the most simple, flexible and economical of all commercial property types and have shown themselves to be extraordinarily adaptable to changing working practices and new occupational trends. Furthermore, in the main the properties are valued at substantially below replacement cost and let at rents below the levels necessary to justify new builds. Taken together, these factors operate to limit the supply of new stock and help to maintain the demand for the existing stock.

The Board has considered the potential impact on the long-term viability of the business in the light of the Brexit negotiations. The uncertain outcome of the negotiations makes it difficult to assess the impact, but the Board considers that any adverse impact is likely to be the result of tenant failure, recession, reduced profitability and availability of capital. These are all risks which the Board monitors on a regular basis as set out in the "Principal risks and uncertainties" on pages 22 and 23. The Board does not consider that the outcome of Brexit would render the Group's business model unsustainable in the long term.

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

Share capital

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 29 to the financial statements. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. As a REIT, Hansteen Holdings PLC must comply with REIT regulations in order to preserve its REIT status and, accordingly, it is not permitted to pay distributions to shareholders who hold "excessive rights". Excessive rights are defined as an interest of over 10% in our share capital.

The Hansteen Employee Benefit Trust (the "Trust") is an Employee Benefit Trust which holds property (the "Trust Fund") including *inter alia* money and ordinary shares in the Company in trust in favour or for the benefit of employees of the Group. The Trustee of the Trust has the power to exercise the rights and powers incidental to, and to act in relation to, the Trust Fund in such manner as the Trustee in its absolute discretion thinks fit. The Trustee has waived its rights to dividends on ordinary shares held by the Trust. Details of employee share schemes are set out in note 32 to the financial statements.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Directors' Report continued

At a general meeting held on 11 April 2018, the shareholders approved the reduction of the Company's share premium account and cancellation of the Company's capital redemption reserve (together the "Reduction") by an aggregate amount of c.£145 million, and payment of such amount to the shareholders as a return of capital, representing 35p per ordinary share. The Reduction and return of capital was subject to approval by the High Court of Justice Business and Property Courts of England and Wales (the "Court"), which was subsequently approved by the Court on 1 May 2018. The Reduction and return of capital resulted in:

› the reduction on 1 May 2018 of the share premium account of the Company by £103.5 million;
› the cancellation on 1 May 2018 of the capital redemption reserve account of the Company in the sum of £41.3 million;
› the payment on 11 May 2018 to shareholders of the Company of 35p per ordinary share, amounting to an aggregate return of capital of £144.5 million; and
› the retention and transfer to distributable reserves by the Company of the balance of the Reduction amounting to £0.3 million.

Own shares

At the Company's Annual General Meeting held on 12 June 2018, the shareholders authorised the Company to issue up to 137,648,998 ordinary shares on a non-pre-emption basis and to purchase up to 41,294,699 of its own shares, such authority to expire on the date 15 months after the Annual General Meeting or, if earlier, the conclusion of the Annual General Meeting of the Company to be held in 2019. The Company has issued no new shares and it has not acquired any shares under theses authorities.

The Company has in previous years purchased its own shares into Treasury to meet the Company's future obligations to participants under the Company's Performance Share Plan 2012 (PSP) and on 8 March 2016 the Company established the Hansteen Employee Benefit Trust (HEBT) to be used, in addition to Treasury shares, to satisfy awards made to employees under its employee share option schemes including the PSP and the Founder Long-Term Incentive Plan (Founder LTIP).

Share activities

› On 3 April 2018, the Company gifted the HEBT a further £900,000. This sum was used, on 4 April 2018, together with existing cash held by the HEBT, to purchase 700,000 ordinary shares of 10p each in the Company to be used together with the then existing 103,471 ordinary shares of 10p each held by the HEBT to satisfy awards under the Company's share plans, including the PSP and the LTIP.
› On 13 April 2018, the HEBT transferred to participants in the PSP, 703,428 ordinary shares of 10p each in the Company for nil consideration in order to satisfy the exercise of nil-cost call rights by participants under the PSP.
› On 12 October 2018 the Company gifted the HEBT a further £900,000. This sum was used, on 16 October 2018, together with existing cash held by the HEBT, to purchase 1,168,725 ordinary shares of 10p each in the Company to be used together with the then existing 100,043 ordinary shares of 10p each held by the HEBT to satisfy awards under the Company's share plans, including the PSP and the LTIP.
› As at 31 December 2018 the Company's issued share capital was 412,946,995 ordinary shares of 10p each, of which the HEBT held 1,268,768 ordinary shares of 10p each and there were nil shares held in Treasury. The HEBT holding represents 0.31% of the issued ordinary shares.

Appointment and replacement of Directors

The Directors who served throughout the year are detailed on pages 24 to 27. Rebecca Worthington resigned from the Company effective from 20 March 2018 and was succeeded by Jim Clarke who was appointed to the Board on 27 February 2018. The appointment and replacement of Directors is governed by the Company's Articles of Association (the "Articles"), the Companies Act 2006 and related legislation. The Articles provide that the Directors may be appointed by ordinary resolution of the shareholders or by the Board. The Company must have not fewer than two. Where Directors are appointed by the Board they may only hold office until the next Annual General Meeting of the Company where they will be eligible for election. Each Director must then retire from office at the third Annual General Meeting after the Annual General Meeting at which he or she was last elected. However, the Board has decided to comply with best practice corporate governance on a voluntary basis, and all Directors will seek re-election at each Annual General Meeting. The Company may remove a Director by ordinary resolution.

On 1 October 2018, Margaret Young advised the Board of her intention to step down from the Board as a Non-Executive Director and resigned with effect from 31 December 2018.

In accordance with the 2016 Code, all the current serving Directors will retire and offer themselves for re-election at the forthcoming 2019 Annual General Meeting.

The Company may alter its Articles by special resolution passed at a general meeting of the Company. The Company's Articles are available on the Company's website www.hansteen.co.uk.

Subject to the Company's Memorandum of Association, the Articles, any legislation and any directions given by special resolution, the business of the Company will be managed by the Directors, who may exercise all the powers of the Company, whether relating to the management of the business of the Company or not. In particular, the Board may exercise all the powers of the Company to borrow money and to mortgage or charge any of its undertakings, property, assets and uncalled capital, to issue debentures and other securities, give security for any debt, liability or obligation of the Company to any third party and to purchase the Company's ordinary shares.

Conflicts of interest

The Directors have declared any conflicts or potential conflicts of interest to the Board of Directors which has the authority to approve such situations. The Company Secretary maintains the Register of Directors' Conflicts of Interests which is made available and reviewed quarterly at Board Meetings by the Directors.

Directors advise both the Company Secretary and the Board as soon as they become aware of any conflicts of interest. Directors who have conflicts of interest do not take part in discussions which relate to any of their conflicts. It is the responsibility of each individual Director to avoid a conflict arising. In the event that a conflict of interest arises, the Director(s) must request authorisation from the Board as soon as they become aware of the possibility of a situational conflict arising.

The Board is responsible for considering Directors' requests for authorisation of situational conflicts and for deciding whether or not the situational conflict should be authorised. The factors to be considered will include whether the situational conflict could prevent the Director from properly performing his/her duties, whether it has, or could have, any impact on the Company and whether it could be regarded as likely to affect the judgement and/or actions of the Director in question. When the Board is deciding whether to authorise a conflict or potential conflict, only Directors who have no interest in the matter being considered are able to take the relevant decision, and in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors are able to impose limits or conditions when giving authorisation if they believe this is appropriate in the circumstances.

The Directors must also comply with the statutory rules requiring company directors to declare any interest in an actual or proposed transaction or arrangement with the Company.

Significant agreements

The Company is not a party to any significant agreements that would take effect, alter or terminate on a change of control of the Company other than the £330.0 million bank loan facility which requires the repayment of amounts drawn under the facility in the event of a change of control.

Political donations

No political donations were made by the Company or its subsidiaries during the year.

Research and development

The Group did not undertake any research and development activities during the year.

Overseas branches

The Company and its subsidiaries had no overseas branches during the year ended 31 December 2018.

Directors' indemnities

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

Compensation for loss of office

The Company does not have arrangements with any Director that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover. Further information is provided in the Directors' Remuneration Report on pages 38 to 55.

Requirements of Listing Rule 9.8.4

Certain information is required to be included in the Annual Report in accordance with Listing Rule 9.8.4. The following table provides references to where this information can be found in this Annual Report. If a requirement is not shown, it is not applicable to the Company.

Section	Listing Rule Requirement	Disclosure
LR 9.8.4 R (1)	A statement of the amount of interest capitalised by the Company during the period under review with an indication of the amount and treatment of any related tax relief	The Company has not capitalised any interest in the period under review
LR 9.8.4 R (4)	Details of any long-term incentive schemes	Directors' Remuneration Report pages 42, 43 and 51
LR 9.8.4 R (12) (13)	Details of waiver of dividends by a shareholder	Directors' Report page 57

Substantial interests

As at 31 December 2018, the Company had been notified, in accordance with the UK Listing Authority's Disclosure Guidance and Transparency Rules, that the following shareholders held, or were beneficially interested in, 3% or more of the voting rights in the Company's issued share capital:

	Number of ordinary shares held	%
Standard Life Aberdeen	62,849,262	15.22
BlackRock Inc.	30,607,110	7.41
GLG Partners	16,202,013	3.92
The Vanguard Group Inc.	14,944,887	3.62
Legal & General Group	12,843,978	3.11
	137,447,250	33.28

As at 22 March 2019, the Company had been notified, in accordance with the UK Listing Authority's Disclosure Guidance and Transparency Rules, that the following shareholders held, or were beneficially interested in, 3% or more of the voting rights in the Company's issued share capital:

	Number of ordinary shares held	%
Standard Life Aberdeen	67,864,255	16.43
BlackRock Inc.	31,282,760	7.58
GLG Partners	18,182,479	4.40
The Vanguard Group Inc.	15,264,026	3.70
Legal & General Group	12,831,899	3.11
	145,425,419	35.22

Directors' Report continued

Payment policy

The Group's policy is to settle all agreed liabilities within the terms established with suppliers. At 31 December 2018, there were 15 days' purchases outstanding (2017: 15 days) in respect of the Company's trade creditors.

Corporate and social responsibility

Greenhouse gas emissions

It is the Group's policy to comply with environmental legislation and relevant codes of practice. In line with recent guidance issued by DEFRA (the Department for Environment, Food and Rural Affairs), we set out below the required information for the year ended 31 December 2018.

Quantification and reporting methodology

We have followed the 2013 UK Government environmental reporting guidance. DEFRA greenhouse gas conversion factors have been used for the purposes of this report.

We have used the operational control approach, which therefore only includes information regarding those emissions for which we have direct control and influence on. We have therefore included carbon emissions derived from gas and electricity attributable to the Group. Energy consumption is assessed as attributable to the Group if it is used for the benefit of vacant property space or for common parts or communal facilities at properties which are held directly or managed by the Group.

Operational scopes

We have measured our Scope 1 and Scope 2 emissions as detailed below.

Base year

We have used 2013 as our base year as it is the first year for which we have reliable data and it was typical in respect of our operations.

Intensity measurement

We have chosen the metric gross global Scope 1 and 2 emissions in tonnes of CO_2e per vacant m², per m² and per £m revenue as these are common metrics for our industry sector.

2018	2018 (tonnes CO_2e)	Intensity measurement tonnes CO_2e/ vacant m²	Intensity measurement tonnes CO_2e/ total m²	Intensity measurement tonnes CO_2e/ £m revenue	Specific exclusions, % this represents for relevant scope
Scope 1 – direct emissions from owned/controlled operations	–	–	–	–	None
Scope 2 – indirect emissions from the use of purchased electricity and heating under our operational control:					
Belgium	120	0.0147	0.0040	0.0024	None
France	–	–	–	–	None
UK	285	0.0024	0.0002	0.0056	None
Total gross emissions	405				
Carbon offsets	–				
Green tariff	–				
Total annual net emissions	405				

2017	2017 (tonnes CO_2e)	Intensity measurement tonnes CO_2e/ vacant m²	Intensity measurement tonnes CO_2e/ total m²	Intensity measurement tonnes CO_2e/ £m revenue	Specific exclusions, % this represents for relevant scope
Scope 1 – direct emissions from owned/controlled operations	–	–	–	–	None
Scope 2 – indirect emissions from the use of purchased electricity and heating under our operational control:					
Belgium	132	0.0143	0.0044	0.0022	None
France	–	–	–	–	None
UK	423	0.0045	0.0003	0.0072	None
Total gross emissions	555				
Carbon offsets	–				
Green tariff	–				
Total annual net emissions	555				

Targets

A target had been set to reduce our gross global Scope 1 and 2 emissions in tonnes of CO_2e/m^2 on a like-for-like basis by 10% from 2015 to 2020 (2% per annum). Changes in the portfolio make-up caused a more significant reduction during 2015 and 2018, however, we are continuing to target a 2% reduction year-on-year going forward (subject to acquisitions and disposals). We achieved a like-for-like reduction of 25% during 2018 (2017: 9%) although the improvement is partially a result of changes of assets within the portfolio.

Employees

The average number of employees employed by the Company in each week, during the year ended 31 December 2018, did not exceed 250.

Auditor

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware, and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and resolutions for their reappointment and to authorise the Audit Committee to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board.

Anne-Marie Wells
For and on behalf of Link Company Matters Limited
Company Secretary of Hansteen Holdings PLC
24 March 2019

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors and is signed on its behalf by:

I. Watson

Ian Watson and Morgan Jones
Joint Chief Executives
24 March 2019

Independent Auditor's report

to the members of Hansteen Holdings PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- **the financial statements of Hansteen Holdings plc (the "Parent Company") and its subsidiaries (the "Group") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;**
- **the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);**
- **the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.**

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Parent Company balance sheets;
- the consolidated and Parent Company statements of changes in equity;
- the consolidated and Parent Company cash flow statement; and
- the related notes 1 to 35.

The financial reporting framework that has been applied in their preparation is applicable law, IFRSs as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB) and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: › Investment property valuations › Founder LTIP
Materiality	The materiality that we used for the Group financial statements was £9.0 million which was determined on the basis of approximately 2% of net assets. In addition to net assets, we considered Adjusted Earnings to be a critical financial performance measure for the Group and we applied a lower materiality of £1.2 million for items affecting Adjusted Earnings.
Scoping	We have performed a full scope audit over 96% of Group revenue, 100% of Group profit before tax, and 96% of Group net assets.
Significant changes in our approach	In the prior year our audit of the Founder LTIP focused on the impact of the return of capital and the resultant change in the method of calculating the Founder LTIP. In the current year, our focus has been on the finalisation of the award and the accounting for the net settlement agreement entered into with the Joint Chief Executives. In the prior year we recognised an additional key audit matter relating to significant one-off transactions, specifically the disposal of the German and Dutch property portfolio and the acquisition of Industrial Multi Property Trust. Although there have been a number of transactions in the current year, they have been less complex and do not have as pervasive an impact on the financial statements. We have therefore concluded that they are not a key audit matter in the current year.

