

# **AEW UK REIT plc**

Annual Report and Financial Statements  
for the year ended 30 April 2017

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# Strategic Report

## Financial Highlights

- Net Asset Value ('NAV') of £118.67 million and of 95.98 pence per share as at 30 April 2017 (2016: £116.38 million and 99.03 pence per share).
- Operating profit before fair value changes and disposals of £9.81 million for the year ended 30 April 2017 (2016: £6.31 million).
- Unadjusted profit before tax ('PBT') of £6.10 million and of 5.04 pence per share for the year ended 30 April 2017 (2016: £4.64 million and of 4.83 pence per share).
- Total dividends of 8.0 pence per share have been declared for the year ended 30 April 2017 (2016: 5.5 pence per share).
- The Company raised total gross proceeds of £6.00 million for the year ended 30 April 2017 (2016: £117.68 million).
- The price of the Company's Ordinary Shares on the Main Market of the London Stock Exchange was 99.56 pence per share as at 30 April 2017 (30 April 2016: 100.00 pence per share).
- As at 30 April 2017, the Company had a £40 million (2016: £40 million) term credit facility with The Royal Bank of Scotland International Limited ('RBSi') and was geared to 19.31% of the Gross Asset Value (2016: 10.51%). On 8 May 2017, the Company reduced the facility from £40 million to £32.5 million.
- The Company held cash balances totalling £3.65 million as at 30 April 2017 (2016: £7.96 million), of which £1.31 million (2016: £4.94 million) was held for the purpose of capital acquisitions.
- Net revenue (being total comprehensive income before fair value changes) of £9.05m and of 7.49 pence per share.

## Property Highlights

- The Company acquired five properties during the year ended 30 April 2017 (2016: 25 properties) and disposed of one property (2016: nil).
- As at 30 April 2017, the Company's property portfolio had a fair value of £137.82 million (2016: £114.34 million) as compared to the combined purchase price of the portfolio of £133.09 million (2016: £110.64 million) (excluding purchase costs), representing an increase of £4.73 million (2016: £3.70 million), or 3.55% (2016: 3.35%).
- The majority of assets that have been acquired are fully let and the portfolio has a vacancy rate of 7.22% (2016: 3.16%).
- Rental income generated in the year was £12.15 million (2016: £6.15 million). The number of tenants as at 30 April 2017 was 79 (2016: 56).
- Average portfolio net initial yield of 7.63% (2016: 8.38%).
- Weighted average unexpired lease term of 5.2 years (2016: 4.9 years) to break and 6.4 years (2016: 6.1 years) to expiry.
- A further two properties have been acquired for £4.92 million (excluding purchase costs) since the year end generating a further £0.41 million per annum in passing rent.

All comparative figures relate to the period from 1 April 2015 to 30 April 2016. Prior period was longer than 12 months so cannot be used as a direct comparator.

# Chairman's Statement

## Overview

I am pleased to present the second annual audited results of AEW UK REIT plc (the 'Company') for the financial year from 1 May 2016 to 30 April 2017.

It has been a very interesting and challenging year due to the uncertainty and market volatility created by various geopolitical and economic events.

In the aftermath of the EU referendum in June 2016, and in common with other REITs, the Company's share price fell to a low of 90 pence per Ordinary Share. I am pleased to see that the share price has recovered steadily and in recent months has reached its pre-Brexit levels of 102 pence per Ordinary Share. Furthermore our share price relative to NAV has been trading at a premium since mid-February 2017 and as at 30 April 2017 was at a premium of 3.7%.

The valuation of the Company's property portfolio fell by 1.8% in the period from May 2016 to July 2016, following the EU referendum result. This was in comparison to a fall of 3% in capital values of direct properties as measured by MSCI (IPD UK Monthly Property Index), a global independent provider of market indices, over the same period. I was encouraged by the resilience of the portfolio to the initial market uncertainty; our exposure to market risk was no doubt mitigated through having a diversified portfolio. On a like-for-like basis, the Company's property portfolio valuation increased slightly by 0.2% during the financial year.

During the financial year, the Company made a decision to sell down its investment in the AEW UK Core Property Fund (the 'Core Fund') with the aim of reinvesting the proceeds into direct property holdings. This investment in the Core Fund was accretive to the Company's performance during the initial ramp up phase but has proved less relevant to the Company's strategy as the portfolio has matured. The Company sold 20.8% of its shares in the Core Fund on 1 February 2017 at a premium of 2% to NAV and the remaining shares were sold on 9 May 2017 at a 1.5% premium to NAV. This investment yielded a total return of 13% during the hold period.

The Company raised a further £6.0 million during its financial year through the issuance of new Ordinary Shares. These proceeds, together with amounts raised from the sale of investment properties (£2.8 million), proceeds raised from the Core Fund investment (totalling £9.6 million) and loan drawdowns under the debt facility (totalling £14.8 million), have been used to invest in new properties. During the financial year, the Company acquired a further five properties for a total of £24.7 million (excluding acquisition costs), and a further two properties have been acquired since the year end for a total of £4.9 million.

As at 30 April 2017, the Company had established a diversified portfolio of 29 commercial investment properties throughout the UK with a weighted average total equivalent yield of 8.5%.

## Financial Results

The Company has continued to deliver an attractive total return, including significant dividend income, as it continues to follow its investment policy against a backdrop of uncertain political and economic conditions.

Under International Financial Reporting Standards ('IFRS') as adopted by the European Union, our operating profit for the year to 30 April 2017 was £6.86 million (30 April 2016: £4.86 million), with total comprehensive income of £6.10 million (30 April 2016: £4.64 million). Basic earnings per share ('EPS') for the year were 5.04 pence (30 April 2016: 4.83 pence).

Under European Public Real Estate Association ('EPRA') methodology, EPS for the year was 7.57 pence (30 April 2016: 6.33 pence) and the NAV per share at 30 April 2017 was 95.95 pence (30 April 2016: 98.97 pence). A full list of EPRA performance figures can be found on page 103.

The audited NAV per share as at 30 April 2017 was 95.98 pence (30 April 2016: 99.03 pence), prior to adjusting for the interim dividend for the period 1 February 2017 to 30 April 2017 of two pence per Ordinary Share.

## Chairman's Statement (continued)

The Company had ongoing charges of 1.52% (30 April 2016: 1.14%) for the year under review. The main driver of the increase in ongoing charges during the 2016/17 financial year was due to the Company paying a full management fee to AEW UK Investment Management LLP of 0.9% on NAV.

The Company's property portfolio has been independently valued by Knight Frank in accordance with the RICS Valuation – Professional Standards (the 'Red Book'). As at 30 April 2017, the Company's portfolio had a fair value of £137.8 million as compared with the combined purchase price of the portfolio of £133.1 million (excluding purchase costs), an increase of £4.7 million or 3.5%.

### Financing

On 18 May 2016, the Company amended the terms of its loan facility with RBSi to increase the facility limit from 20% to 30% of NAV measured at drawdown. This amendment has enabled the Company to utilise the facility up to an amount calculated as the equivalent of 25% of the Gross Asset Value ('GAV') (measured at drawdown), which is the maximum gearing limit as set out in the Company's Prospectus.

During the financial year to 30 April 2017, the Company made utilisation requests totalling £14.8 million (30 April 2016: £14.3 million), bringing the total drawdown amount under the facility to £29.0 million (30 April 2016: £14.3 million).