Independent Auditor's report continued

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in note 3 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

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

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

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

Principal risks and viability statement

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

- the disclosures on pages 22 and 23 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 22 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 57 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Investment property valuation

Key audit matter description

At 31 December 2018, the Group held wholly-owned investment property valued at £640.0 million (2017: £808.1 million).

Investment properties are held at fair value on the balance sheet. During the year, a net valuation gain of £39.6 million (2017: £62.0 million) was recorded (excluding acquisitions, disposals and foreign exchange gains). The fair values are calculated by independent external valuers using factual information, such as lease agreements and tenancy data, and through applying their professional judgement concerning market conditions and factors impacting individual properties.

The valuation process is a key source of estimation uncertainty, which is why we consider there to be a risk of material misstatement as well as a potential fraud risk. In particular, changes in assumptions such as property yields, estimated rental values, the time a property will remain vacant when a tenant leaves and the rent free period required to attract a new tenant can lead to significant movements in the value of the property.

See also key sources of estimation uncertainty in note 4, the investment properties in note 18 of the financial statements and the Audit Committee's report on pages 32 to 35.

Investment property valuation continued

How the scope of our audit responded to the key audit matter

We assessed and discussed management's process for providing data to the external valuers and reviewing and challenging their work. We also assessed the competence, independence and integrity of the external valuers.

We obtained the external valuation reports and challenged the external valuers on their overall approach to the valuations and the results of their work on a sample of properties. With the assistance of an audit expert, who is a chartered surveyor, we discussed and challenged the valuation process, performance of the portfolio and significant judgements and assumptions applied in their valuation model, including yields, occupancy rates, lease incentives and break clauses. We benchmarked and challenged the key assumptions, in particular the yield, with reference to external industry data and comparable property transactions where possible.

We tested the tenancy schedule, a key input in the property valuations, for integrity by agreeing a sample of entries to lease agreements, and agreeing a sample of lease agreements to the tenancy schedule to test for completeness. We employ analytics to compare the current and prior year tenancy schedule to identify any significant changes.

Audit analytics were applied to compare the audited tenancy schedule with the data provided to the valuers thereby testing the integrity of the underlying data used by the valuers in their valuations. This was supported by review of the reconciliation that management had performed to determine whether the data used by the valuers matched the tenancy schedules maintained by the Group.

We further employed audit analytics to identify properties which exhibited valuation movements and yields outside of our predetermined benchmarks. These were discussed in detail with the external valuers and key explanations provided were corroborated to underlying lease or cost data. In addition, we tested a sample of other properties to determine whether the valuations were appropriately performed, and considered the value realised on property disposals compared to previous valuations to assess historical valuation reliability.

We considered the risk of an adverse impact of the current economic uncertainty surrounding the UK's exit from the European Union on property valuations. We challenged the external valuers on what exposure the property valuations had to Brexit related risk and how this was incorporated into the key assumptions made.

We checked that the property valuations have been recorded correctly in the financial statements and appropriate disclosures have been made.

Key observations

We concluded that the assumptions used in the valuation of the portfolio as a whole were supportable in light of available and comparable market evidence and that the investment property valuations were free from material misstatement.

Founder LTIP

Key audit matter description

The Founder LTIP was established at the initial public offering in November 2005 to incentivise the Joint Chief Executives. The latest and final three-year Founder LTIP performance period commenced on 1 January 2016 and ended on 31 December 2018. The total charge calculated for the three-year period ended 31 December 2018 is £39.4 million.

In accordance with IFRS 2 Share Based Payments a charge is recognised in the income statement over the performance period based upon the value that the award will pay out.

There is a risk that the Founder LTIP award is not calculated in accordance with the scheme rules, including the modifications made in the prior year to allow for the impact of the return of capital to shareholders during 2017.

There is also a risk that insufficient prominence and disclosure could result in the impact of the Founder LTIP scheme not being clear to users of the financial statements.

See also significant accounting policies in note 3, share based payments in note 32 and the Report of the Remuneration Committee on pages 38 to 55.

How the scope of our audit responded to the key audit matter

We performed an independent calculation of the Founder LTIP award using the scheme rules and the amendments entered into in 2017 following the return of capital to ensure that the award was calculated correctly.

We assessed the accounting for the Founder LTIP under IFRS 2, with regard to the overall charge and the accounting for the net settlement agreement implemented during the year.

We evaluated the level of disclosure in the Annual Report, in particular the presentation of the charge within diluted metrics and non-statutory performance measures.

Independent Auditor's report continued

Founder LTIP continued

Key observations

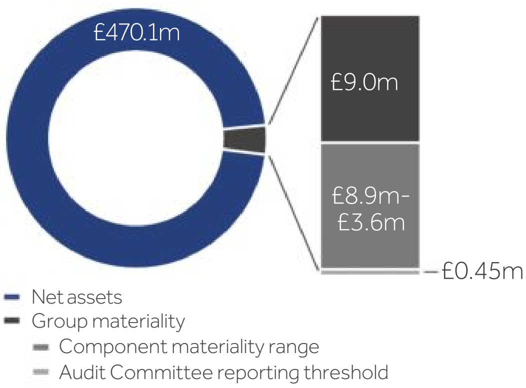
We concluded that the Founder LTIP was appropriately calculated in line with the scheme rules, including the modifications made in respect of the 2017 return of capital, accounted for and disclosed.

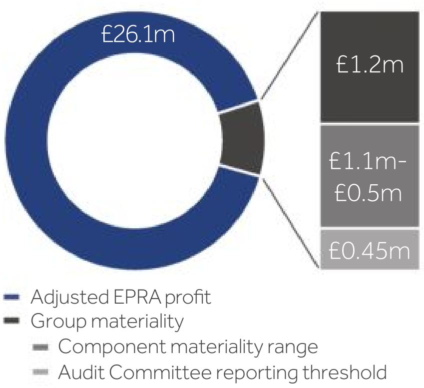
Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£9.0 million (2017: £10.8 million) and a lower materiality of £1.2 million (2017: £1.5 million) for balances affecting Adjusted Earnings.	£1.1 million (2017: £1.0 million).
Basis for determining materiality	Approximately 2% of net assets (2017: 2% of net assets). The lower materiality used for balances impacting Adjusted Earnings was determined using approximately 5% of Adjusted Earnings (2017: 5% of EPRA Earnings). Adjusted Earnings is reconciled to IFRS profit in note 14.	Materiality for the Parent Company represents less than 0.4% (2017: 0.5%) of net assets. Parent Company materiality is capped at 99% of Group Adjusted Earnings Materiality, which we considered appropriate for the consolidation of this set of financial statements to the Group's results.
Rationale for the benchmark applied	We determined Group materiality using net assets on the basis that the Group is an asset-intensive business, with shareholder value being driven by net asset value movements. The most significant balances in the financial statements are investment property and associated borrowings. In addition to net assets, we consider Adjusted Earnings to be a critical financial performance measure for the Group on the basis that Adjusted EPS is a key metric to analysts and investors. We therefore applied a lower threshold for testing all balances impacting Adjusted Earnings. For the purposes of our audit of the 2017 financial statements we used EPRA Earnings as our benchmark for the lower level of materiality. Adjusted Earnings differs from EPRA Earnings in that it excludes the Founder LTIP charge. We have changed to use Adjusted Earnings as it is a better indicator of the underlying performance of the business, particularly as 2018 was the final year in which there will be a Founder LTIP.	We determined the Parent Company materiality using net assets on the basis that the Parent Company has limited trading and holds significant investments in subsidiaries of the Group and the majority of the external debt. Therefore net assets was considered to be an appropriate benchmark. We capped Parent Company materiality at 99% of Group Adjusted Earnings materiality to ensure that the materiality used on Parent Company balances gave us sufficient coverage for the audit of the Group's consolidated financial statements, including items impacting Adjusted Earnings.





We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.45 million (2017: £0.54 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

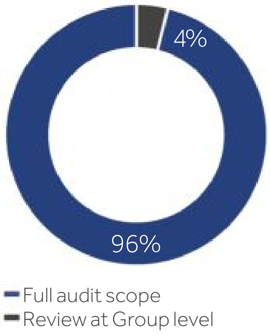
Our audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement.

Our Group audit scope focused primarily on the audit work in the United Kingdom, where a full audit was carried out based on our assessment of the identified risks of material misstatement identified above.

In addition, the Group team also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

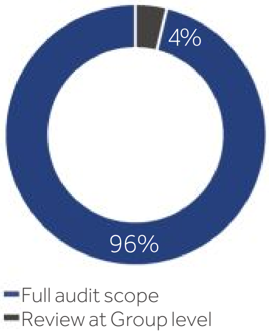
The UK component subject to a full audit represents the principal business unit of the Group and accounts for 96% (2017: 96%) of the Group's revenue, 100% (2017: 99%) of the Group's profit before tax and 96% (2017: 96%) of the Group's net assets. Our audit work was executed at levels of materiality applicable to each component and ranged between £3.6 million to £8.9 million (2017: £5.4 million to £7.5 million). All work was performed by the Group audit engagement team.

Revenue



Profit before tax

Net assets



Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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

› *Fair, balanced and understandable* – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
› *Audit Committee reporting* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
› *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Independent Auditor's report continued

Responsibilities of Directors

As explained more fully in the Statement of Directors Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, valuations, and analytics specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the valuation of the investment property portfolio; and
- obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, UK REIT rules tax legislation.

Audit response to risks identified

As a result of performing the above, we identified Investment property valuation as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

› the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
› the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

› we have not received all the information and explanations we require for our audit; or
› adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
› the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Company at the AGM on 30 November 2005 to audit the financial statements for the year ended 31 December 2006 and subsequent financial periods. Following a competitive tender process, we were reappointed as auditor by the Company at the AGM on 19 March 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 13 years, covering the years ended 31 December 2006 to 31 December 2018.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Stephen Craig, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
24 March 2019

Consolidated income statement

for the year ended 31 December 2018

	Note	Group 2018 £m	Group 2017 £m
Continuing operations			
Gross revenue[1]	5	56.1	63.9
Rental income	5	51.7	59.0
Cost of sales	5	(4.7)	(5.3)
Gross profit	5	47.0	53.7
Administrative expenses	8	(38.9)	(32.5)
Other operating income	10	0.6	0.6
Profit on sale of investment properties		19.5	5.9
Fair value gains on investment properties	18	39.6	62.0
Operating profit		67.8	89.7
Finance income	11	0.7	4.3
Finance costs	11	(9.0)	(23.7)
Profit before tax		59.5	70.3
Tax	12	–	0.8
Profit for the year from continuing operations		59.5	71.1
Profit for the year from discontinued operations net of tax	15	1.9	133.2
Profit for the year	8	61.4	204.3
Attributable to:			
Equity holders of the parent		61.4	204.1
Non-controlling interest		–	0.2
		61.4	204.3
Earnings per share			
Basic			
Continuing operations	14	14.4p	9.8p
Discontinued operations	14	0.5p	18.4p
		14.9p	28.2p
Diluted			
Continuing operations	14	12.9p	9.7p
Discontinued operations	14	0.4p	18.1p
		13.3p	27.8p

1 The new financial statement line "Gross revenue" has been included as a result of implementing the new accounting standard IFRS 15, Revenue from Contracts with Customers. This does not form part of the casting of the consolidated income statement. Comparative figures have been included accordingly.

Consolidated statement of comprehensive income

for the year ended 31 December 2018

	Group 2018 £m	Group 2017 £m
Profit for the year after tax	61.4	204.3
Other comprehensive income/(expense):		
Exchange differences arising on translating foreign operations	0.3	15.2
Exchange differences recycled to the income statement on disposal of discontinued operations	(0.1)	(72.2)
Total other comprehensive income/(expense) for the year	0.2	(57.0)
Total comprehensive income for the year	61.6	147.3
Attributable to:		
Equity holders of the parent	61.6	147.1
Non-controlling interest	–	0.2
	61.6	147.3

All components of other comprehensive income may be recycled through the income statement.

Balance sheets

as at 31 December 2018

	Note	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Non-current assets					
Property, plant and equipment	17	0.9	0.2	–	–
Investment properties	18	629.2	694.2	–	–
Investment in subsidiary undertakings	19	–	–	497.5	498.6
Derivative financial instruments	20	2.7	2.2	2.7	2.2
		632.8	696.6	500.2	500.8
Current assets					
Investment properties held for sale	18	13.0	113.9	–	–
Trading properties	21	10.0	10.0	–	–
Trade and other receivables	22	45.2	18.3	159.5	200.3
Cash and cash equivalents	23	55.1	71.2	15.7	48.6
		123.3	213.4	175.2	248.9
Total assets		756.1	910.0	675.4	749.7
Current liabilities					
Trade and other payables	24	(31.6)	(30.4)	(111.9)	(49.8)
Current tax liabilities		(1.3)	(20.5)	(1.0)	(7.2)
Borrowings	25	(0.3)	(0.3)	–	–
Lease liabilities	26	(0.8)	(0.2)	–	–
		(34.0)	(51.4)	(112.9)	(57.0)
Non-current liabilities					
Borrowings	25	(243.3)	(293.8)	(241.1)	(291.3)
Lease liabilities	26	(4.6)	(2.3)	–	–
Provisions	27	–	(0.8)	–	–
Deferred tax liabilities	28	(4.1)	(4.2)	–	(0.1)
		(252.0)	(301.1)	(241.1)	(291.4)
Total liabilities		(286.0)	(352.5)	(354.0)	(348.4)
Net assets		470.1	557.5	321.4	401.3
Equity					
Share capital	29	41.3	41.3	41.3	41.3
Share premium		11.0	114.5	11.0	114.5
Other reserves		(1.3)	(0.1)	(1.3)	(0.1)
Capital redemption reserves	29	–	41.3	–	41.3
Translation reserves		5.0	4.8	–	–
Retained earnings		414.1	355.7	270.4	204.3
Equity attributable to equity holders of the parent		470.1	557.5	321.4	401.3
Non-controlling interest		–	–	–	–
Total equity		470.1	557.5	321.4	401.3

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these accounts. The Company's profit for the financial year ended 31 December 2018 amounted to £68.9 million (2017: £394.6 million). Of the Company's retained earnings of £270.4 million (2017: £204.3 million), £232.7 million (2017: £167.1 million) is available for distribution.

The financial statements of Hansteen Holdings PLC, registered number 05605371, were approved by the Board of Directors and authorised for issue on 24 March 2019. Signed on behalf of the Board of Directors.