The loan attracts interest at three month LIBOR +1.4%, making an all-in rate at 30 April 2017 of 1.736% (30 April 2016: 1.988%). The Company is protected from a significant rise in interest rates as it has interest rate caps with a combined notional value of £26.5 million and a strike rate of 2.5%.

As at 30 April 2017, the unexpired term of the facility was 3.5 years and the gearing was 19.3% (as calculated on the GAV of the investment portfolio).

On 11 May 2017, the Company amended the terms of its facility with RBSi, extending the availability period to 31 March 2019 and reducing the facility limit from £40 million to £32.5 million to mitigate the cost of non-utilisation fees.

### Dividends

The Company continued to deliver on its target of declaring dividends of two pence per Ordinary Share per quarter. During the financial year, the Company declared and paid four quarterly dividends of two pence per Ordinary Share.

On 30 May 2017, the Board declared an interim dividend of two pence per Ordinary Share, in respect of the period from 1 February 2017 to 30 April 2017. This interim dividend was paid on 30 June 2017.

### Board and Governance

During the year, the Board conducted a review of AEW UK Investment Management LLP (the 'Investment Manager') and the Investment Management Agreement. The Board concluded that the continuing appointment of the Investment Manager was appropriate and in the best interests of shareholders and that the terms and conditions of the Investment Manager's continuing appointment remained appropriate.

The Board also discussed the potential recruitment of a new Director and on 5 June 2017 appointed Katrina Hart as an independent non-executive Director.

### Shareholder engagement

The Company has continued to develop its relations with investors. In particular, a new website ([www.aewukreit.com](http://www.aewukreit.com)) has been launched with the aim of improving communications and allowing users to sign up for email alerts to gain access to the latest Company news and information. Furthermore, the Company's daily share price has been added to the Investment Companies (Direct Property) section of the Financial Times. We look forward to welcoming shareholders at our Annual General Meeting ('AGM') on 12 September 2017.

## Chairman's Statement (continued)

### Outlook

The Board and the Investment Manager are confident of continuing to deliver strong returns for our shareholders through the diversified and high yielding property portfolio that has been established. We believe that the Company's property portfolio is well positioned and there are a number of active asset management initiatives ongoing that should grow the income stream and provide opportunities for further capital value enhancement.

In the period since the Statement of Financial Position at 30 April 2017, the Company has acquired a further two properties totalling £4.9 million (excluding acquisition costs) and generating a further £0.4 million per annum in rent.

It is still unknown how the impact of Brexit will unfold and it is likely we will need to wait for some time to know the terms of the UK's exit from the EU and how this will impact on the UK commercial property market. In this period of uncertainty there is a higher chance that the Bank of England will keep interest rates at historical lows and this will maintain the fundamentals of property demand as investors search for yield.

Our current focus is to continue to grow the Company and, subject to market conditions, look to raise additional capital. This will enable the Company to take advantage of economies of scale in its cost base and to allow the Investment Manager to capitalise on the interesting market opportunities it sees.

The Investment Manager remains focused on searching for properties in locations that exhibit low levels of supply, with a particular focus on properties underwritten by vacant possession values and therefore less exposed to capital erosion.

**Mark Burton**  
**Chairman**  
7 July 2017

# Business Model and Strategy

## Our Business

### *Introduction*

AEW UK REIT plc is a real estate investment company listed on the premium segment of the Official List of the UK Listing Authority and traded on the London Stock Exchange's Main Market. As part of its business model and strategy, the Company has and intends to maintain UK REIT status. HM Revenue and Customs has acknowledged that the Company has met and intends to continue to meet the necessary qualifying conditions to conduct its affairs as a UK REIT.

### *Investment Objective*

The investment objective of the Company is to deliver an attractive total return to shareholders from investing predominantly in a portfolio of smaller commercial properties in the United Kingdom.

## Investment Policy

In order to achieve its investment objective the Company invests in freehold and leasehold properties across the whole spectrum of the commercial property sector (office properties, retail warehouses, high street retail and industrial/warehouse properties) to achieve a balanced portfolio with a diversified tenant base.

Within the scope of restrictions set out below (under the heading 'Investment Restrictions') the Company may invest up to 10% of its Net Assets (at the time of investment) in the AEW UK Core Property Fund and up to 10% of its Net Assets (measured at the commencement of the project) in development opportunities, with the intention of holding any completed development as an investment.

As at 30 April 2017, the Company held an investment valued at £7.59 million in AEW UK Core Property Fund, representing 6.4% of its Net Assets as at that date. The AEW UK Core Property Fund is a property authorised investment fund ('PAIF') managed by the Investment Manager which has a similar investment policy to that of the Company. The investment by the Company into the AEW UK Core Property Fund is not subject to management fees or performance fees otherwise charged to investors in the AEW UK Core Property Fund by the Investment Manager. The investment was sold on 9 May 2017 and as at the date of this report the Company does not intend to reinvest in the AEW UK Core Property Fund but will keep this under review.

The Company will at all times invest and manage its assets in a way that is consistent with its objective of spreading investment risk and in accordance with its published investment policy. The Company will not, at any time, conduct any trading activity which is significant in the context of the business of the Company as a whole.

### *Investment Restrictions*

The Company will invest and manage its assets with the objective of spreading risk through the following investment restrictions:

- the value of no single property, at the time of investment, will represent more than 15% of GAV;
- the Company may commit up to a maximum of 10% of its NAV (measured at the commencement of the project) to development activities;
- the value of properties, measured at the time of each investment, in any one of the following sectors: office properties, retail warehouses, high street retail and industrial/warehouse properties will not exceed 50% of NAV;
- investment in unoccupied and non-income producing assets will, at the time of investment, not exceed 20% of NAV;
- the Company will not invest in other closed-ended investment companies; and
- if the Company invests in derivatives for the purposes of efficient portfolio and cash management, the total notional value of the derivatives at the time of investment will not exceed, in aggregate, 20% of GAV.

## Business Model and Strategy (continued)

### *Investment Restrictions (continued)*

The Directors currently intend, at all times, to conduct the affairs of the Company so as to enable the Company to qualify as a REIT for the purposes of Part 12 of the CTA 2010 (and the regulations made thereunder).

In the event of a breach of the investment policy or restrictions, the Investment Manager shall inform the Board upon becoming aware of such a breach and if the Board considers the breach to be material, notification will be made to a Regulatory Information Service and the Investment Manager will look to resolve the breach.

Any material change to the investment policy of the Company may only be made with the prior approval of shareholders.

### **Our Strategy**

The Company currently intends to exploit what it believes to be the compelling relative value opportunities offered by pricing inefficiencies in smaller commercial properties let on shorter occupational leases. The Company intends to supplement this core strategy with asset management initiatives to upgrade buildings and thereby improve the quality of income streams.

In the current market environment the focus will be to invest in properties which:

- typically have a value, on investment, of less than £15 million;
- have initial net yields, on investment, of typically between 8-10%;
- achieve, across the whole Portfolio, a weighted average lease term of between four to six years remaining;
- achieve, across the whole Portfolio, a diverse and broad spread of tenants; and
- have some potential for asset management initiatives to include refurbishment and re-lettings.

The Company may also invest up to a maximum of 10% of its NAV in the Core Fund. The Core Fund has an investment policy that is similar to that of the Company although generally it may invest in smaller value properties than those to be purchased by the Company. The Investment Manager has a stock allocation process that determines how property investments are allocated to the Company, Core Fund and any funds managed by the Investment Manager.

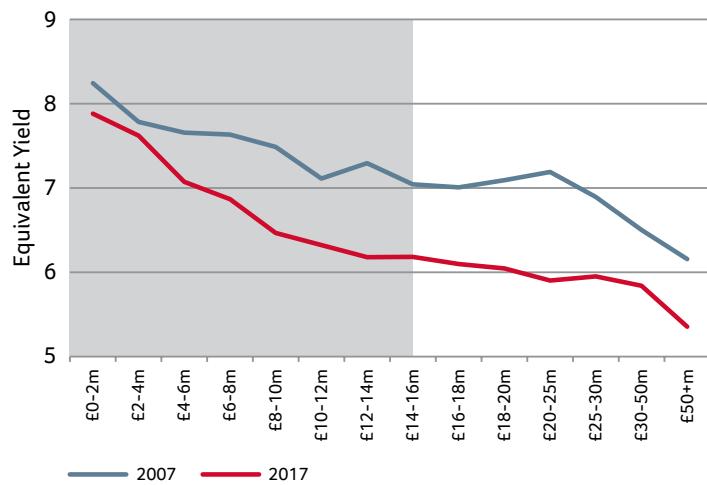
The Directors, rather than the Investment Manager, determine when to divest the Company's holding in the Core Fund.

## Business Model and Strategy (continued)

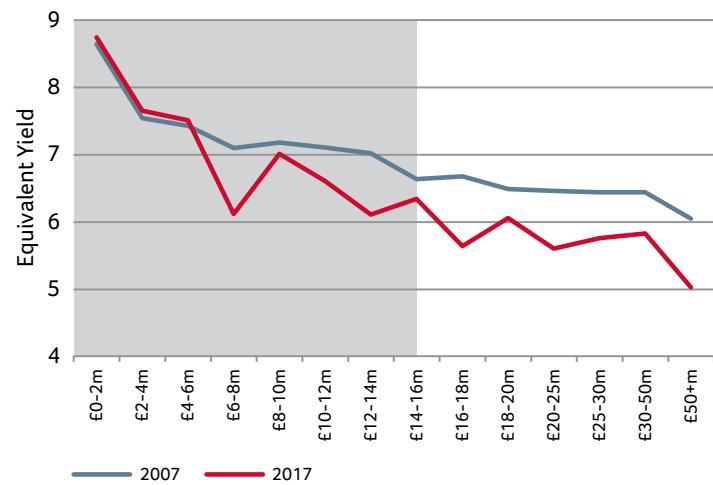
The Company's strategy is focused on delivering enhanced returns from the smaller end (up to £15 million) of the UK commercial property market. The Company believes that there are currently pricing inefficiencies in smaller commercial properties relative to the long term pricing resulting in a significant yield advantage, as demonstrated in the graphs below, which the Company aims to exploit;

*Investing in smaller assets of <£15 million can result in significant yield advantage*

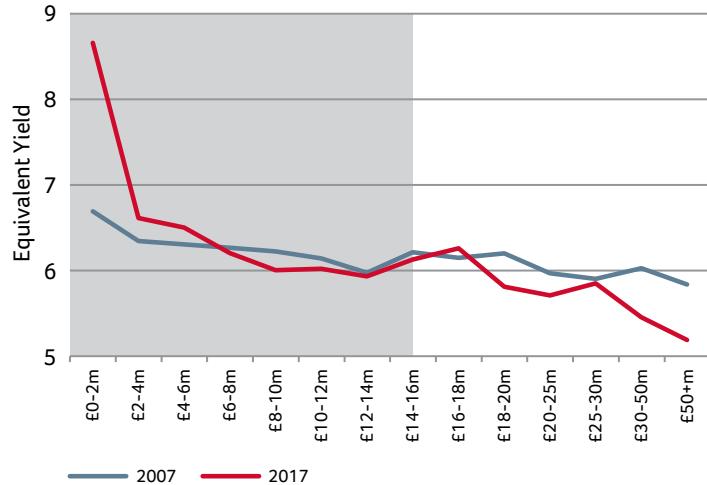
### INDUSTRIAL



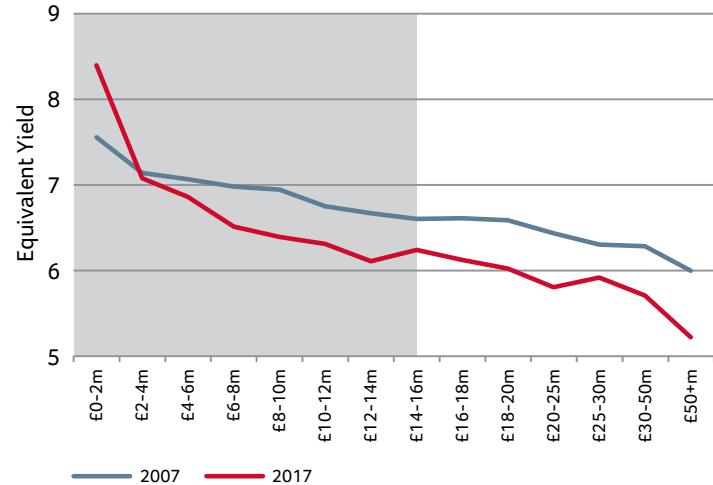
### LONDON & SE OFFICES



### RETAIL



### ALL PROPERTY



Note: Equivalent yield is a weighted average of the initial yield and reversionary yield, and represents the yield which the property will produce based on timing of the income received. 2007 has been chosen as a comparator year as this illustrates the difference between the peak market pricing of that year and 2017.

Source: IPD, 31 March 2017

## Business Model and Strategy (continued)

### How we add value

#### *An Experienced Team*

The investment management team average 18 years working together, reflecting stability and continuity.