Ian Watson and Morgan Jones
Joint Chief Executives

Statements of changes in equity

for the year ended 31 December 2018

Group	Share capital £m	Share premium £m	Other reserves £m	Capital redemption reserves £m	Translation reserves £m	Retained earnings £m	Total £m	Non-controlling interest £m	Total £m
Balance at 1 January 2017	74.6	114.5	(1.9)	–	61.8	674.6	923.6	0.6	924.2
Profit for the year	–	–	–	–	–	204.1	204.1	0.2	204.3
Other comprehensive expense for the year	–	–	–	–	(57.0)	–	(57.0)	–	(57.0)
Total comprehensive income for the year	–	–	–	–	(57.0)	204.1	147.1	0.2	147.3
Shares issued/settlement of convertible bond	8.0	–	(0.3)	–	–	91.4	99.1	–	99.1
Cancellation of shares under tender offer	(41.3)	–	–	41.3	–	(583.1)	(583.1)	–	(583.1)
Non-controlling interest disposed	–	–	–	–	–	–	–	(0.1)	(0.1)
Capital repaid	–	–	–	–	–	–	–	(0.2)	(0.2)
Dividends	–	–	–	–	–	(46.5)	(46.5)	(0.5)	(47.0)
Share-based payments	–	–	–	–	–	18.0	18.0	–	18.0
Share options exercised	–	–	2.8	–	–	(2.8)	–	–	–
Purchase of own shares	–	–	(0.7)	–	–	–	(0.7)	–	(0.7)
Balance at 31 December 2017	41.3	114.5	(0.1)	41.3	4.8	355.7	557.5	–	557.5
Effect of change in accounting policy (note 2)	–	–	–	–	–	(0.2)	(0.2)	–	(0.2)
As restated	41.3	114.5	(0.1)	41.3	4.8	355.5	557.3	–	557.3
Profit for the year	–	–	–	–	–	61.4	61.4	–	61.4
Other comprehensive income for the year	–	–	–	–	0.2	–	0.2	–	0.2
Total comprehensive income for the year	–	–	–	–	0.2	61.4	61.6	–	61.6
Return of capital	–	(103.5)	–	(41.3)	–	0.1	(144.7)	–	(144.7)
Dividends	–	–	–	–	–	(25.6)	(25.6)	–	(25.6)
Share-based payments	–	–	–	–	–	23.6	23.6	–	23.6
Share options exercised	–	–	0.9	–	–	(0.9)	–	–	–
Purchase of own shares	–	–	(2.1)	–	–	–	(2.1)	–	(2.1)
Balance at 31 December 2018	**41.3**	**11.0**	**(1.3)**	**–**	**5.0**	**414.1**	**470.1**	**–**	**470.1**

Company	Share capital £m	Share premium £m	Other reserves £m	Capital redemption reserves £m	Translation reserves £m	Retained earnings £m	Total £m	Non-controlling interest £m	Total £m
Balance at 1 January 2017	74.6	114.5	(2.2)	–	–	332.7	519.6	–	519.6
Total comprehensive income for the year	–	–	–	–	–	394.6	394.6	–	394.6
Shares issued	8.0	–	–	–	–	91.4	99.4	–	99.4
Cancellation of shares under tender offer	(41.3)	–	–	41.3	–	(583.1)	(583.1)	–	(583.1)
Dividends	–	–	–	–	–	(46.5)	(46.5)	–	(46.5)
Share-based payments	–	–	–	–	–	18.0	18.0	–	18.0
Share options exercised	–	–	2.8	–	–	(2.8)	–	–	–
Purchase of own shares	–	–	(0.7)	–	–	–	(0.7)	–	(0.7)
Balance at 31 December 2017	41.3	114.5	(0.1)	41.3	–	204.3	401.3	–	401.3
Total comprehensive income for the year	–	–	–	–	–	68.9	68.9	–	68.9
Return of capital	–	(103.5)	–	(41.3)	–	0.1	(144.7)	–	(144.7)
Dividends	–	–	–	–	–	(25.6)	(25.6)	–	(25.6)
Share-based payments	–	–	–	–	–	23.6	23.6	–	23.6
Share options exercised	–	–	0.9	–	–	(0.9)	–	–	–
Purchase of own shares	–	–	(2.1)	–	–	–	(2.1)	–	(2.1)
Balance at 31 December 2018	**41.3**	**11.0**	**(1.3)**	**–**	**–**	**270.4**	**321.4**	**–**	**321.4**

Other reserves comprises a deficit relating to the purchase of the Company's own shares. See note 29.

Cash flow statements

for the year ended 31 December 2018

	Note	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Net cash inflow from operating activities	30	0.4	45.2	80.4	23.1
Investing activities					
Interest received		0.3	0.4	6.7	4.8
Dividends received		–	–	140.0	358.1
Acquisition of subsidiary undertakings		–	(24.6)	(37.6)	(59.6)
Share premium returned by subsidiaries		–	–	1.7	146.7
Proceeds from sale of subsidiaries		115.6	662.9	(0.1)	154.8
Additions to investment properties – continuing operations		(62.5)	(7.1)	–	–
Additions to investment properties – discontinued operations		–	(28.4)	–	–
Proceeds from sale of investment properties – continuing operations		155.5	60.6	–	–
Proceeds from sale of investment properties – discontinued operations		–	7.4	–	–
Net cash generated from investing activities		208.9	671.2	110.7	604.8
Financing activities					
Dividends paid		(25.6)	(47.0)	(25.6)	(46.5)
Cost of issuing shares		–	(0.1)	–	(0.1)
Own shares acquired		(2.1)	(0.7)	(2.1)	(0.7)
Return of capital		(144.7)	–	(144.7)	–
Cancellation of shares under tender offer		–	(583.1)	–	(583.1)
Repayments lease liabilities		(0.8)	(0.2)	–	–
New borrowings raised (net of expenses) – continuing operations		116.0	119.8	116.0	119.9
New borrowings raised (net of expenses) – discontinued operations		–	0.2	–	–
Bank loans repaid – continuing operations		(167.6)	(212.4)	(167.0)	(107.0)
Bank loans repaid – discontinued operations		–	(4.0)	–	–
Additions to derivative financial instruments		–	(0.1)	–	–
Settlement on disposal of derivative financial instruments		–	(4.0)	–	–
Net cash used in financing activities		(224.8)	(731.6)	(223.4)	(617.5)
Net (decrease)/increase in cash and cash equivalents		(15.5)	(15.2)	(32.3)	10.4
Cash and cash equivalents at beginning of year		71.2	82.5	48.6	34.8
Effect of changes in foreign exchange rates		(0.6)	3.9	(0.6)	3.4
Cash and cash equivalents at end of year	23	55.1	71.2	15.7	48.6

Notes to the financial statements

1. General information

Hansteen Holdings PLC is a company which was incorporated in the United Kingdom and registered in England and Wales on 27 October 2005. The Company is required to comply with the provisions of the Companies Act 2006. The address of the registered office is 1st Floor, Pegasus House, 37–43 Sackville Street, London W1S 3DL.

The Group's principal activity is investing in predominantly industrial properties in the United Kingdom.

These financial statements are presented in Sterling because that is the currency of the primary economic environment in which the Company operates. Foreign operations are included in accordance with the policies set out in note 3.

2. Adoption of new and revised standards

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018.

The adoption of the following amendments has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IAS 40	Transfers of Investment Property
Annual Improvements to IFRSs: 2014–2016	Annual Improvements to IFRSs
Amendments to IAS 28	Investments in Associates and Joint Ventures
IFRIC 22	Foreign Currency Transactions and Advance Consideration

The adoption of IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases had the following impact on the disclosures and amounts reported in these financial statements.

Title of standard	IFRS 9 Financial Instruments
Nature of change	IFRS 9 replaced IAS 39, effective for annual periods beginning on or after 1 January 2018, and addresses the classification, measurement and recognition of financial assets and financial liabilities. It simplifies the existing categories of financial instruments, introduces an expected credit loss model and redefines the criteria required for hedge effectiveness.
Impact	In the current year, the Group adopted IFRS 9 Financial Instruments (as revised in July 2014). The date of initial application was 1 January 2018. The changes did not have a material impact on the consolidated financial statements of the Group and resulted in limited changes to presentation and disclosure. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

Title of standard	IFRS 15 Revenue from Contracts with Customers
Nature of change	IFRS 15 combines and replaces a number of previous standards, setting out a five-step model for the recognition of revenue based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard also establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The standard is effective for annual periods beginning on or after 1 January 2018.
Impact	In the current year, the Group adopted IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for annual periods beginning on or after 1 January 2018. The Group restated comparative information making the transition date 1 January 2017. *Revenue recognition* IFRS 15 does not apply to investment property rental income as this falls under the scope of IFRS 16 Leases. The standard applies to non-core revenue streams; service charge income, trading property sales and management fees. IFRS 15 has immaterial differences on the amount or timing of the recognition of revenue for the non-core income streams that fall under the scope and an immaterial impact on the income statement. *Disclosures* The new standard also introduces expanded disclosure requirements. The income statement, revenue (note 5) and operating segments (note 7) have been amended to include Gross revenue and service charges in line with IFRS 15. The wording of the accounting policy for "Service charges" has been updated in line with the new IFRS 15 requirements.

Notes to the financial statements continued

2. Adoption of new and revised standards continued

Title of standard	IFRS 16 Leases
Nature of change	IFRS 16 replaces IAS 17 Leases, and requires the application of a single lessee accounting model. It will result in almost all leases being recognised on the balance sheet for a lessee, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability at the lease commencement date (to pay future rental payments) are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.
Impact	In the current year, the Group, for the first time, has applied IFRS 16 Leases (as issued by the IASB in January 2016) in advance of its effective date. The Group has applied IFRS 16 using the modified retrospective approach and has not restated comparative information. The date of initial application of IFRS 16 for the Group is 1 January 2018, referred to as the transition date. The Group has taken advantage of the following practical expedients under the modified retrospective approach: › The Group used a single discount rate to portfolios with reasonably similar characteristics; and › The Group has excluded any initial direct costs from the measurement of the right of use asset at the transition date. The Group recognised right of use assets of £1.1 million in property, plant and equipment, £2.2 million in investment properties and lease liabilities of £3.4 million at the transition date. The impact at transition date on the opening retained earnings is £0.2 million. The impact on the consolidated income statement for the year ended 31 December 2018 is a £0.2 million decrease in cost of sales, a £0.1 million decrease in administration expenses and a £0.2 million increase in finance costs. In the Group cash flow statement, the depreciation of the right of use assets is included in operating activities and the repayment of the lease liabilities is included in financing activities. The impact on the Group cash flow statement is an increase in net cash flow from operating activities of £0.5 million and decrease in net cash generated from financing activities of £0.8 million. In the prior year the operating lease expense was £0.9 million. In 2017 operating lease commitments were disclosed applying IAS 17, note 31, with undiscounted non-cancellable future lease payments of £22.7 million at 31 December 2017. In 2018 after discounting the future lease payments under IFRS 16, the liability reduced by £19.5 million. The leases are disclosed as lease liabilities, note 26, at £3.2 million as at 31 December 2018.

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance contracts
IFRS 9 (amendments)	Prepayment Features with Negative Compensation
IAS 28 (amendments)	Long-term Interests in Associates and Joint Ventures
Annual improvements to IFRS 2015 –2017 Cycle	Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
IAS 19 (amendments)	Plan Amendment, Curtailment or Settlement
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRIC 23	Uncertainty over Income Tax Treatments

3. Significant accounting policies

Basis of accounting

The financial statements have been prepared on the going concern basis, as detailed in the Directors' Report on page 57 and in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of investment properties and certain financial instruments that are measured at fair value at the end of each accounting period.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) up to 31 December. Control is achieved when the Company:

› has the power over the investee;
› is exposed, or has rights, to variable return from its involvement with the investee; and
› has the ability to use its power to affect its returns.

In the consolidated balance sheet, the identifiable assets, liabilities and contingent liabilities of subsidiaries acquired are initially recognised at their fair value at the acquisition date. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest in the subsidiary's equity are allocated against the interest of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in Sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period in which they arise except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

Revenue includes gross rental income, service charges, interest income and proceeds from the sale of trading and investment properties.

Rental income is recognised on an accruals basis. Where a lease incentive is granted, which does not enhance the value of the property, or a rent-free period is granted, the effective cost is amortised on a straight-line basis over the lease term.

Service charges include income in relation to service charges, directly recoverable expenditure and management fees. Revenue from providing services is recognised in the accounting period in which the services are rendered. Revenue from services is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided and recognised over time.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Revenue from the sale of trading and investment properties is recognised when the significant risks and returns have been transferred to the buyer. This generally coincides with the transfer of the legal title or the passing of possession to the buyer. The profit on disposal of trading and investment properties is determined as the difference between the consideration received and the carrying amount of the asset at the commencement of the accounting period plus any additions in the period.

Share-based payments

The fair value of the Performance Share Plan (PSP), an equity-settled share-based payment scheme to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the Company's estimate of options that will eventually vest. Fair value is measured by use of a binomial model or the Company's share price less the discounted value of estimated future dividends, as appropriate. The expected life used in the binomial model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value of the Founder LTIP, an equity-settled share-based payment scheme, is determined by the value of the award that is expected to vest and is expensed on a straight-line basis over the vesting period.

Operating profit

Operating profit is stated after profit on sale of subsidiaries and investment properties and fair value gains on investment properties, but before changes in fair value of derivative financial instruments, finance income, finance costs and foreign exchange movements.

Property, plant and equipment

This comprises computer equipment and fixtures and fittings, as well as right of use assets comprising office buildings, office equipment and motor vehicles. These assets are stated at cost less accumulated depreciation and any recognised impairment loss.

Notes to the financial statements continued

3. Significant accounting policies continued

Depreciation is charged so as to write off the cost or valuation of the assets, less residual value, over their estimated useful lives, using the straight-line method, on the following bases:

Computer equipment	three years
Fixtures and fittings	five years
Right of use assets	
Office buildings	five years
Office equipment	three years
Motor vehicles	three years

Investment properties

Investment properties, which comprise freehold and leasehold properties held to earn rentals and/or for capital appreciation and right of use assets for head leases, are treated as acquired when the Group assumes the significant risks and rewards of ownership. Acquisitions of investment properties including related transaction costs and subsequent additions of a capital nature are initially recognised in the accounts at cost.

At each reporting date the investment properties, excluding head leases, are revalued to their fair values based on a professional valuation at the balance sheet date. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Head leases are revalued to their fair values based on the lease liabilities at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less provisions for impairment.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The Group's liability for current and deferred tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured on a non-discounted basis.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), and amortised cost and effective interest method. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

› it has been acquired principally for the purpose of selling in the near future; or
› it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
› it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Group is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives that can be designated as FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Amortised cost and effective interest method
For financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the financial instrument, or, where appropriate, a shorter period, to the gross carrying amount of the financial instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimate future cash flows, including expected credit losses, to the amortised cost of the financial instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Impairment of financial assets
The Group recognises a loss allowance for expected credit losses (ECL) on lease receivables and trade receivables. The amount of expected credit loss is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables and lease receivables. The expected credit losses on these financial assets are estimated using a provisions matrix based upon the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including time value of money where appropriate.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expires or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Financial liabilities
Debt and equity instruments issued by a group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near term; or
- on initial recognition it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Group is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives that can be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

The convertible bonds are designated as fair value through profit or loss and are presented on the balance sheet at fair value with all gains and losses, including the write-off of issuance costs, recognised in the income statement within net financing costs. The interest charge in respect of the coupon rate on the bonds has been recognised within net financing costs on an accruals basis.