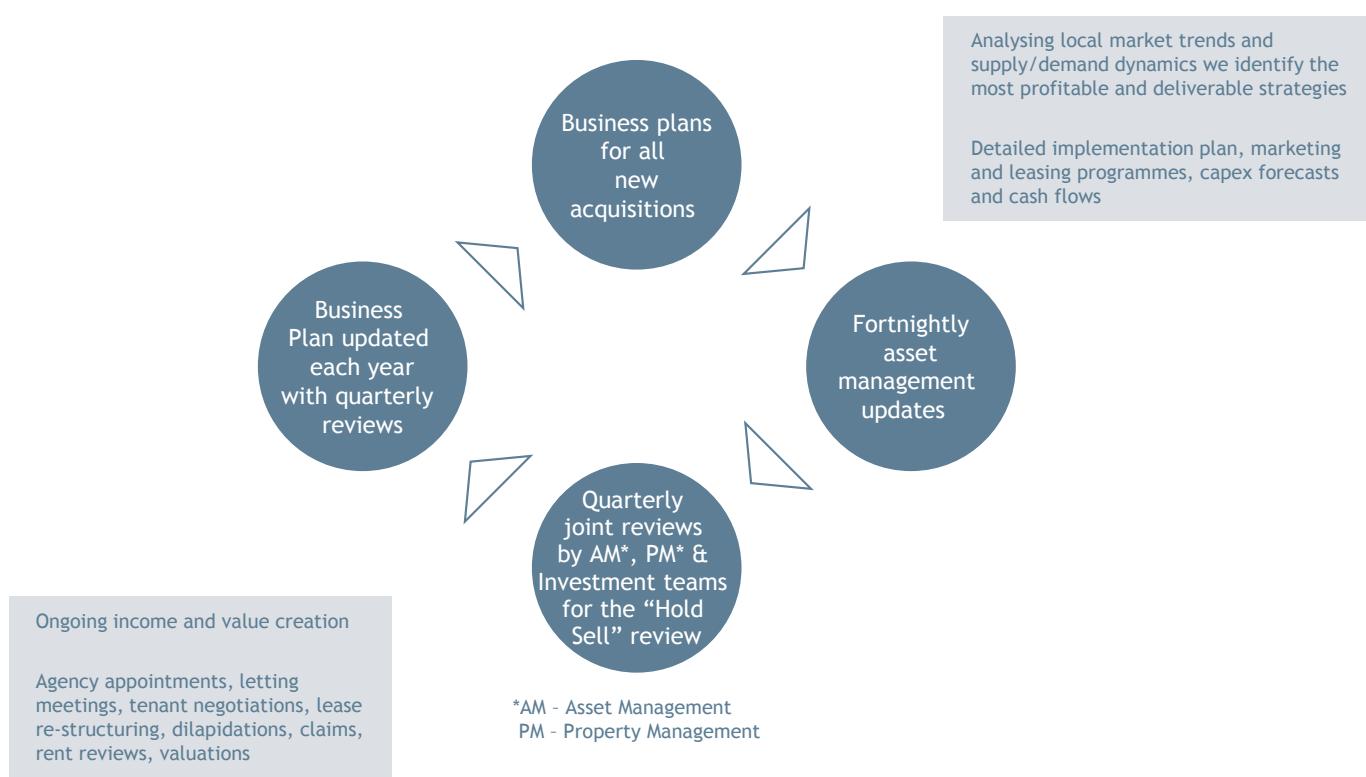
#### *Value Investing*

The Investment Manager's investment philosophy is based on the principle of value investing. The Investment Manager looks to acquire assets with an income profile coupled with underlying characteristics that underpin long-term capital preservation. As value managers, the Investment Manager looks for assets where today's pricing may not correspond to long-term fundamentals.

#### *Active Asset Management*

The Investment Manager has an in-house team of dedicated asset managers with a strong focus on active asset management to enhance income and add value to commercial properties.

### Our Asset Management Process



## Strategy in Action



**Acquiring a stable income stream in a strong occupational market**  
Pipps Hill Industrial Estate, Basildon

- A strong, south east industrial location that has seen significant rental growth over the past 18 months
- Fully let on a new 10 year lease
- Rack rented at £6 per sq ft
- Acquisition pricing supported by the asset's underlying vacant possession value, limiting any downside risk

goods in  
delays must be avoided

WEATHER-PROOF  
SIGNAGE & BRANDING

CGL FACADES  
DESIGN | MANUFACTURE | INSTALL

Merson Group Businesses

M

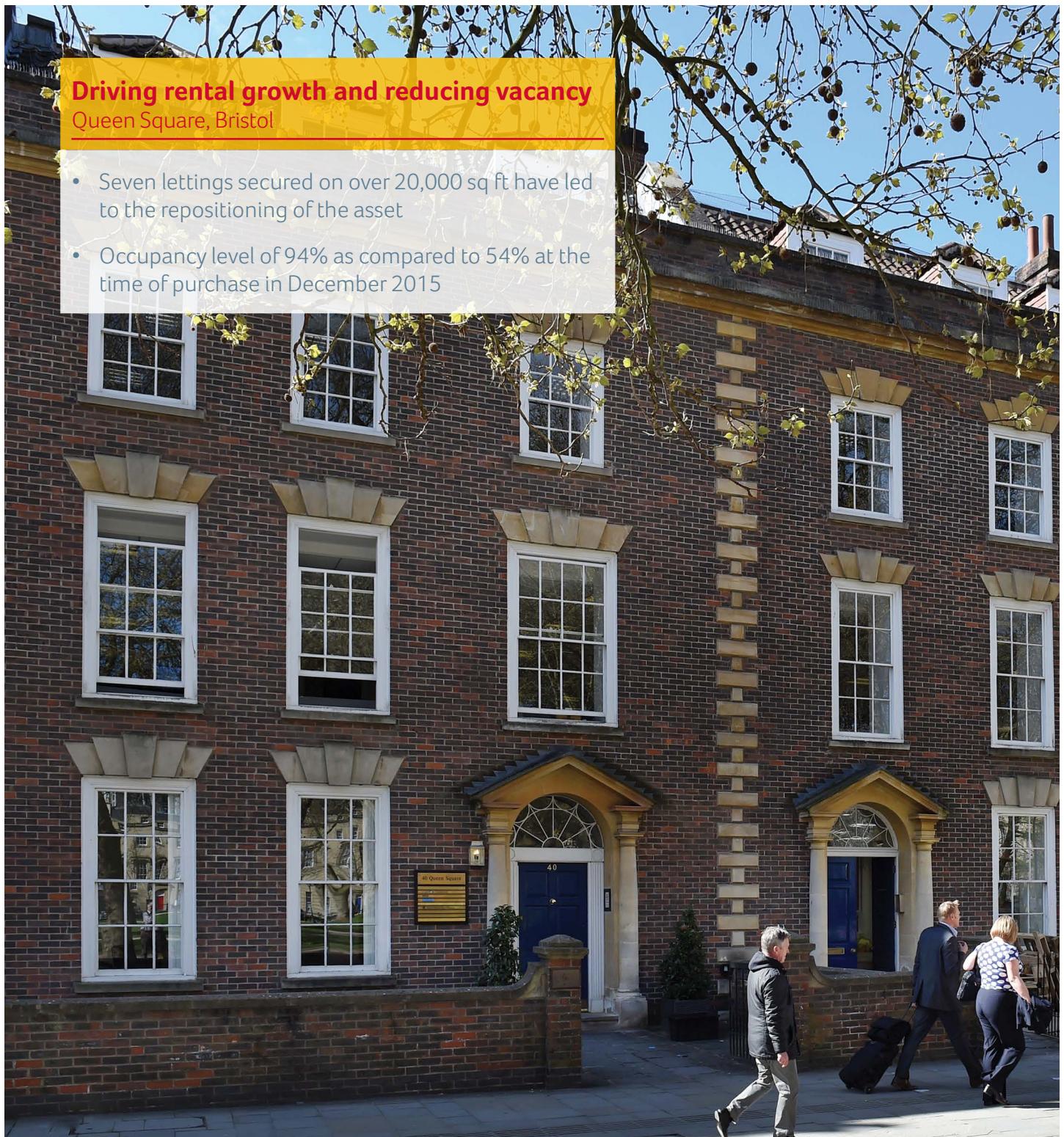
## Strategy in Action (continued)



## Strategy in Action (continued)



## Strategy in Action (continued)



**Driving rental growth and reducing vacancy**  
Queen Square, Bristol

- Seven lettings secured on over 20,000 sq ft have led to the repositioning of the asset
- Occupancy level of 94% as compared to 54% at the time of purchase in December 2015

## Strategy in Action (continued)

**Repositioning an asset and maximising value**  
Valley Retail Park, Belfast

- Planning consent has been granted for the development of two restaurant pods within the existing car park on the site. The addition of such units to the park would be expected not only to increase overall visitor numbers but improve dwell times on the park, leading to greater potential for rental growth
- The now fully let retail park is under offer for sale following its successful repositioning and completed lettings to anchor tenants Go Outdoors and Smyths Toys

An aerial photograph of the Valley Retail Park in Belfast. The main focus is a large, modern retail building with a white roof and grey walls. The building features a prominent 'GO Outdoors' logo and the tagline 'THE BIGGEST OUTDOOR STORES'. Below the main entrance, there is a blue van with 'Hamer Cars' branding. The building has several large windows and doors. To the left, there is a smaller structure with a blue roof. In the foreground, there is a parking lot with a few cars. In the background, there is a residential area with many houses and a few taller apartment buildings. The sky is blue with some white clouds.

# Key Performance Indicators

| KPI AND DEFINITION   | RELEVANCE TO STRATEGY  | PERFORMANCE   |
|--|--|---|
| <b>1. Triple Net Initial Yield</b><br>A representation to the investor of what their initial net yield would be at a predetermined purchase price after taking account of all associated costs. E.g. void costs and rent free periods. | The Triple Net Initial Yield is in line with the Company's target dividend yield meaning that, after costs, the Company should have the ability to meet its target dividend through property income.   | <b>7.63%</b><br>at 30 April 2017 (2016: 8.38%).           |
| <b>2. True Equivalent Yield</b><br>The average weighted return a property will produce according to the present income and estimated rental value assumptions, assuming the income is received quarterly in advance.                   | An Equivalent Yield profile in line with the Company's target dividend yield shows that, after costs, the Company should have the ability to meet its proposed dividend through property income.   | <b>8.50%</b><br>at 30 April 2017 (2016: 8.36%).           |
| <b>3. Reversionary Yield</b><br>The expected return the property will provide once rack rented.  | A Reversionary Yield profile that is in line with an Initial Yield profile shows a potentially sustainable income stream that can be used to meet dividends past the expiry of a property's current leasing arrangements.  | <b>8.37%</b><br>at 30 April 2017 (2016: 8.27%).           |
| <b>4. Weighted Average Unexpired Lease Term to expiry</b><br>The average lease term remaining to expiry across the portfolio, weighted by contracted rent.   | The Investment Manager believes that current market conditions present an opportunity whereby assets with a shorter unexpired lease term are often mispriced. It is also the Investment Manager's view that a shorter WAULT is useful for active asset management as it allows the Investment Manager to engage in direct negotiation with tenants rather than via rent review mechanisms. | <b>6.37 years</b><br>at 30 April 2017 (2016: 6.08 years). |

## Key Performance Indicators (continued)

| KPI AND DEFINITION   | RELEVANCE TO STRATEGY   | PERFORMANCE   |
|--|---|---|
| <b>5. Weighted Average Unexpired Lease Term to break</b><br>The average lease term remaining to break, across the portfolio weighted by contracted rent.   | The Investment Manager believes that current market conditions present an opportunity whereby assets with a shorter unexpired lease term are often mispriced. As such, it is in line with the Investment Manager's strategy to acquire properties with a WAULT that is generally shorter than the benchmark. It is also the Investment Manager's view that a shorter WAULT is useful for active asset management as it allows the Investment Manager to engage in direct negotiation with tenants rather than via rent review mechanisms. | <b>5.22 years</b><br>at 30 April 2017 (2016: 4.94 years).           |
| <b>6. NAV</b><br>Net asset value (NAV) is the value of an entity's assets minus the value of its liabilities.  | The NAV reflects the Company's ability to grow the portfolio and add value to it throughout the life cycle of its assets.   | <b>£118.67 million</b><br>at 30 April 2017 (2016: £116.38 million). |
| <b>7. Leverage (Loan to Gross Asset Value)</b><br>The proportion of our property portfolio that is funded by borrowings.   | The Company utilises borrowings to enhance returns over the medium term. Borrowings will not exceed 25% of GAV (measured at drawdown).  | <b>19.31%</b><br>at 30 April 2017 (2016: 10.51%).                   |
| <b>8. Vacant ERV</b><br>The space in the property portfolio which is currently unlet, as a percentage of the total ERV of the portfolio.   | The Company's aim is to minimise vacancy of the properties. A low level of structural vacancy provides an opportunity for the Company to capture rental uplifts and manage the mix of tenants within a property.  | <b>7.22%</b><br>at 30 April 2017 (2016: 3.16%).                     |
| <b>9. Development Exposure</b><br>The exposure to real estate development or property development encompassing activities that range from the purchase of land for improvement to material refurbishments. | By nature of its high yielding strategy, the Company will limit its exposure to property developments which would lead to a temporary reduction in income. It will consider limited or infill development to the extent that this will not detract from a property's income.  | <b>0%</b><br>at 30 April 2017 (2016: 0%).                           |

## Key Performance Indicators (continued)

| KPI AND DEFINITION  | RELEVANCE TO STRATEGY  | PERFORMANCE   |
|---|--|---|
| <b>10. Dividend</b><br>Dividends declared in relation to the year. The Company targets a dividend of between eight and nine pence per Ordinary Share per annum. | The dividend reflects the Company's ability to deliver a sustainable income stream from its portfolio.   | <b>2.0 pence per share</b><br>for the quarter to 30 April 2017 (quarter to 30 April 2016: 2.0 pence per share). |
| <b>11. Ongoing Charges</b><br>The ratio of total administration and operating costs expressed as a percentage of average net asset value throughout the period. | The Ongoing Charges ratio provides a measure of total costs associated with managing and operating the Company, which includes the management fees due to the Investment Manager. The Investment Manager presents this measure to provide investors with a clear picture of operational costs involved in running the Company. | <b>8.0 pence per share</b><br>for the year ended 30 April 2017 (2016: 5.5 pence per share).                     |
| <b>12. Profit before tax</b><br>Profit before tax ('PBT') is a profitability measure which considers the Company's profit before the payment of income tax.     | The PBT is an indication of the Company's financial performance for the period in which its strategy is exercised.   | <b>1.52%</b><br>for the year ended 30 April 2017 (2016: 1.14%).   |
|   |  | <b>£6.10 million</b><br>for the year ended 30 April 2017 (2016: £4.64 million)                                  |

# Investment Manager's Report



**Alex Short – Portfolio Manager**

## Financial Results

Operating profit before fair value changes and disposals was £9.81 million for the year ended 30 April 2017 (2016: £6.31 million). The Company has continued to build a diversified portfolio of properties and as at 30 April 2017 held 29 direct property investments (2016: 25).

Net rental income earned from this portfolio during the year under review amounts to £11.07 million (2016: £6.88 million). NAV as at 30 April 2017 was £118.67 million (2016: £116.38 million).

The Company received dividends during the year totalling £0.58 million (2016: £0.65 million) from its investment in the Core Fund. On 1 February 2017, the Company disposed of part of its holding in the Core Fund for proceeds of £2.00 million, and the remaining holding at 30 April 2017 was valued at £7.59 million. After the year-end the Company fully disposed of the remaining holding for proceeds of £7.62 million.

A loss of £3.16 million (2016: £1.94 million) has arisen on the revaluation of investment properties across the portfolio, comprising £1.66 million (2016: £5.64 million) of costs associated with asset purchases initially capitalised on acquisition and £1.50 million of unrealised losses (2016: £3.70 million of unrealised gains) across the portfolio.