Notes to the financial statements continued

3. Significant accounting policies continued

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments
The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and options and interest rate swaps and caps.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both the legal right and intention to offset.

Non-current assets held for sale
Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale, except investment properties, are measured at the lower of carrying amount and fair value less costs to sell. Investment properties classified as held for sale are carried at fair value.

Trading properties
Trading properties are properties held by the Group in the course of development. The properties are carried at the lower of cost and net realisable value and are treated as acquired when the Group assumes the significant risks and rewards of ownership. Cost includes development costs on the trading properties during the year. Net realisable value represents the estimated selling price less further costs expected to be incurred to completion and disposal.

Leases
Leases – the Group as lessor
Rentals receivable under operating leases are recognised in the income statement on a straight-line basis over the term of the relevant lease. In the event that lease incentives are granted to a lessee, such incentives are recognised as an asset. The aggregate cost of the incentives is recognised as a reduction in rental income on a straight-line basis over the term of the relevant lease.

Leases – the Group as lessee
Where the Group is a lessee, a right of use asset and lease liability are recognised at the outset of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date based on the Group's expectations of the likelihood of the lease extension or break options being exercised. The lease liability is subsequently adjusted to reflect the imputed interest, payments made to lessor and any lease modifications.

The right of use asset is initially measured at cost, which comprises the amount of the lease liability, any lease payments made at or before commencement date, less any lease incentives received, any initial direct costs incurred by the Group and an estimate of any costs expected to be incurred at the end of the lease to dismantle or restore the asset. The Group has two categories of right of use assets: one are leases that meet the definition of investment properties and the other are leases that meet the definition of property, plant and equipment. These are accordingly presented as investment properties and property, plant and equipment on the balance sheet. The right of use asset classified as investment properties is subsequently revalued in accordance with the Group's accounting policy on investment properties. The amount charged to the income statement comprises the revaluation of the right of use asset and the imputed interest on the liability. The right of use asset classified as property, plant and equipment is subsequently depreciated in accordance with the Group's accounting policy on property, plant and equipment. The amount charged to the income statement comprises the depreciation of the right of use asset and the imputed interest on the liability.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities. In making these estimates and assumptions, the Directors make reference to historical experience and other factors that they consider to be relevant. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Accounting for one-off and complex transactions

The Group frequently enters into transactions for the purchase and sale of investment property, associates, subsidiaries and other financial assets. These transactions tend to be one-off and can be complex. Accounting for the transactions requires judgements to be made over matters such as calculating any gain or loss, and deciding upon the presentation in the financial statements.

In 2017 the Group had a number of one-off and complex transactions. These include the following:

- There are judgements surrounding the German and Dutch portfolio disposal in respect of the presentation in the Group accounts, recycling of the translation reserve and considerations associated with the tax implications of the transaction. These transactions were accounted for as discontinued operations under IFRS 5 on the basis that the German and Dutch portfolio represented a separate major line of business and geographical area of operations.
- The acquisition of Industrial Multi Property Trust plc occurred over a period of approximately six months in several stages. Key judgements arose as to whether to account for the transaction as a business combination or asset acquisition and how to account for an acquisition achieved in stages. The Group assessed that no "Process" had been acquired as part of the transaction and therefore it had not acquired a business. On this basis the transaction was not accounted for as a business combination but rather as an asset acquisition.

In the current year no significant transactions occurred that required critical judgement.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty that may have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are set out below.

Investment property valuations

In determining the fair value of investment properties there is a degree of uncertainty and judgement involved. The valuations are based on a number of assumptions, the significant ones of which are the appropriate discount rates, estimates of future rental income and capital expenditure. The Group uses external professional valuers to provide independent valuations of the investment properties.

Details of the investment property valuations undertaken during the year, including the significant assumptions made and inputs used in the valuation process, as well as the key sensitivity variables, are set out in note 18.

Recognition of expense for share-based payments

In determining whether an expense should be recognised in relation to the Founder Long-Term Incentive Plan (Founder LTIP), the Directors are required to form a judgement over the likelihood of an award vesting and the value of the award that will vest. This judgement creates an estimation uncertainty in the IFRS 2 charge at each reporting date until the final date of the performance period.

The current performance period runs from 1 January 2016 to 31 December 2018. In determining the charge recognised in the financial statements for the year ended 31 December 2017, the Directors performed a detailed calculation to estimate the profits expected in 2018. A pro rata charge was recognised in the 2017 accounts.

The Founder LTIP charge for the year ended 31 December 2018 is based on actual results for the three-year period. The calculation does not include any forecast data estimation uncertainty and no sensitivity analysis is required.

Notes to the financial statements continued

5. Revenue and cost of sales

Continuing operations	Group 2018 £m	Group 2017 £m
An analysis of the Group's revenue and cost of sales is as follows:		
Rental income	51.7	59.0
Direct operating expenses relating to investment properties that generated rental income[1]	(4.2)	(4.8)
Direct operating expenses relating to investment properties that did not generate rental income	(0.4)	(0.2)
Direct operating expenses	(4.6)	(5.0)
Cost of sales of trading properties	(0.1)	(0.3)
Cost of sales	(4.7)	(5.3)
Gross profit	47.0	53.7
An analysis of the Group's gross revenue is as follows:		
Rental income	51.7	59.0
Service charge income	4.4	4.9
Gross revenue[2]	56.1	63.9

Including interest income of £0.3 million (2017: £0.3 million), total revenue was £56.4 million (2017: £64.2 million[2]).

1 Direct operating expenses are reported net of service charge income.
2 This note to the financial statements has been updated as a result of implementing the new accounting standard IFRS 15, Revenue from Contracts with Customers. Comparative figures have been included accordingly.

6. Normalised Income Profit and Normalised Total Profit

The Group uses a number of Alternative Performance Measures (APMs) which are not defined or specified within IFRS. The Directors use these measures in order to assess the underlying operational performance of the Group and allow greater comparability between periods but do not consider them to be a substitute for or superior to IFRS measures. Key APMs used are Normalised Income Profit (NIP), Normalised Total Profit (NTP), measures defined by EPRA and adjusted EPS.

NIP and NTP are adjusted measures intended to show the underlying earnings of the Group before fair value movements and other non-recurring or otherwise non-cash items. Fair value movements include those in relation to investment properties, financial assets and financial liabilities. Non-recurring or otherwise non-cash items include foreign exchange gains or losses and the Founder LTIP charge. A reconciliation of NIP and NTP to the Profit for the year prepared in accordance with IFRS is set out below. A reconciliation of EPRA measures and adjusted EPS is included within note 14.

	2018			2017		
Group	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Investment property rental income	51.7	0.3	52.0	59.0	35.8	94.8
Direct operating expenses	(4.6)	0.2	(4.4)	(5.0)	(4.2)	(9.2)
Administrative expenses excluding Founder LTIP charge	(13.0)	(0.4)	(13.4)	(13.4)	(4.4)	(17.8)
Net interest (payable)/receivable	(8.3)	0.5	(7.8)	(9.3)	(6.6)	(15.9)
Normalised Income Profit	25.8	0.6	26.4	31.3	20.6	51.9
Profit on sale of investment properties	19.5	–	19.5	5.9	0.1	6.0
Loss on trading properties	(0.1)	–	(0.1)	(0.3)	–	(0.3)
Total profits on sale of properties	19.4	–	19.4	5.6	0.1	5.7
Other operating income	0.6	–	0.6	0.6	0.2	0.8
(Loss)/profit on disposal of discontinued operations	–	(0.2)	(0.2)	–	49.2	49.2
Normalised Total Profit	45.8	0.4	46.2	37.5	70.1	107.6
Founder LTIP charge	(25.9)	–	(25.9)	(19.1)	–	(19.1)
Change in fair value of investment properties	39.6	–	39.6	62.0	–	62.0
Change in fair value of interest rate swaps and caps	0.4	–	0.4	0.5	0.7	1.2
Change in fair value of convertible bonds	–	–	–	(12.1)	–	(12.1)
Fees incurred on conversion of convertible bonds	–	–	–	(0.4)	–	(0.4)
Interest incurred on the convertible bond	–	–	–	(1.6)	–	(1.6)
Foreign exchange (losses)/gains	(0.4)	–	(0.4)	3.5	–	3.5
Exchange differences recycled on disposal of discontinued operations	–	0.1	0.1	–	72.2	72.2
Profit before tax	59.5	0.5	60.0	70.3	143.0	213.3
Tax	–	1.4	1.4	0.8	(9.8)	(9.0)
Profit for the year	59.5	1.9	61.4	71.1	133.2	204.3

Continuing administrative expenses of £13.0 million (2017: £13.4 million) plus the Founder LTIP charge of £25.9 million (2017: £19.1 million) reconcile to the administrative expenses of £38.9 million (2017: £32.5 million) reported in the consolidated income statement. Further details on the Founder LTIP are set out in note 32.

Net interest expense in 2017 in NIP, as set out in note 11, excluded the interest on the convertible bond as this expense was not recurring.

7. Operating segments

Segment revenues and results

The Group's reportable segments are determined by geographic location, which represents the information reported to the Group's Directors for the purposes of resource allocation and assessment of segment performance. A segment's result consists of its gross profit as detailed for the Group in note 5. Administrative expenses and net finance costs are managed as central costs and are therefore not allocated to segments. Gains/(losses) on investment properties by segment are also presented below.

Group

Continuing operations	Gross revenue[1] 2018 £m	Revenue 2018 £m	Result 2018 £m	Gross revenue[1] 2017 £m	Revenue 2017 £m	Result 2017 £m
Belgium	1.1	1.1	0.8	1.1	1.1	0.9
France	1.2	1.2	1.2	1.4	1.4	2.3
UK	53.8	49.4	45.0	61.4	56.5	50.5
Total segment result	56.1	51.7	47.0	63.9	59.0	53.7
Administrative expenses			(38.9)			(32.5)
Other operating income			0.6			0.6
Changes in fair value of investment properties by segment:						
Belgium		(1.7)			(2.9)	
France		(0.2)			(1.1)	
UK		41.5			66.0	
Total changes in fair value of investment properties		39.6			62.0	
Profit on disposal of investment properties		19.5			5.9	
Total gains on investment properties			59.1			67.9
Operating profit			67.8			89.7
Net finance costs			(8.3)			(19.4)
Profit before tax			59.5			70.3

1 This note to the financial statements has been updated as a result of implementing the new accounting standard IFRS 15, Revenue from Contracts with Customers. The note now also details gross revenue by segment. Comparative figures have been included accordingly.

Segment assets

For the purposes of monitoring segment performance and allocated resources between segments, the Directors monitor the investment and trading properties attributable to each segment. All assets are allocated to reportable segments with the exception of investments in associates and elements of cash, derivatives and tax balances that are managed centrally.

Group 2018	Investment properties[2] £m	Trading properties £m	Total properties £m	Other assets £m	Total assets £m	Additions to investment properties £m	Non-current assets £m
Belgium	12.9	–	12.9	0.7	13.6	–	12.9
France	14.3	–	14.3	2.8	17.1	0.2	14.3
UK	615.0	10.0	625.0	76.5	701.5	62.3	602.0
Total segment assets	642.2	10.0	652.2	80.0	732.2	62.5	629.2
Unallocated assets					23.9		3.6
Total assets					756.1		632.8

2 Includes investment properties held for sale and right of use assets for head leases.

Group 2017	Investment properties[3] £m	Trading properties £m	Total properties £m	Other assets £m	Total assets £m	Additions to investment properties £m	Non-current assets £m
Belgium	14.5	–	14.5	1.8	16.3	–	14.5
France	17.2	–	17.2	0.6	17.8	0.1	17.2
UK	776.4	10.0	786.4	33.7	820.1	95.8	662.6
Total segment assets	808.1	10.0	818.1	36.1	854.2	95.9	694.3
Unallocated assets					55.8		2.3
Total assets					910.0		696.6

3 Includes investment properties held for sale.

Notes to the financial statements continued

8. Profit for the year

Profit for the year has been arrived at after (charging)/crediting:

Continuing operations	Group 2018 £m	Group 2017 £m
Foreign exchange (losses)/gains	(0.4)	3.5
Depreciation of property, plant and equipment	(0.6)	(0.2)
Profit on sale of investment properties	19.5	5.9
Write-down of trading properties	(0.1)	(0.3)
Increase in fair value of investment properties	39.6	62.0
Reduction in loss allowances on trade receivables	0.1	2.5
Staff costs – share-based payment charge including social security costs (see note 9)	(27.1)	(20.3)
Staff costs – other (see note 9)	(7.4)	(7.1)

The analysis of administrative expenses is as follows:

	Group 2018 £m	Group 2017 £m
Staff costs (see note 9)	34.5	27.4
Professional fees	1.5	1.8
Other	2.9	3.3
Total administrative expenses	38.9	32.5

The analysis of auditor's remuneration is as follows:

	Group 2018 £m	Group 2017 £m
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	0.2	0.3
Fees payable to the Company's auditor and their associates for the audit of the Company's subsidiaries	0.2	0.3
Total audit fees	0.4	0.6
Other assurance services	–	–
Corporate finance services	–	0.4
Total non-audit services	–	0.4
Total auditor's remuneration	0.4	1.0

Details of the Company's policy on the use of auditors for non-audit services and how the auditor's independence and objectivity was safeguarded are set out in the Audit Committee Report on pages 32 to 35. No services were provided pursuant to contingent fee arrangements. In 2017 the corporate finance services were in relation to reporting accountant work for the disposal of the German and Dutch portfolios and the return of capital.

9. Staff costs

The average monthly number of employees (excluding Non-Executive Directors) was:

	Group 2018 Number	Group 2017 Number
Finance and administration	29	35
Property	20	24
Continuing operations	49	59
Discontinued operations	–	20
	49	79

Their aggregate remuneration was:

	£m	£m
Wages and salaries	6.1	8.3
Other social security costs	0.9	1.1
Pension costs	0.4	0.4
Share-based payments (see note 32)	23.6	17.9
Social security costs on share-based payments	3.5	2.5
	34.5	30.2
Continuing operations	34.5	27.4
Discontinued operations	–	2.8
	34.5	30.2

As a result of the disposal of the German and Dutch portfolio the Group incurred redundancy costs of £1.2 million in 2017 which are not included in the staff costs reported in the table.

The emoluments and pension benefits of the Directors are set out in detail in the Report of the Remuneration Committee on pages 38 to 55. The Executive Directors are considered to be key management for the purposes of IAS 24 "Related Party Transactions".