Administration expenses, which include the Investment Manager's fee and other costs attributable to the running of the Company for the year, were £1.84 million (2016: £1.22 million). The Company's Ongoing Charges for the year is 1.52% (2016: 1.14%).

The Company has incurred finance costs of £0.76 million during the year under review (2016: £0.23 million).

The total profit before tax for the period of £6.10 million (2016: £4.64 million) equates to basic earnings per share of 5.04 pence (2016: 4.83 pence).

The Company's Net Asset Value as at 30 April 2017 was £118.67 million or 95.98 pence per share ('pps') compared with £116.38 million or 99.03 pps as at 30 April 2016. This reflected a decrease of 3.05 pps or 3.08%, with the underlying movement in NAV set out in the table below:

|   | <b>Pence per share<br/>(pps)</b> | <b>£ million</b> |
|---|----------------------------------|------------------|
| <b>NAV as at 1 May 2016</b>                 | <b>99.03</b>                     | <b>116.38</b>    |
| Change in fair value of investment property | (2.70)                           | (3.16)           |
| Change in fair value of investments         | (0.40)                           | (0.41)           |
| Gains on disposal of investment property    | 0.59                             | 0.73             |
| Loss on disposal of investments             | (0.09)                           | (0.11)           |
| Income earned for the year                  | 10.80                            | 13.08            |
| Expenses and net finance costs for the year | (3.31)                           | (4.03)           |
| Dividends paid                              | (8.00)                           | (9.65)           |
| Issue of equity (net of costs)              | 0.06                             | 5.84             |
| <b>NAV as at 30 April 2017</b>              | <b>95.98</b>                     | <b>118.67</b>    |

Net revenue over the year was 7.49 pps which, based on dividends paid of 8 pps, reflected a dividend cover of 93.63%.

## Investment Manager's Report (continued)

### Valuation

The Company's property portfolio has been independently valued by Knight Frank in accordance with the RICS Valuation – Professional Standards Global January 2014, including the International Valuations Standards, and RICS Professional Standards UK January 2014 (revised April 2015). References to 'the Red Book' refer to either or both of these documents, as applicable. The properties have been valued on the basis of Fair Value in accordance with the RICS Valuation – Professional Standards VVPS4 (1.5) Fair Value and VPGA1 Valuations for Inclusion in Financial Statements, which adopt the definition of Fair Value used by the International Accounting Standards Board.

As at 30 April 2017, the Company's portfolio had a fair value of £137.82 million (2016: £114.34 million).

### Portfolio Activity

Our objective is to build a diversified portfolio of commercial properties throughout the UK. New acquisitions have been selected to provide an income return that is both sustainable and provides the potential for growth as well as limiting downside risk. The majority of assets that have been acquired are fully let and the portfolio had a vacancy rate (as a % of ERV) of 7.22% (2016: 3.16%) as at 30 April 2017. The following significant investment transactions took place during the year:

- Apollo Business Park, Basildon – In April 2017, the Company announced the acquisition of a c.69,000 sq ft multi-let industrial building in Basildon, Essex for £4.55 million, reflecting an attractive net initial yield of 7.8% and low capital value of £66 per sq ft. Basildon has seen strong commercial rental performance over the past 18 months and the low passing rents currently received from the asset provide excellent potential for growth going forward.
- 1 Bentalls, Pipps Hill Industrial Estate, Basildon – In April 2017, the Company acquired a c.33,000 sq ft single-let industrial building located on the established Pipps Hill Industrial Estate. The purchase price of £2.00 million reflected an attractive net initial yield of 9.3%, a reversionary yield of 8.8% and a low capital value of £64 per sq ft. The building is let on a 10 year lease from the acquisition date at a rent of £6 per sq ft.
- Euroway, Bradford – In December 2016, the Company announced the acquisition of a c.144,000 sq ft logistics warehouse in Bradford for £4.95 million, reflecting a net initial yield of 8.1%, reversionary yield of 8.9% and capital value of £34 per sq ft. The tenant has recently signed a new eight year lease highlighting their commitment to the location.
- Pearl House, Nottingham – In May 2016, the Company announced the £8.15 million acquisition of a mixed use retail and office property in Nottingham, prominently located with frontage to Wheeler Gate and Old Market Square, within the retailing core of the City Centre. The property of 71,260 sq ft is let to six retail tenants, including Poundland, Costa and Lakeland, and nine office tenants, providing a WAULT at acquisition of approximately 4.5 years to break and 5.2 years to expiry. The acquisition provides an initial yield of 9.0%, a reversionary yield of 9.9% and a capital value per sq ft of £114.
- Bank Hey Street, Blackpool – Also in May 2016, the Company acquired a retail and leisure asset in Blackpool, prominently located directly adjacent to the famous Blackpool Tower, for a price of £5.05 million. The property comprises 100,079 sq ft and has three retail units at ground floor and basement levels, which are let to the strong covenants of Poundland, Sports Direct and J D Wetherspoons, providing a WAULT of approximately 7.5 years to break and 10 years to expiry. The upper three floors of the property are currently vacant and have been de-listed for rating purposes but offer potential for alternative use occupation and future asset management due to their comparatively low acquisition price.
- 11-15 Fargate, Sheffield – During the year, the Company completed the leasehold disposal of vacant upper parts above prime rental units for a price of £710,000, against an assumed acquisition value of £250,000.
- Castlegate Business Park, Salisbury – In February 2017, the Company completed the disposal of its building in Salisbury, which had become vacant in September 2016, for a price of £2.05 million. The sales price exceeded both its valuation at the date of sale and the original acquisition price of the asset.

## Investment Manager's Report (continued)

### Asset Management

We undertake active asset management to seek opportunities to achieve rental growth, let vacant space and enhance value through initiatives such as refurbishments. During the year, key asset management initiatives have included:

- Valley Retail Park, Belfast – Planning consent has been granted for the development of two restaurant pods within the existing car park on the site. The addition of leisure units to the park would be expected not only to increase overall visitor numbers but improve dwell times on the park, leading to greater potential for rental growth. The fully let retail park is now under offer for sale following its successful repositioning and completed lettings to anchor tenants Go Outdoors and Smyths Toys.
- Eastpoint Business Park, Oxford – The Company has agreed a lease renewal on a 5,600 sq ft suite with the existing tenant. The new lease provides three years of additional income at a rent of £14.50 per sq ft, in line with ERV expectations.
- Queen Square, Bristol – The Company has secured a letting of over 5,000 sq ft of ground floor office space on a ten year lease with a tenant break option at year five, achieving a rental level that is £1.50 per sq ft ahead of the expected ERV at the time of purchase. The letting is the seventh occupational transaction to be completed by the Company since acquisition and takes the asset to an occupancy level of 94% as compared to 54% at the time of purchase in December 2015.
- Pearl House, Nottingham – The Company received consent for the change of use from office to 36 residential flats under Permitted Development Rights on the upper floors. However, the Company intends to keep the building in its current use as offices for the foreseeable future and as such signed a letting of the entire third floor for five years at a rent of £13.78 per sq ft against an ERV of c£12 per sq ft when the property was acquired in May 2016.
- Cranbourne House, Basingstoke – In return for receiving the landlord's consent to assign the lease to parent company HFC Prestige Manufacturing Limited, Wella Holdings Limited contracted to remove its 2017 break clause giving the Company two years of additional income to 2019, at £410,000 per annum, plus a six months rental guarantee. The tenant is now also carrying out refurbishment works to the building, further demonstrating its commitment to the location.
- Odeon Cinema, Southend – An uplift of £30,000 per annum was achieved for the outstanding 2012 rent review and taking the rent payable by Odeon from £505,000 to £535,000, backdated to 29 September 2012. Negotiations have now commenced on the 2017 rent review which could yield further uplift.

### Financing

As at 30 April 2017, the Company had a £40 million (2016: £40 million) credit facility with RBSi, maturing in October 2020. On 8 May 2017, the Company completed an amendment to the terms of its facility with RBSi. The total commitment has been reduced from £40.0 million to £32.5 million and the availability period has been extended to 31 March 2019.

As at 30 April 2017, the Company had utilised £29.01 million (2016: £14.25 million) of its £40 million facility with RBSi. Gearing as at 30 April 2017 was 19.3% (2016: 10.5%) (Loan to GAV). The loan attracts interest at LIBOR + 1.4% (2016: LIBOR + 1.4%). To mitigate the interest rate risk that arises as a result of entering into a variable rate linked loan, the Company holds interest rate caps on £26.51 million (2016: £14.25 million) of the loan at a strike rate of 2.5% (2016: 2.5%), resulting in the loan being 91% (2016: 100%) hedged.

## Investment Manager's Report (continued)

### Transactions after Statement of Financial Position Date

On 4 May 2017, the Company acquired Unit 1005, Sarus Court which completes the Company's acquisition of the whole of the Sarus Court industrial estate, where the Company already owned five of the six units following acquisitions in 2015. The estate provides well specified, modern industrial units of between 11,000 and 17,000 sq ft, which are let to a number of light-industrial occupiers on a WAULT of over four years. Sarus Court forms part of the wider Manor Park industrial estate, strategically located to the west of Runcorn and five kilometres from the Mersey Gateway Project, a new six lane bridge over the River Mersey connecting the towns of Runcorn and Widnes and linking the M56 to the M62. The project is due for completion in autumn 2017.

On 9 May 2017, the Company sold its remaining units in the Core Fund for total proceeds of £7.62 million. The Company has held an ownership in the Core Fund since launch in May 2015 for the purpose of expediting its investment period and saw a total return of 13% over the hold period. The units have now been sold at a price in excess of the Core Fund's latest published NAV, with proceeds to fund direct investments in the portfolio.

On 29 June 2017 the Company acquired Unit 34, First Avenue, Deeside for £4.31 million. The property provides a WAULT of approximately 5 years to break and 10 years to expiry. The acquisition provides an initial yield of 7.9%, a reversionary yield of 7.9% and a capital value per sq ft of £45.

### Market Outlook

#### UK Economic Outlook

We continue to see a mixed bag of economic indicators in the aftermath of Brexit and, although the process to leave the EU has now begun, the dominant theme remains that of uncertainty. Many economists had predicted an immediate and significant impact on the UK economy following the vote to leave the EU. Although these predictions did not come to pass, the UK economy suffered a slowdown in the opening months of 2017, as a rise in living costs impacted consumer spending. GDP growth fell to 0.3% in the first quarter of 2017 from 0.7% in the previous quarter (Office of National Statistics). The pound's sharp fall since the Brexit vote has lifted inflation to its highest level for more than three years (Office of National Statistics CPIH Measure of Inflation), putting pressure on consumers' incomes.

The general election on 8 June 2017 created further uncertainty around what happens next with the UK's negotiation to exit the EU, which is likely to continue to prolong caution from investors and tenants.

Brexit negotiations and political uncertainty may continue to slow down the UK economy but the impact on the real estate market should be mitigated by low interest rates. It is hoped that the UK economy will continue to show resilience and the International Monetary Fund has revised its UK growth forecast, now envisaging the economy expanding by 2.0% in 2017, compared with forecasts of 1.1% and 1.5% made in October 2016 and January 2017 respectively.

#### UK Real Estate Outlook

The property market has proven to be resilient following the initial shock of the Brexit referendum, with MSCI data showing that the market has started to regain the value it lost in the immediate aftermath of the Brexit vote. Central London has the greatest uncertainty over occupier demand but overseas investors are still showing a strong appetite for safe haven assets in the global hub. The shares of the major REITs with significant development exposure to the capital are, however, still at a substantial discount to pre-Brexit prices, reflecting the heightened uncertainty of future demand in the key occupier markets where rental growth is a more important driver of total returns due to the lower (prime) initial yields.

## Investment Manager's Report (continued)

Outside central London there are fewer concerns about occupier demand and the greatest risk to property values is if the economy slips towards recession. Occupiers still seem to be adopting a pragmatic approach to their property needs and so portfolio income returns remain attractive to investors who continue to search for yield in this low interest rate environment. We sense that the weight of institutional money targeting the sector is back to pre-Brexit levels and, if anything, a low level of transactions is as much due to lack of willing sellers because multi-asset investors view property as an attractive alternative to historically low bond yields.

We are not surprised, however to see investors often focussing on the prime end of the market which, at times of uncertainty, tends to be redefined by length of lease and quality of tenant covenant rather than location. Pricing is then driven largely by the yield premium offered by property investments above gilts.



We see risks to future returns from looking at property as being cheap (relative to gilts) rather than acknowledging that this period of historically low bond yields is unlikely to be maintained, particularly if inflation continues to rise. In our experience there are risks to capital preservation when strategies focus solely on relative income yields at the expense of property fundamentals. The Company aims to deliver an attractive total return to shareholders from investing predominantly in a portfolio of smaller commercial properties in strong commercial locations across the UK. In the Investment Manager's view, it is therefore not as susceptible to capital value erosion as will be experienced by holders of prime asset portfolios.

In terms of sector focus, we foresee the best total returns in the industrial and logistics warehousing sectors. This is driven in part by online retailers' requirements for distribution hubs around big cities and major infrastructure hubs to enable them to deliver goods more efficiently to shoppers' homes. Forecast total returns for industrial property are 7.1% annualised for 2016-2020 (Colliers International Real Estate Investment Forecasts Q3 2016).

### Alternative Investment Fund Manager ('AIFM')

AEW UK Investment Management LLP is authorised and regulated by the Financial Conduct Authority as a full-scope AIFM and provides its services to the Company.

The Company has appointed Langham Hall UK Depositary LLP ('Langham Hall') to act as the depositary to the Company, responsible for cash monitoring, asset verification and oversight of the Company.

## Investment Manager's Report (continued)

### Information Disclosures under the AIFM Directive

Under the AIFM Directive, the Company is required to make disclosures in relation to its leverage under the prescribed methodology of the Directive.

#### Leverage

The AIFM Directive prescribes two methodologies for evaluating leverage, namely the 'Gross Method' and the 'Commitment Method'. The Company's maximum and actual leverage levels are as per below:

| Leverage Exposure | 30 April 2017 |                   | 30 April 2016 |                   |
|-------------------|---------------|-------------------|---------------|-------------------|
|                   | Gross Method  | Commitment Method | Gross Method  | Commitment Method |
| Maximum Limit     | 140%          | 140%              | 140%          | 140%              |
| Actual            | 118%          | 124%              | 105%          | 112%              |

In accordance with the AIFM Directive, leverage is expressed as a percentage of the Company's exposure to its NAV and adjusted in line with the prescribed Gross and Commitment Method. The gross method is representative of the sum of the Company's positions after deducting cash balances and without taking into account any hedging and netting arrangements. The Commitment Method is representative of the sum of the Company's positions without deducting cash balances and taking into account any hedging and netting arrangements. For the purposes of evaluating the methods above, the Company's positions primarily reflect its current borrowings and NAV.