Pension costs comprise amounts payable by the Group to personal pension schemes of employees.

The Company had no employees in either the current or preceding financial year.

10. Other operating income

In 2018, other operating income includes £0.4 million of insurance receipts (2017: £0.5 million) and a £0.2 million receipt in relation to a loan acquired as part of the acquisition of a property portfolio in 2014. The bank loan was acquired by the Company at a discount and the accounts for the year ended 31 December 2014 included a gain of £3.2 million on the acquisition of the loan. The Company agreed to the liquidation of the original borrower in 2018 in exchange for a final loan repayment of £0.2 million. In 2017 there was an additional £0.1 million relating to a forfeited deposit on an exchange which did not complete.

11. Net finance costs

Continuing operations	Group 2018 £m	Group 2017 £m
Interest receivable on bank deposits	0.1	0.3
Other interest receivable	0.2	–
Interest income	0.3	0.3
Interest payable on borrowings	(8.4)	(9.5)
Interest payable on leases	(0.2)	(0.1)
Net interest expense	(8.3)	(9.3)
Change in fair value of interest rate swaps and caps	0.4	0.5
Change in fair value of convertible bonds	–	(12.1)
Fees incurred on conversion of convertible bonds	–	(0.4)
Interest incurred on the convertible bond	–	(1.6)
Foreign exchange (losses)/gains	(0.4)	3.5
Net finance costs	(8.3)	(19.4)
Finance income	0.7	4.3
Finance costs	(9.0)	(23.7)
Net finance costs	(8.3)	(19.4)

Notes to the financial statements continued

12. Tax

Continuing operations	Group 2018 £m	Group 2017 £m
UK current tax		
On net income of the current year	–	(0.8)
Foreign current tax		
Credit in respect of prior years	(0.3)	–
On net income of the current year	0.4	0.6
Total current tax	0.1	(0.2)
Deferred tax in respect of prior years (see note 28)	0.1	–
Deferred tax in respect of the current year (see note 28)	(0.2)	(0.6)
Total tax credit	–	(0.8)

UK corporation tax is calculated at 19.00% (2017: 19.25%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. In addition to the tax charge on continuing operations above, there is a £0.1 million (2017: £2.1 million) tax charge relating to ordinary profits arising on the discontinued operations and a £1.5 million tax credit (2017: £7.7 million tax charge) arising on the profit on disposal of discontinued operations as disclosed in note 15.

The tax credit for the year can be reconciled to the profit per the income statement as follows:

Continuing operations	Group 2018 £m	Group 2017 £m
Profit before tax	59.5	70.3
Tax at the UK corporation tax rate of 19.00% (2017: 19.25%)	11.3	13.5
Tax effect of:		
UK tax not payable due to REIT exemption	(16.5)	(19.5)
Deferred tax assets not recognised	6.4	4.5
Effect of different tax rates in overseas subsidiaries	(1.1)	0.1
Expenses that are not deductible in taxable profit	0.1	0.7
Change in deferred tax due to change in tax rate	–	(0.1)
Adjustment in respect of prior years	(0.2)	–
Tax credit for the year	–	(0.8)

The Group elected to be a UK REIT in 2009 following admission to the Official List. The UK REIT rules exempt the profits of the Group's property rental business from UK corporation tax. Gains on UK properties are also exempt from tax provided they are not held for trading. The Group's UK activities are otherwise subject to UK corporation tax. To remain a UK REIT there are a number of conditions to be met in respect of the principal company of the Group, the Group's qualifying activity and its balance of business which are set out in the UK REIT legislation in the Corporation Tax Act 2010.

13. Dividends

	Group 2018 £m	Group 2017 £m
Amounts recognised as distributions to equity holders in the period:		
Second dividend for the year ended 31 December 2017 of 3.8p (2017: 3.7p) per share	15.7	27.5
Interim dividend for the year ended 31 December 2018 of 2.4p (2017: 2.3p) per share	9.9	19.0
	25.6	46.5
Amounts not recognised as distributions to equity holders in the period:		
Proposed second dividend for the year ended 31 December 2018 of 3.8p (2017: 3.8p) per share	15.6	15.7

As a REIT, the Company is required to pay Property Income Distributions (PIDs) equal to at least 90% of the Group's exempted net income, after deduction of withholding tax at the basic rate of 20% (2017: 20%). £25.2 million of the dividends paid during the year ended 31 December 2018 is attributable to PIDs (2017: £32.9 million).

14. Earnings per share and net asset value per share

The European Public Real Estate Association (EPRA) has issued recommended bases for the calculation of certain earnings per share (EPS) information. Diluted EPRA EPS, adjusted EPS and EPRA NAV are reconciled to the IFRS measures in the following table.

As noted in note 6, the Group uses a number of APMs which are not defined within IFRS. Normalised Income Profit and Normalised Total Profit have been defined in note 6 and adjusted EPS is defined below.

	2018			2017		
Group	Earnings £m	Weighted average number of shares m	Earnings per share pence	Earnings £m	Weighted average number of shares m	Earnings per share pence
Continuing operations						
Normalised Income Profit (see note 6)	25.8	412.6	6.3	31.3	725.1	4.3
Normalised Total Profit (see note 6)	45.8	412.6	11.1	37.5	725.1	5.2
Basic EPS	59.5	412.6	14.4	70.9	725.1	9.8
Adjustments:						
Dilutive shares relating to the Performance Share Plan		3.9			2.8	
Dilutive shares relating to the Founder LTIP		43.6			6.4	
Diluted EPS	59.5	460.1	12.9	70.9	734.3	9.7
Basic EPS	59.5	412.6	14.4	70.9	725.1	9.8
Adjustments:						
Revaluation gains on investment properties	(39.6)			(62.0)		
Profit on sale of investment properties	(19.5)			(5.9)		
Profit on sale of trading properties				0.1		
Change in fair value of derivatives	(0.4)			(0.5)		
Change in fair value of convertible bonds (excluding foreign exchange)	–			9.6		
Deferred tax on the above items	0.2			(1.0)		
EPRA EPS	0.2	412.6	0.1	11.2	725.1	1.5
Adjustments:						
Dilutive shares relating to the Performance Share Plan		3.9			2.8	
Dilutive shares relating to the Founder LTIP		43.6			6.4	
Diluted EPRA EPS	0.2	460.1	0.1	11.2	734.3	1.5
Founder LTIP charge	25.9	(43.6)		19.1	(6.4)	
Adjusted EPS[1]	26.1	416.5	6.3	30.3	727.9	4.2

1 Diluted EPRA EPS has been adjusted to exclude the impact of the Founder LTIP charge on the earnings per share.

Notes to the financial statements continued

14. Earnings per share and net asset value per share continued

	2018			2017		
Group	Earnings £m	Weighted average number of shares m	Earnings per share pence	Earnings £m	Weighted average number of shares m	Earnings per share pence
Discontinued operations						
Normalised Income Profit (see note 6)	0.6	412.6	0.1	20.6	725.1	2.8
Normalised Total Profit (see note 6)	0.4	412.6	0.1	70.1	725.1	9.7
Basic EPS	1.9	412.6	0.5	133.2	725.1	18.4
Adjustments:						
Dilutive shares relating to the Performance Share Plan		3.9			2.8	
Dilutive shares relating to the Founder LTIP		43.6			6.4	
Diluted EPS	1.9	460.1	0.4	133.2	734.3	18.1
Basic EPS	1.9	412.6	0.5	133.2	725.1	18.4
Adjustments:						
Profit on sale of investment properties	–			(0.1)		
Profit after tax on disposal of discontinued operations	(1.4)			(113.7)		
Change in fair value of derivatives	–			(0.7)		
Deferred tax on the above items	–			0.8		
EPRA EPS	0.5	412.6	0.1	19.5	725.1	2.7
Adjustments:						
Dilutive shares relating to the Performance Share Plan		3.9			2.8	
Dilutive shares relating to the Founder LTIP		43.6			6.4	
Diluted EPRA EPS	0.5	460.1	0.1	19.5	734.3	2.7
Founder LTIP charge	–	(43.6)		–	(6.4)	
Adjusted EPS[1]	0.5	416.5	0.1	19.5	727.9	2.7

1 Diluted EPRA EPS has been adjusted to exclude the impact of the Founder LTIP charge on the earnings per share.

The calculations for net asset value (NAV) per share are shown in the table below:

	2018			2017		
Group	Equity shareholders' funds £m	Number of shares m	Net asset value per share pence	Equity shareholders' funds £m	Number of shares m	Net asset value per share pence
Basic NAV	470.1	455.3	103.3	557.5	412.8	135.1
Unexercised share options		3.9		–	15.5	
Diluted NAV	470.1	459.2	102.4	557.5	428.3	130.2
Adjustments:						
Fair value of interest rate derivatives	(2.7)			(2.2)		
Deferred tax	4.1			4.1		
EPRA NAV	471.5	459.2	102.7	559.4	428.3	130.6

In 2017 unexercised share options of 15.5 million shares contained 13.0 million shares in relation to the Founder LTIP awards and 2.5 million shares in relation to the Performance Share Plan awards. In 2018 the Founder LTIP shares are included in the Basic NAV number of shares and 3.9 million shares under unexercised share options are in relation to the Performance Share Plan.

15. Discontinued operations

On 20 March 2017, the Group entered into a sale agreement to dispose of the German and Dutch portfolios. The disposal was completed on 16 June 2017, on which date control of the disposal group was passed to the acquirer.

The results of the discontinued operations, which have been included in the consolidated income statement, were as follows:

	Group 2018 £m	Group 2017 £m
Revenue	0.3	35.8
Cost of sales	0.2	(4.2)
Gross profit	0.5	31.6
Administrative expenses	(0.4)	(4.4)
Other operating income	–	0.2
Gains on investment properties	–	0.1
Operating profit	0.1	27.5
Finance income	0.5	0.7
Finance costs	–	(6.6)
Profit before tax	0.6	21.6
Tax	(0.1)	(2.1)
Profit after tax	0.5	19.5
(Loss)/profit on disposal of discontinued operations	(0.1)	121.4
Tax attributable to profit on disposal	1.5	(7.7)
Profit after tax on disposal of discontinued operations	1.4	113.7
Profit for the year from discontinued operations	1.9	133.2

Included in the profit on disposal of discontinued operations of £121.4 million for 2017 is £49.2 million profit on disposal of discontinued operations and exchange differences recycled on disposal of discontinued operations of £72.2 million.

16. Disposal of subsidiary

On 27 March 2018 the Group disposed of its investment in Industrial Multi Property Trust plc. The net assets at the date of disposal were as follows:

	2018 £m
Investment properties	116.0
Trade and other receivables	2.5
Cash and cash equivalents	2.5
Trade and other payables	(2.9)
Net assets disposed	118.1
Cash proceeds net of transaction costs	118.1
Net cash inflow arising on disposal:	
Consideration received in cash and cash equivalents	118.1
Less: cash and cash equivalents disposed of	(2.5)
	115.6

Notes to the financial statements continued

16. Disposal of subsidiary continued

As referred to in note 15, on 16 June 2017 the Group disposed of its interests in the German and Dutch portfolio. The net assets of the disposal group at the date of disposal were as follows:

	2017 £m
Investment properties	1,067.7
Trade and other receivables	17.3
Cash and cash equivalents	8.2
Trade and other payables	(20.7)
Current tax liabilities	(3.0)
Borrowings	(414.4)
Deferred tax liability	(33.2)
	621.9
Profit on disposal of discontinued operations	121.4
Net assets disposed	621.9
Cash proceeds net of transaction costs	671.1
	49.2
Release of translation reserve	72.2
Profit on disposal of discontinued operations	121.4
Net cash inflow arising on disposal:	
Consideration received in cash and cash equivalents	671.1
Less: cash and cash equivalents disposed of	(8.2)
	662.9

17. Property, plant and equipment

			Right of use assets			
Group	Fixtures and fittings £m	Computer equipment £m	Office buildings £m	Office equipment £m	Motor vehicles £m	Total £m
Cost:						
At 1 January 2017	0.6	0.6	–	–	–	1.2
Disposals – continuing operations	(0.1)	–	–	–	–	(0.1)
At 1 January 2018	**0.5**	**0.6**	**–**	**–**	**–**	**1.1**
Effect of change in accounting policy (note 2)	**–**	**–**	**1.0**	**–**	**0.1**	**1.1**
As restated	**0.5**	**0.6**	**1.0**	**–**	**0.1**	**2.2**
Additions – continuing operations	**–**	**–**	**–**	**0.1**	**0.1**	**0.2**
At 31 December 2018	**0.5**	**0.6**	**1.0**	**0.1**	**0.2**	**2.4**
Accumulated depreciation:						
At 1 January 2017	0.5	0.3	–	–	–	0.8
Charge for the year – continuing operations	0.1	0.1	–	–	–	0.2
Disposals – continuing operations	(0.1)	–	–	–	–	(0.1)
At 1 January 2018	**0.5**	**0.4**	**–**	**–**	**–**	**0.9**
Charge for the year – continuing operations	**–**	**0.1**	**0.4**	**–**	**0.1**	**0.6**
At 31 December 2018	**0.5**	**0.5**	**0.4**	**–**	**0.1**	**1.5**
Net book value:						
At 31 December 2018	**–**	**0.1**	**0.6**	**0.1**	**0.1**	**0.9**
At 31 December 2017	–	0.2	–	–	–	0.2

18. Investment properties

	Group 2018		Group 2017	
	Continuing operations £m	Discontinued operations £m	Continuing operations £m	Discontinued operations £m
At 1 January	694.2	–	698.5	1,019.0
Additions – property purchases[1]	56.9	–	91.2	13.0
– capital expenditure	5.6	(0.3)	4.7	15.4
Lease incentives	0.7	–	1.4	(0.1)
Letting costs	0.1	–	0.1	0.2
Revaluation	39.6	–	62.0	–
Disposals	(157.4)	0.3	(50.9)	(1,067.7)
Transfer to investment properties held for sale	(13.0)	–	(113.9)	–
Exchange adjustment	0.3	–	1.1	20.2
	627.0	–	694.2	–
Head leases	2.2	–	–	–
At 31 December	629.2	–	694.2	–
Investment properties held for sale:				
At 1 January	113.9	–	3.0	7.4
Disposals	(113.9)	–	(3.0)	(7.4)
Transfer from investment properties	13.0	–	113.9	–
At 31 December	13.0	–	113.9	–

1 Property purchase additions of £91.2 million in 2017 includes £88.8 million which relates to the acquisition of Industrial Multi Property Trust plc.

Included within the property valuation is £5.6 million (2017: £5.9 million) in respect of tenant lease incentives granted. Investment properties before head leases includes £1.5 million of property (2017: £2.0 million) held under the Belgium finance lease.

Properties classified as held for sale at 31 December 2018 represent properties that were actively marketed as at the year-end and have subsequently been sold.

All investment properties, excluding head leases, have been valued by independent professionally qualified external valuers Cushman & Wakefield Debenham Tie Leung Limited, Jones Lang LaSalle or Knight Frank LLP and are stated at fair value as at 31 December. The valuations have been prepared in accordance with the RICS Valuation – Professional Standards January 2014, published by The Royal Institution of Chartered Surveyors and with IVA1 of the International Valuation Standards. The valuations are based on a number of assumptions, the significant ones of which are the determination of appropriate discount rates, estimates of future rental income and capital expenditure. Rental income and yield assumptions are supported by market evidence where relevant.

The Group has pledged certain of its investment properties to secure bank loan facilities and a finance lease granted to the Group (see notes 25 and 26).

In accordance with IFRS 13, the Group's investment property has been assigned a valuation level in the fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). The Group's investment property as at 31 December 2018 is categorised as Level 3 (31 December 2017: Level 3).

Investment properties are valued using a capitalisation methodology applying a yield to current and estimated rental income. Yields and rental values are considered to be unobservable inputs and details of the ranges used in each region are as follows:

Information about fair value measurements using unobservable inputs (Level 3)

	Fair value at 31 December 2018 £m	Rent per sq m Min £	Rent per sq m Max £	Yield Min %	Yield Max %
Belgium	12.9	29.6	110.9	4.4	11.5
France	14.3	31.0	31.0	8.4	8.4
UK – Industrial properties	587.3	14.1	152.0	2.1	17.5
UK – Offices	27.7	33.4	625.7	2.9	18.1
Total	642.2				

	Fair value at 31 December 2017 £m	Rent per sq m Min £	Rent per sq m Max £	Yield Min %	Yield Max %
Belgium	14.5	25.7	108.2	3.0	9.7
France	17.2	29.5	29.5	8.3	8.3
UK – Industrial properties	760.0	10.8	178.0	2.5	15.6
UK – Offices	16.4	23.1	625.7	3.0	17.6
Total	808.1				

Notes to the financial statements continued

18. Investment properties continued

Everything else being equal, there is a positive relationship between rental values and the property valuation, such that an increase in rental values will increase the valuation of a property and vice versa. However, the relationship between capitalisation yields and the property valuation is negative; therefore an increase in capitalisation yields will reduce the valuation of a property and vice versa. There are interrelationships between these inputs as they are determined by the market conditions, and the valuation movement in any one period depends on the balance between them. If these inputs move in opposite directions (i.e. rental values increase and yields decrease) valuation movements can be amplified, whereas if they move in the same direction they may be offset, reducing the overall net valuation movement. The valuation movement is materially sensitive to changes in yields and rental values, however it is impractical to quantify these changes.

As at 31 December 2018, the Group had entered into contracts for £0.4 million (2017: £0.2 million) of building works that were not complete.

19. Investment in subsidiary undertakings

	Company 2018 £m	Company 2017 £m
Cost and net book value:		
Balance at 1 January	498.6	661.2
Additions	–	49.2
Recapitalisation of subsidiaries	37.6	10.9
Impairment of subsidiaries	(32.4)	–
Disposals	–	(84.5)
Liquidations	(4.6)	–
Repayment of share capital	(1.7)	(146.7)
Foreign exchange gain on return of share premium	–	8.5
Balance at 31 December	497.5	498.6

No subsidiaries are excluded from consolidation.

Details of the Company's subsidiaries at 31 December 2018 are as follows:

	Nature of the business	Place of incorporation	Percentage ownership	Class of investment held
Held directly				
Hansteen France SAS	Other letting and operating of own or leased real estate	France	100.00	Ordinary shares
Hansteen Jersey Investments Limited	Intermediate holding company	Jersey[1]	100.00	Ordinary shares
Hansteen Netherlands B.V*	Other letting and operating of own or leased real estate	Netherlands	100.00	Ordinary shares
Ashtenne 2013 Limited#	Other letting and operating of own or leased real estate	United Kingdom[2]	100.00	Ordinary shares
Ashtenne Industrial (General Partner) Limited	Fund management activities	United Kingdom[1]	100.00	Ordinary shares
Hansteen Belgium Limited	Activities of head offices	United Kingdom[1]	100.00	Ordinary shares
Hansteen Europe Limited	Dormant company	United Kingdom[1]	100.00	Ordinary shares
Hansteen FM Limited#	Non-trading company	United Kingdom[2]	100.00	Ordinary shares
Hansteen Germany Residential Limited*	Other letting and operating of own or leased real estate	United Kingdom[2]	100.00	Ordinary shares
Hansteen Land Limited	Development of building projects	United Kingdom[1]	100.00	Ordinary shares
Hansteen Limited	Management of real estate on a fee or contract basis	United Kingdom[1]	100.00	Ordinary shares
Hansteen LP NO 2 Limited#	Management of real estate on a fee or contract basis	United Kingdom[2]	100.00	Ordinary shares
Hansteen Property Investments Limited	Other letting and operating of own or leased real estate	United Kingdom[1]	100.00	Ordinary shares
Industrial Multi Property Trust Limited*	Intermediate holding company	Isle of Man	100.00	Ordinary shares
Held indirectly				
Arman B01 BVBA	Other letting and operating of own or leased real estate	Belgium	100.00	Ordinary shares
I.P.I Nossegem NV	Other letting and operating of own or leased real estate	Belgium	100.00	Ordinary shares
Small Island Management NV	Other letting and operating of own or leased real estate	Belgium	100.00	Ordinary shares
Waterloo Investments NV	Other letting and operating of own or leased real estate	Belgium	100.00	Ordinary shares
Ashtenne Industrial Fund Unit Trust	Other letting and operating of own or leased real estate	Jersey[2]	100.00	Units
Hansteen Saltley Unit Trust	Other letting and operating of own or leased real estate	Jersey[2]	100.00	Units
Ashtenne Industrial Fund Nominee No.1 Limited	Dormant company	United Kingdom[1]	100.00	Ordinary shares
Ashtenne Industrial Fund Nominee No.2 Limited	Dormant company	United Kingdom[1]	100.00	Ordinary shares
Ashtenne (AIF) Limited	Dormant company	United Kingdom[1]	100.00	Ordinary shares
Ashtenne Caledonia Limited	Dormant company	United Kingdom[3]	100.00	Ordinary shares

	Nature of the business	Place of incorporation	Percentage ownership	Class of investment held
Ashtenne (Severnside) Limited	Dormant company	United Kingdom[1]	100.00	Ordinary shares
Ashtenne Industrial Fund Limited Partnership	Limited partnership	United Kingdom[1]	100.00	Capital Contribution
Hansteen Saltley Nominee No.1 Limited	Dormant company	United Kingdom[1]	100.00	Ordinary shares
Hansteen Saltley Nominee No.2 Limited	Dormant company	United Kingdom[1]	100.00	Ordinary shares

* Subsidiary in the process of being liquidated.
# Subsidiary dissolved subsequent to year-end on 5 January 2019.

Each of the undertakings listed above is engaged in property development, investment or management.

Each of the undertakings listed above has a 31 December year end.

The addresses of the registered offices of the above subsidiaries differ dependent upon their place of incorporation as follows:

Place of incorporation	Address of registered office
Belgium	Schalienhoevedreef 20J, B-2800 Mechelen, Brussels, Belgium
France	13 rue Auber, 75009, Paris, France
Isle of Man	IOMA House, Hope Street, Douglas, Isle of Man IM1 1AP
Jersey[1]	22 Grenville Street, St Helier, Jersey JE4 8PX
Jersey[2]	IFC5, St. Helier, Jersey JE1 1ST
Netherlands	4th Floor, WTC Tower A, Strawinskylaan 411, 1077 XX Amsterdam, Netherlands
United Kingdom[1]	1st Floor Pegasus House, 37–43 Sackville Street, London W1S 3DL, United Kingdom
United Kingdom[2]	The Shard, 32 London Bridge Street, London SE1 9SG
United Kingdom[3]	6th Floor, 80 St Vincent Street, Glasgow G2 5UB, United Kingdom

20. Derivative financial instruments

The Group enters into derivative financial instruments to provide an economic hedge to its interest rate and foreign exchange risks. Further details on interest rate and foreign exchange risks are included in note 35.

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Interest rate swaps	2.2	1.7	2.2	1.7
Interest rate caps	0.5	0.5	0.5	0.5
	2.7	2.2	2.7	2.2
Non-current assets	2.7	2.2	2.7	2.2

Interest rate derivative financial instruments

	Average contract fixed interest rate		Notional principal amount		Fair value	
Group	2018 %	2017 %	2018 £m	2017 £m	2018 £m	2017 £m
Interest rate swaps – receive floating pay fixed						
In more than two years but less than five	0.5	0.5	150.0	150.0	2.2	1.7
			150.0	150.0	2.2	1.7
Interest rate caps – receive floating pay fixed						
In more than two years but less than five	0.8	0.8	50.0	50.0	0.5	0.5
			50.0	50.0	0.5	0.5

	Average contract fixed interest rate		Notional principal amount		Fair value	
Company	2018 %	2017 %	2018 £m	2017 £m	2018 £m	2017 £m
Interest rate swaps – receive floating pay fixed						
In more than two years but less than five	0.5	0.5	150.0	150.0	2.2	1.7
			150.0	150.0	2.2	1.7
Interest rate caps – receive floating pay fixed						
In more than two years but less than five	0.8	0.8	50.0	50.0	0.5	0.5
			50.0	50.0	0.5	0.5

Notes to the financial statements continued

21. Trading properties

	Group 2018 £m	Group 2017 £m
Balance at 1 January	10.0	10.0
Additions	0.1	0.3
Write-down	(0.1)	(0.3)
Balance at 31 December	10.0	10.0

22. Trade and other receivables

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Trade receivables	13.9	11.1	–	–
Less: loss allowances	(0.5)	(0.6)	–	–
	13.4	10.5	–	–
Amounts owed by subsidiary undertakings	–	–	157.3	197.2
Other receivables	30.1	6.8	2.1	0.8
Prepayments	0.5	0.4	–	–
Accrued income	1.2	0.6	0.1	2.3
	45.2	18.3	159.5	200.3

The carrying value of trade and other receivables approximates to their fair value.

23. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying value of these assets approximates to their fair value. In 2018 there was no restricted cash included in cash and cash equivalents (2017: £1.2 million).

24. Trade and other payables

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Trade payables	8.0	9.3	–	–
Amounts owed to subsidiary undertakings	–	–	105.2	46.8
Other payables	3.1	2.4	–	–
Accruals	14.2	10.0	6.7	3.0
Deferred income	6.3	8.7	–	–
	31.6	30.4	111.9	49.8

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases by the Company is 15 days (2017: 15 days). For most suppliers no interest is charged on the trade payables for the first 30 days from the date of the invoice. Thereafter, interest is charged on the outstanding balances at various interest rates.

The carrying amount of trade and other payables approximates to their fair value.

25. Borrowings

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Bank loans	245.5	297.1	242.0	293.0
Unamortised borrowing costs	(1.9)	(3.0)	(0.9)	(1.7)
	243.6	294.1	241.1	291.3
Current liability	0.3	0.3	–	–
Non-current liability	243.3	293.8	241.1	291.3
The bank loans are repayable as follows:				
Within one year or on demand	0.7	0.6	–	–
Between one and two years	0.7	0.7	–	–
Between three and five years	243.6	294.9	242.0	293.0
Over five years	0.5	0.9	–	–
	245.5	297.1	242.0	293.0
Undrawn committed facilities				
Expiring between two and five years	88.0	37.0	88.0	37.0

			Covenants	
Facility	Drawn	Expiry	Loan to value	Interest cover
£330.0 million	£242.0 million	July 2021	55%	200%
€3.9 million	€3.9 million	March 2025	–	–

Interest charged on the £330.0 million facility is based on a floating interest rate. The £330.0 million facility is secured through charges against the issued share capital of the relevant entities which own properties totalling £602.6 million (2017: £638.7 million). The Euro facilities detailed above are secured by charges on property with an aggregate carrying value of £12.0 million (2017: £13.6 million).

The carrying amount of borrowings approximates their fair value.

Interest rate and currency profile

Group	2018 %	2018 £m	2017 %	2017 £m
Euro	1.5	3.5	1.5	4.1
Sterling	2.7	242.0	2.1	293.0
	2.6	245.5	2.1	297.1

The above table details the interest rates charged on the outstanding loans as at 31 December 2018. The Group enters into derivative financial instruments to provide an economic hedge to its interest rate risk. Further details on interest rate risk are included in note 35 and the interest rate derivatives are disclosed in note 20. After taking into account the effect of the interest rate swaps, the weighted average interest rates, excluding amortised borrowing costs, are 1.5% for the Euro borrowings (2017: 1.5%) and 2.7% for the Sterling borrowings (2017: 2.4%).

26. Lease liabilities

	Belgium lease 2018 £m	Head leases 2018 £m	Other leases 2018 £m	Total 2018 £m	Belgium lease 2017 £m
Amounts payable under lease liabilities:					
Within one year	0.2	–	0.6	0.8	0.2
In the second to fifth years inclusive	2.0	–	0.4	2.4	0.9
After five years	–	2.2	–	2.2	1.4
Present value of lease obligations	2.2	2.2	1.0	5.4	2.5
Non-current	2.0	2.2	0.4	4.6	2.3
Current	0.2	–	0.6	0.8	0.2

The Belgium finance lease is denominated in Euro and has an outstanding term of four years (2017: five years). For the year ended 31 December 2018 the interest rate implicit in the lease was 1.7% (2017: 2.8%). Interest rates are fixed every five years, and interest rate and capital repayments adjusted to reflect this. The Group's obligations under the finance lease are secured by the lessors' rights over the leased assets.

The Group adopted IFRS 16 on 1 January 2018 and has applied the modified retrospective approach rather than the full retrospective approach; therefore, there has been no restatement to the comparative information.

The Group leases various assets under property, plant and equipment including office buildings, office equipment and motor vehicles. The average lease term is four years.

Notes to the financial statements continued

26. Lease liabilities continued

The Group has a number of head leases which are presented as investment properties. The average lease term is 96 years. One head lease contains variable lease payment terms which are based on the sales generated by the leased property. The variable portion of the lease payments is as follows:

	2018 £m	2017 £m
Fixed payments	1.0	–
Variable payments	0.1	–
Total payments	1.1	–
Percentage variable	9.1%	–

The total cash outflow for all leases amounts to £1.0 million.

The weighted average discount rate applied to the portfolio is 6.41%.

The fair value of the Group's lease obligations approximates to their carrying amount.

27. Provisions

	Group 2018 £m	Group 2017 £m
Legal claims	–	(0.8)
Non-current liabilities	–	(0.8)

	Legal claims £m	Total £m
At 1 January 2018	(0.8)	(0.8)
Utilisation of provision	0.1	0.1
Release of provision	0.7	0.7
At 31 December 2018	–	–

The 2017 legal claims provision represented management's best estimate of the Group's liability, based on legal advice, for the ongoing legal proceedings with a former tenant.

28. Deferred tax

Group 2018	Carrying value of investment properties £m	Currency contracts and interest rate derivatives £m	Losses £m	Short-term timing differences £m	Total £m
At 1 January 2018	(5.1)	–	1.3	(0.4)	(4.2)
Credit/(charge) to income – continuing operations	0.6	–	(0.9)	0.4	0.1
At 31 December 2018	(4.5)	–	0.4	–	(4.1)
Deferred tax liabilities	(4.5)	–	0.4	–	(4.1)

Group 2017	Carrying value of investment properties £m	Currency contracts and interest rate derivatives £m	Losses £m	Short-term timing differences £m	Total £m
At 1 January 2017	(51.3)	1.1	2.3	0.4	(47.5)
Credit/(charge) to income – continuing operations	1.1	–	(0.5)	–	0.6
Credit/(charge) to income – discontinued operations	11.4	(0.8)	(0.2)	(0.2)	10.2
Disposal	34.5	–	(0.5)	(0.8)	33.2
Exchange differences	(0.8)	(0.3)	0.2	0.2	(0.7)
At 31 December 2017	(5.1)	–	1.3	(0.4)	(4.2)
Deferred tax assets	–	–	–	–	–
Deferred tax liabilities	(5.1)	–	1.3	(0.4)	(4.2)

Company	Losses £m	Short-term timing differences £m	Total £m
At 1 January 2017	0.5	–	0.5
Credit to income	(0.4)	(0.2)	(0.6)
At 31 December 2017	0.1	(0.2)	(0.1)
Credit to income	(0.1)	0.2	0.1
At 31 December 2018	–	–	–

At 31 December 2018 the Group has unutilised tax losses of £58.0 million (2017: £75.5 million) available for offset against future taxable profits. A deferred tax asset has been recognised in respect of £1.5 million (2017: £4.2 million) of such losses. No deferred tax asset has been recognised in respect of the remaining losses of £56.5 million (2017: £71.3 million) and deductible temporary differences of £40.8 million (2017: £27.8 million) due to the unpredictability of future taxable profits.

Unutilised losses carried forward and deductible temporary differences for which no deferred tax asset has been recognised expire as follows:

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Losses				
Expiring in 2020	–	16.6	–	–
Expiring in 2024	–	1.9	–	–
Expiring in 2025	–	5.4	–	–
Carried forward without restriction	56.5	47.4	51.5	31.0
Total – Losses	56.5	71.3	51.5	31.0
Deductible temporary differences (no expiry date)	40.7	27.8	40.7	27.8

The UK corporation tax rate fell from 20% to 19% in April 2017 and will fall to 17% in April 2020. The impact of these rate changes is not significant to the Group.

29. Share capital

	Number of shares m	31 December 2018 £m	Number of shares m	31 December 2017 £m
Authorised, issued and fully paid ordinary shares of 10p each				
At 1 January	413.1	41.3	745.8	74.6
Issue of equity shares	–	–	80.2	8.0
Cancellation of shares under tender offer	–	–	(412.9)	(41.3)
At 31 December	413.1	41.3	413.1	41.3

The share capital comprises one class of ordinary shares carrying no right to fixed income. There are no specific restrictions on the size of a shareholding or the transfer of shares, except for UK REIT restrictions.

The issue of 80.2 million equity shares in 2017 relates to the conversion of the convertible bonds on 10 July 2017.

The cancellation of 412.9 million shares under tender offer in 2017 was completed on 8 November 2017 following the publication of a circular and a successful tender offer. The shares were purchased at the tender offer price of 140 pence per ordinary share, representing a par value of £41.3 million and a total gross cost of £583.1 million (£578.1 million return to shareholders and £5.0 million associated costs). The £41.3 million was transferred to the capital redemption reserve as required by the Companies Act. The capital redemption reserve was cancelled and the balance returned to shareholders in May 2018.

During the year, the Company acquired some of its own shares in order to settle obligations under the Performance Share Plan.

	Number m	Proportion of subscribed capital %	Nominal value £m	Consideration £m
At 1 January 2018	(0.1)	0.03%	–	(0.1)
Acquired				
4 April 2018	(0.7)	0.17%	–	(0.9)
16 October 2018	(1.2)	0.28%	(0.1)	(1.2)
Issued to employees				
13 April 2018	0.4	0.10%	–	0.5
6 October 2018	0.3	0.08%	–	0.4
At 31 December 2018	(1.3)	0.31%	(0.1)	(1.3)

Notes to the financial statements continued

30. Notes to the cash flow statement

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Profit for the year	61.4	204.3	68.9	394.6
Adjustments for:				
Share-based payments – continuing operations	23.6	17.8	23.6	18.0
Share-based payments – discontinued operations	–	0.1	–	–
Depreciation of property, plant and equipment – continuing operations	0.6	0.2	–	–
Other gains	–	–	–	(0.5)
Loss/(profit) on sale of subsidiaries	–	–	4.7	(70.2)
Loss/(profit) on sale of discontinued operations	0.1	(121.4)	–	–
Profit on sale of investment properties – continuing operations	(19.5)	(5.9)	–	–
Profit on sale of investment properties – discontinued operations	–	(0.1)	–	–
Fair value gains on investment properties – continuing operations	(39.6)	(62.0)	–	–
Impairment of investment in subsidiary	–	–	32.4	(8.5)
Dividends received	–	–	(140.0)	(358.1)
Net finance costs – continuing operations	8.3	19.4	4.3	12.0
Net finance costs – discontinued operations	(0.5)	5.9	–	–
Tax charge – continuing operations	–	(0.8)	(0.1)	6.3
Tax (credit)/charge – discontinued operations	(1.4)	9.8	(1.4)	–
Operating cash inflows/(outflows) before movements in working capital	33.0	67.3	(7.6)	(6.4)
(Increase)/decrease in receivables	(5.4)	(2.3)	58.1	53.0
(Decrease)/increase in payables	(0.6)	(1.9)	44.0	(13.7)
Cash generated from operations	27.0	63.1	94.5	32.9
Income taxes paid	(19.4)	(4.6)	(5.8)	–
Interest paid	(7.2)	(13.3)	(8.3)	(9.8)
Net cash inflow from operating activities	0.4	45.2	80.4	23.1

The liabilities arising from financing activities are reconciled as follows:

			Non-cash changes					
	1 January 2018 £m	Cash flows £m	Acquisition £m	Foreign exchange £m	Fair value changes £m	Bonds converted £m	Other £m	31 December 2018 £m
Long-term borrowings	293.8	(51.6)	0.2	–	–	–	0.9	243.3
Short-term borrowings	0.3	–	–	–	–	–	–	0.3
Lease liabilities	2.5	(0.8)	3.7	–	–	–	–	5.4
Assets held to hedge long-term borrowings	(2.2)	–	–	–	(0.5)	–	–	(2.7)
	294.4	(52.4)	3.9	–	(0.5)	–	0.9	246.3

			Non-cash changes					
	1 January 2017 £m	Cash flows £m	Acquisition £m	Foreign exchange £m	Fair value changes £m	Bonds converted £m	Other £m	31 December 2017 £m
Long-term borrowings	793.5	(76.2)	(354.2)	10.1	14.1	(99.4)	5.9	293.8
Short-term borrowings	20.5	(20.2)	–	–	–	–	–	0.3
Lease liabilities	2.6	(0.2)	–	0.1	–	–	–	2.5
Assets held to hedge long-term borrowings	2.2	(4.3)	0.9	0.1	(1.1)	–	–	(2.2)
	818.8	(100.9)	(353.3)	10.3	13.0	(99.4)	5.9	294.4

31. Operating lease arrangements

The Group as lessee

As at the balance sheet date the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group 2018 £m	Group 2017 £m
Within one year	–	0.8
In the second to fifth years inclusive	–	1.7
After five years	–	20.2
	–	22.7

In the current year IFRS 16 Leases was adopted and all operating leases for the Group as a lessee are now classified as lease liabilities and presented in note 26.

Operating lease payments in 2017 represented rentals payable by the Group under ground rent leases for land relating to a number of buildings that are classified as investment properties, rentals payable in respect of its office properties and rentals for company cars. The expense relating to operating leases in 2017 was £0.9 million.

The Group as lessor

The Group leases all of its investment properties under operating leases. As at the balance sheet date the Group had contracted with tenants for the following future aggregate minimum rentals receivable under non-cancellable operating leases:

	Group 2018 £m	Group 2017 £m
Within one year	43.8	52.8
In the second to fifth years inclusive	92.4	107.7
After five years	44.3	63.3
	180.5	223.8

32. Share-based payments

During the year ended 31 December 2018, the Group had two equity-settled share schemes.

- Founder Long-Term Incentive Plan
- Performance Share Plan

The total share-based payment charge for the year under these schemes was £23.6 million (2017: £18.0 million) with associated social security costs of £3.5 million (2017: £2.5 million).

Founder Long-Term Incentive Plan (Founder LTIP)

The Founders and Joint Chief Executives are entitled to a share award dependent on the growth in EPRA NAV. The target for the Founder LTIP is that EPRA NAV per ordinary share (after adding back dividends and other returns to shareholders) must exceed a compound growth rate of 10% per annum in a three-year performance period. The current performance period runs from 1 January 2016 to 31 December 2018 and the Founder LTIP will be terminated at the end of this performance period.

The value of the share award for each Chief Executive is calculated as 12.5% of the excess growth over the 10% growth target. Any amount payable under the Founder LTIP is to be satisfied by the award of ordinary shares of the Company.

The price per share to be used when determining the number of shares which the Joint Chief Executives are entitled to is 90.488p, being the average mid-market quotation for such shares on the Main Market for the first 20 dealing days immediately following the end of the relevant period. The excess growth in EPRA NAV over the performance target during the performance period was £157.8 million and, as such, each Joint Chief Executive is entitled to 21,797,715 ordinary shares in the Company.

The Joint Chief Executives have agreed to forgo part of their awards equal in value to their PAYE and National Insurance Contributions due on the vesting of the awards, which will be settled on their behalf by the Company. After settlement of these liabilities, each of the Joint Chief Executives will receive 11,552,789 ordinary shares. The PAYE and employer's and employee's national insurance liabilities due on the vesting of the Founder LTIP awards comprises £18,540,755 in respect of the PAYE and employee's national insurance liabilities, £5,443,881 in respect of the employer's national insurance liabilities and £197,242 in respect of the apprenticeship levy. The actual amounts payable will be based on the share price when the Founder LTIP awards vest on approval by the Board of the audited accounts of the Company for the year ending 31 December 2018. Further details are given in the Report of the Remuneration Committee on pages 42 and 43.

The total share-based payment charge for the year under this scheme was £22.6 million (2017: £16.8 million) with associated social security costs of £3.3 million (2017: 2.3 million).

Performance Share Plan (PSP)

The PSP awards share options with a nil exercise price to Executive Directors and senior employees. The number of options granted is calculated with reference to the employee's salary and the share price prior to the grant date. Vesting of the awards is staggered over the three years following the performance period, with one-third vesting each year if performance targets are met. Performance targets are based on Total Shareholder Return and Net Asset Value growth relative to a peer group of listed UK REITs.

Year issued	Exercise price	Outstanding at start of year	Granted	Exercised	Lapsed	Outstanding at end of year	Number exercisable	Average remaining life (years)
2013	nil	138,051	–	(138,051)	–	–	–	4.2
2014	nil	298,959	51,152	(149,480)	–	200,631	–	5.3
2015	nil	878,253	200,360	(292,751)	–	785,862	–	6.2
2016	nil	1,068,291	365,569	–	–	1,433,860	–	7.3
2017	nil	595,473	203,770	–	–	799,243	–	8.3
2018	nil	–	912,352	–	–	912,352	–	9.3

On 3 May 2018 the Company completed a £144.5 million return of capital equating to 35p per share to the shareholders. As the holders of these outstanding PSP awards and of previous PSP awards which had vested but were not exercisable could not participate in the return of capital, the number of ordinary shares subject to their awards were also amended so they were not disadvantaged. As a result, 251,512 ordinary shares were added to the awards over 734,981 ordinary shares which had vested but were not exercisable, and 801,947 ordinary shares were added to the awards over 2,343,508 ordinary shares which were unvested and subject to performance measures. Further details are given in the Report of the Remuneration Committee on page 44.

The total share-based payment charge for the year under this scheme was £1.0 million (2017: £1.1 million) with associated social security costs of £0.2 million (2017: £0.2 million).

Notes to the financial statements continued

32. Share-based payments continued

The inputs to the PSP awards share options' valuation were:

	2018	2017
Closing share price at grant date	129.6p	124.7p
Weighted average exercise price	nil	nil
Weighted average fair value	89.2p	98.8p
Expected volatility	24.37%	24.19%
Expected life	5 years	5 years
Risk free rate	0.89%	0.65%

Expected volatility was calculated by reference to dividend adjusted share prices for a comparator group of companies.

33. Events after the balance sheet date

A second dividend in respect of the year ended 31 December 2018 of 3.8p per share will be payable on 17 May 2019 to shareholders on the register on 5 April 2019. Based on the number of shares in issue at 31 December 2018, this will result in a distribution of £15.6 million.

34. Related party transactions

Group

Remuneration of key management personnel

The aggregate remuneration of the Directors, who are the key management personnel of the Group and the Company, is set out below. The remuneration is paid by Hansteen Limited and forms part of the management fee charged to the Company. Further information about the remuneration of individual Directors is provided in the audited part of the Remuneration Report on pages 41 to 44.

	Group 2018 £m	Group 2017 £m
Short-term employee benefits	2.6	2.5
Post-employment benefits	0.2	0.2
Share-based payments	42.7	1.2
	45.5	3.9

Company

Transactions with subsidiaries

The Company enters into loans with its subsidiaries to provide long-term funding for their investment activities. Interest is charged on these loans at LIBOR plus 1.75% to 2.5% (2017: 1.75% to 2.5%) or EURIBOR plus 1.75% (2017: 1.75%). Interest on two facilities with Industrial Multi Property Trust Limited was charged at a fixed rate of 10%. The two loan facilities were settled in March 2018 and the facilities expired in December 2018.

The Company is charged management fees by its management subsidiary, Hansteen Limited, which undertakes day-to-day management of the Group on behalf of the Company.

Surplus funds in subsidiary companies are loaned to the Company at LIBOR plus 1.75% to 2.5% (2017: 1.75% to 2.5%) or EURIBOR plus 1.75% (2017: 1.75% to 3.75%). Working capital and deposit amounts in Hansteen (Jersey) Securities Limited were loaned at the standard current account interest rate. Hansteen (Jersey) Securities Limited was dissolved in September 2018.

A summary of the transactions with the subsidiaries is as follows:

	Company 2018 £m	Company 2017 £m
Interest-bearing loans made to subsidiaries	79.2	59.7
Interest-bearing loans repaid by subsidiaries	(66.5)	(111.7)
Interest-bearing loans made by subsidiaries	(4.6)	(20.9)
Interest-bearing loans repaid to subsidiaries	29.3	92.6
Interest-free loans made to subsidiaries	0.1	1.2
Interest-free loans repaid by subsidiaries	–	(0.2)
Interest-free loans made by subsidiaries	(135.9)	–
Interest-free loans repaid to subsidiaries	–	8.7
Interest income received in respect of interest-bearing loans	4.2	6.5
Interest paid in respect of interest-bearing loans	(1.0)	(3.2)
Management fees charged to the Company	1.7	1.6

The balances outstanding at the year end from transactions with subsidiaries are as follows:

	Company 2018 £m	Company 2017 £m
Amounts due from subsidiaries included in trade and other receivables	157.3	197.2
Amounts due to subsidiaries included in trade and other payables	(105.2)	(46.8)
	52.1	150.4

35. Financial instruments

The table below sets out the categorisation of the financial instruments held by the Group at 31 December 2018. The carrying amount of all financial instruments, other than those for which a valuation level has been given below, approximates to their fair values. Where the financial instruments are held at fair value the valuation level indicates the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument in its entirety.

	Valuation level	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Financial assets					
Designated as held for trading					
Interest rate caps	2	**0.5**	0.5	**0.5**	0.5
Interest rate swaps	2	**2.2**	1.7	**2.2**	1.7
		2.7	2.2	**2.7**	2.2
Loans and receivables					
Trade and other receivables		**44.7**	17.3	**159.5**	198.0
Cash and cash deposits		**55.1**	71.2	**15.7**	48.6
		99.8	88.5	**175.2**	246.6
		102.5	90.7	**177.9**	248.8
Financial liabilities					
At amortised cost					
Lease liabilities		**(5.4)**	(2.5)	**–**	–
Borrowings		**(243.6)**	(294.1)	**(242.0)**	(293.0)
		(249.0)	(296.6)	**(242.0)**	(293.0)
Other financial liabilities					
Payables and accruals		**(25.3)**	(21.7)	**(111.9)**	(49.8)
Current tax liabilities		**(1.3)**	(20.5)	**(1.0)**	(7.2)
		(26.6)	(42.2)	**(112.9)**	(57.0)
		(275.6)	(338.8)	**(354.9)**	(350.0)

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings, the lease liabilities, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings, all as disclosed in the balance sheet.

The Group is not subject to externally imposed capital requirements.

The Group's management reviews the capital structure on a semi-annual basis in conjunction with the Board. As part of this review, management considers the cost of capital and the risks associated with each class of capital and debt.

Net debt to equity ratio

	Group 2018 £m	Group 2017 £m
Lease liabilities – Belgium finance lease	**2.2**	2.5
Lease liabilities – Other leases	**3.2**	–
Borrowings	**243.6**	294.1
Cash and cash equivalents	**(55.1)**	(71.2)
Net debt	**193.9**	225.4
Equity attributable to equity holders of the parent	**470.1**	557.5
Net debt to equity ratio	**41.2%**	40.4%
Carrying value of investment and trading properties externally valued	**650.0**	818.1
Carrying value of head leases	**2.2**	–
Total carrying value of investment and trading properties	**652.2**	818.1
Net debt to value ratio	**29.7%**	27.6%

Notes to the financial statements continued

35. Financial instruments continued

Reconciliation of movement in net debt in the year

	Group 2018 £m	Group 2017 £m
Net debt at beginning of year	225.4	710.1
Effect of change in accounting policy (note 2)	3.4	–
Net debt at beginning of year restated	228.8	710.1
Cash flow		
Net decrease in cash and cash equivalents	15.5	15.2
New bank loans raised (net of expenses)	116.0	181.2
Bank loans repaid	(167.6)	(692.2)
Repayments of lease liabilities	(0.8)	(0.2)
Other		
Foreign exchange movements recognised in equity	0.7	5.8
Foreign exchange movements recognised in the income statement	–	(0.4)
Amortisation of bank loan fees	1.0	5.9
Movement in lease liabilities	0.3	–
	193.9	225.4

Financial risk management objectives

The Group monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to economically hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors. Compliance with policies and exposure limits is reviewed by the Board and management on a continuous basis. The Group does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes.

The Group's management reports quarterly to the Board and biannually to the Audit Committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- interest rate swaps and caps to mitigate the risk of rising interest rates; and
- forward foreign exchange contracts and currency options to hedge the exchange rate risk arising on translation of the Group's investment in foreign operations which have the Euro as their functional currency.

Foreign currency risk management

The Group's exposure to foreign currency arises from the fact that there are foreign operations which transact business denominated in Euro, with the translation of the local trading performance and local net asset to Sterling for each financial period and at each balance sheet date giving rise to an exposure to fluctuations in the Sterling: Euro exchange rate. The Group's approach to managing this exposure is to fund investments in Euro-denominated operations with equity and Euro-denominated debt that is partly hedged by forward currency options to limit the overall exposure of the Group.

The carrying amounts of the Group's foreign currency denominated financial instruments at the reporting date are as follows. The carrying amount of the Group's non-financial instruments in Euro-denominated operations is also presented.

2018	GBP £m	EUR £m	Total £m
Financial instruments	(176.0)	1.0	(175.0)
Non-financial instruments	620.1	23.1	643.2
Net exposure	444.1	24.1	468.2

2017	GBP £m	EUR £m	Total £m
Financial instruments	(273.9)	22.8	(251.1)
Non-financial instruments	778.8	26.8	805.6
Net exposure	504.9	49.6	554.5

Foreign currency sensitivity analysis

The Group is exposed to the Euro through its operations in Belgium, France and the Netherlands. At 31 December 2018 the net assets of the Group were £470.1 million (2017: £557.5 million) of which £24.0 million were denominated in Euros (2017: £49.6 million). At 31 December 2018 the Group had no currency options in place to buy Sterling for an agreed amount of Euros.

The table below shows the impact of a 10% strengthening or weakening of Sterling against the Euro in relation to financial instruments alone.

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Increase foreign exchange rates by 10%				
Increase in profit before tax	(0.6)	(2.1)	(0.5)	(1.4)
Increase in other comprehensive income	0.3	1.5	–	–
Decrease foreign exchange rates by 10%				
Decrease in profit before tax	0.7	2.7	0.6	1.8
Decrease in other comprehensive income	(0.3)	(1.9)	–	–

Interest rate risk management
The Group is exposed to interest rate risk as entities in the Group borrow funds at floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and interest rate cap contracts.

Interest rate sensitivity analysis
The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments during the year.

	Increase/(decrease) in profit before tax:			
	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Increase interest rates by 1%	(0.4)	(1.5)	–	(0.7)
Decrease interest rates by 1%	0.5	1.5	0.1	(0.4)

There would have been no effect on amounts recognised directly in equity.

Interest rate swap and cap contracts
Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Under interest rate cap contracts, the Group has limited its exposure to increases in interest rates by capping interest payable on its borrowings. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held.

Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

The Group's maximum exposure to credit risk is £98.6 million (2017: £88.5 million) comprising trade and other receivables and cash and cash deposits. The Group's principal credit risk is attributable primarily to its trade receivables of £13.4 million (2017: £10.5 million) which consist principally of rents due from tenants. The balance is low relative to both the current and net assets of the Group and the Company.

Potential customers are evaluated for creditworthiness and where necessary collateral is secured. There is no concentration of credit risk within the portfolio to either geographical business segment or Company as the Group has a well spread diverse customer base with no one customer accounting for more than 5.7% (2017: 3.8%) of the gross rent roll.

Other receivables consist principally of tax and VAT receivables. These items do not give rise to significant credit risk.

Cash deposits are held at banks with high credit ratings assigned by international credit rating agencies.

Liquidity risk management
Ultimate responsibility for liquidity risk management rests with the Board of Directors, which monitors the Group's short, medium and long-term funding and liquidity management requirements on a regular basis. The Group manages liquidity risk by maintaining adequate reserves and banking facilities. As at 31 December 2018 the net debt to property value was 29.7% (2017: 27.6%) and the Group had £638.0 million (2017: £804.5 million) of investment and trading properties that were not secured against the Group's borrowings.

Notes to the financial statements continued

35. Financial instruments continued

Liquidity and interest risk tables

The following table details the Group's remaining contractual maturity for its non-derivative and derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The table includes both interest and principal cash flows. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the interest and foreign currency rates as at the reporting date.

Group 2018	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Borrowings	(0.7)	(0.7)	(243.6)	(0.5)	(245.5)
Interest on borrowings	(6.5)	(6.5)	(3.9)	–	(16.9)
Lease liabilities	(0.9)	(0.6)	(2.1)	(4.8)	(8.4)
Payables and accruals	(25.3)	–	–	–	(25.3)
	(33.4)	(7.8)	(249.6)	(5.3)	(296.1)

2017	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Borrowings	(0.6)	(0.7)	(294.9)	(0.9)	(297.1)
Interest on borrowings	(6.3)	(6.3)	(10.1)	(0.1)	(22.8)
Lease liabilities	(0.3)	(0.3)	(0.8)	(1.4)	(2.8)
Interest rate swaps	(0.3)	(0.3)	(0.5)	–	(1.1)
Payables and accruals	(21.7)	–	–	–	(21.7)
	(29.2)	(7.6)	(306.3)	(2.4)	(345.5)

Company 2018	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Borrowings	–	–	(242.0)	–	(242.0)
Payables and accruals	(111.9)	–	–	–	(111.9)
	(111.9)	–	(242.0)	–	(353.9)

2017	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Borrowings	–	–	(293.0)	–	(293.0)
Payables and accruals	(49.8)	–	–	–	(49.8)
	(49.8)	–	(293.0)	–	(342.8)

Glossary

Adjusted EPS
EPRA EPS adjusted to exclude the fair value of the Founder LTIP charge and the dilutive impact of the Founder LTIP shares.

AGM
Annual General Meeting.

AIM
Alternative Investment Market.

Annualised rental income
Passing rent.

APMs
Alternative Performance Measures.

Built portfolio
The value of Investment Properties at the balance sheet date excluding the value of land.

Contracted rent
Contracted rent is the passing rent adjusted for the inclusion of rent subject to rent free periods.

Earnings per share (EPS)
Profit for the period after tax attributable to members of the Company divided by the weighted average number of shares in issue during the period.

EPRA
The European Public Real Estate Association, a real estate industry body, which has issued Best Practices Recommendations in order to provide consistency and transparency in real estate reporting across Europe.

EPRA earnings
IFRS profit after taxation, excluding movements relating to changes in values of investment properties, gains/losses on investment property disposals, changes in the fair value of financial instruments and the related tax effects.

EPRA earnings per share (EPRA EPS)
EPRA earnings, divided by the weighted average number of shares in issue during the period.

EPRA net asset value (EPRA NAV)
A measure of NAV designed by EPRA representing the IFRS net assets, excluding the mark-to-market on derivatives and related debt adjustments, the mark-to-market on the convertible bonds as well as deferred taxation on property and derivative valuations.

EPRA NAV per share
EPRA NAV divided by the number of shares in issue at the balance sheet date plus the number of dilutive share options.

ERV
The estimated annual market rental value of lettable space as assessed biannually by the external valuer.

Founder Long-Term Incentive Plan (Founder LTIP)
A Long-Term Incentive Plan put in place for the Joint Chief Executives at the Initial Public Offering in 2005. To the extent that growth in EPRA NAV plus dividends and other returns to shareholders exceeds 10% per annum compound over three years, the Joint Chief Executives will each receive shares equating to 12.5% of the out-performance. The Joint Chief Executives have agreed that the Plan will terminate following the performance period culminated at 31 December 2018 without compensation.

Group
Hansteen Holdings PLC and its subsidiaries.

IFRS
International Financial Reporting Standards adopted for use in the European Union.

IPO
Initial Public Offering.

Glossary continued

Key performance indicators (KPIs)
The Directors consider the following to be key performance indicators (KPIs):

Continuing operations	2018	2017
Normalised Income Profit	£25.8m	£31.3m
Normalised Total Profit	£45.8m	£37.5m
IFRS net asset value (NAV) per share	103.3p	135.1p
EPRA NAV (per share)	102.7p	130.6p
Annualised rental income	£46.1m	£57.5m
Net debt to value	29.7%	27.6%
Dividend (per share)	6.2p	6.1p
Yield	7.6%	7.5%
Occupancy (area)	91.3%	92.3%

Like-for-like increase in contracted rent
A measure of portfolio performance calculated by taking the contracted rent at the start of the period, adding contracted rent from purchases, deducting contracted rent lost from sales and then comparing that with the contracted rent at the end of the period.

Like-for-like property valuation increase
The fair value gains during the period on investment properties held at the balance sheet date. A measure of value growth calculated by taking the property valuation at the start of the period, adding the cost of property purchases and capital expenditure incurred during the period, deducting the value of property disposals during the period and then comparing that with the property valuation at the end of the period.

NAV
Net asset value.

NAV per share
Net asset value divided by the number of shares outstanding at the balance sheet date.

Net debt
Borrowings including lease liabilities less cash and cash equivalents.

Net debt to property value ratio
Net debt divided by the carrying value of investment property and investment property held for sale.

Net initial yield (NIY)
Passing rent at the point of acquisition expressed as a percentage of the total acquisition cost (including taxes and fees).

Normalised Income Profit (NIP)
A measure designed to reflect the underlying realised profits before considering property and other revaluation movements. Calculated by deducting direct operating expenses, administrative expenses and net interest payable from investment property rental income.

Normalised Total Profit (NTP)
A further measure designed to reflect the underlying realised profits before considering property and other revaluation movements. Calculated by adding profits or losses from the sale of properties and other realised one-off items to the Normalised Income Profit.

Occupancy
Total area of let units as a percentage of the total area of all lettable units.

Passing rent
Gross annual rental income currently receivable on a cash basis as at the balance sheet date less any ground rents payable under head leases.

Property income distribution (PID)
Profits distributed to shareholders which are subject to tax in the hands of the shareholders as property income.

RCF
Revolving credit facility.

Rent roll
Contracted rent.

Total return to shareholders
A measure of return based on the movement in EPRA NAV over a period plus dividends paid and capital returned in the period, expressed as a percentage of the EPRA NAV at the start of the period.

Underlying NAV growth
Measured by taking the EPRA NAV per share at 31 December 2018, adding back the return of capital during the year and comparing this with the EPRA NAV at 31 December 2017.

Weighted average unexpired lease term (WAULT)
The average lease term remaining to first break, or expiry, across the portfolio weighted by contracted rental income (including rent-free periods).

Yield
Passing rent on investment properties at the balance sheet date, expressed as a percentage of the investment property valuation at the balance sheet date.

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