#### Remuneration

The AIFM has adopted a Remuneration Policy which accords with the principles established by AIFMD.

AIFMD Remuneration Code Staff includes the members of the AIFM's Management Committee, those performing Control Functions, Department Heads, Risk Takers and other members of staff that exert material influence on the AIFM's risk profile or the AIFs it manages.

Staff are remunerated in accordance with the key principles of the firm's remuneration policy, which include (1) promoting sound risk management; (2) supporting sustainable business plans; (3) remuneration being linked to non-financial criteria for Control Function staff; (4) incentivise staff performance over longer periods of time; (5) award guaranteed variable remuneration only in exceptional circumstances; and (6) having an appropriate balance between fixed and variable remuneration.

## Investment Manager's Report (continued)

As required under section 'Fund 3.3.5.R(5)' of the Investment Fund Sourcebook, the following information is provided in respect of remuneration paid by the AIFM to its staff. The information provided below is provided for the year from 1 January 2016 to 31 December 2016, which is in line with the most recent financial reporting period of the AIFM, and relates to the total remuneration of the entire staff of the AIFM.

**Year ended  
31 December 2016**

Total remuneration paid to employees during financial year:

|  |            |
|--|------------|
| a) remuneration, including, where relevant, any carried interest paid by the AIF | £2,113,652 |
| b) the number of beneficiaries   | 26         |

The aggregate amount of remuneration, broken down by:

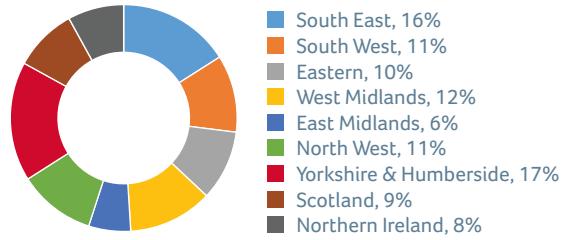
|                      |            |
|----------------------|------------|
| a) senior management | £604,939   |
| b) members of staff  | £1,508,713 |

|                   | <b>Fixed<br/>remuneration</b> | <b>Variable<br/>remuneration</b> | <b>Total<br/>remuneration</b> |
|-------------------|-------------------------------|----------------------------------|-------------------------------|
| Senior management | £604,939                      | –                                | £604,939                      |
| Staff             | £1,212,913                    | £295,800                         | £1,508,713                    |
| <b>Total</b>      | <b>£1,817,852</b>             | <b>£295,800</b>                  | <b>£2,113,652</b>             |

Fixed remuneration comprises basic salaries and variable remuneration comprises bonuses.

### Geographical Allocation

At 30 April 2017



### Sector Allocation

At 30 April 2017



## Investment Manager's Report (continued)

The Company's top ten properties as at 30 April 2017 as set out below comprise 58.9% of the portfolio value:

### Top Ten Properties

| Property Name                                      | Market Value Range (€) | Sector           |
|--|------------------------|------------------|
| 225 Bath Street, Glasgow                           | 10-15m                 | Office           |
| Valley Retail Park, Belfast                        | 10-15m                 | Retail warehouse |
| 69-75 Above Bar Street, Southampton                | 7.5-10m                | Standard retail  |
| Pearl Assurance House, Nottingham                  | 7.5-10m                | Standard retail  |
| Eastpoint Business Park, Oxford                    | 7.5-10m                | Office           |
| 40 Queen Square, Bristol                           | 7.5-10m                | Office           |
| Barnstaple Retail Park, Barnstaple                 | <7.5m                  | Retail warehouse |
| Langthwaite Grange Industrial Estate, South Kirkby | <7.5m                  | Industrial       |
| Odeon Cinema, Southend on Sea                      | <7.5m                  | Other            |
| Oak Park Rylands Lane, Droitwich                   | <7.5m                  | Industrial       |

The table below sets out the Company's top ten tenants as at 30 April 2017, representing 38.9% of the passing rent of the property portfolio:

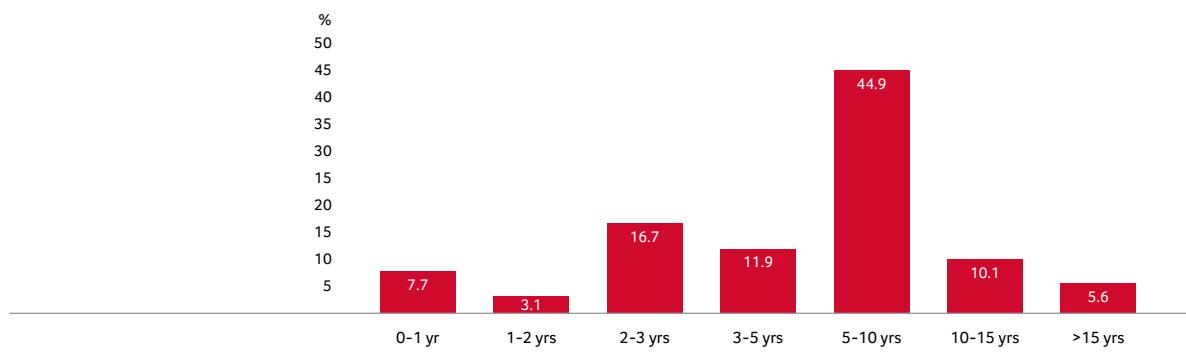
### Top Ten Tenants

| Tenant  | Passing Rent (€'000) | As % of Total Passing Rent |
|---|----------------------|----------------------------|
| Ardagh Glass Limited  | 676                  | 5.6                        |
| Egbert H. Taylor & Company Limited                          | 625                  | 5.1                        |
| Odeon Cinemas   | 535                  | 4.4                        |
| The Secretary of State for Communities and Local Government | 511                  | 4.2                        |
| Advance Supply Chain (BFD) Limited                          | 428                  | 3.5                        |
| Poundland Limited   | 414                  | 3.4                        |
| HFC Prestige Manufacturing Limited                          | 410                  | 3.4                        |
| Go Outdoors Limited   | 400                  | 3.3                        |
| Barclays Bank plc   | 375                  | 3.1                        |
| ROM Group Limited   | 350                  | 2.9                        |

## Investment Manager's Report (continued)

The chart below shows the lease expiry profile of the portfolio tenants and the percentage of passing rent expiring at various intervals.

### Lease Expiry Profile



AEW UK Investment Management LLP

7 July 2017

# Principal Risks and Uncertainties

The Company's assets consist primarily of UK commercial property. Its principal risks are therefore related to the commercial property market in general, but also to the particular circumstances of the individual properties and the tenants within the properties.

The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. Twice a year, the Audit Committee reviews the adequacy and effectiveness of the Company's risk management system. Some risks are not yet known and some that are currently not deemed material, could turn out to be material in the future. All principal risks are the same as detailed in the 2016 Annual Report, with the exception of the inclusion of political/economic risks that have been added following the EU referendum in June 2016 and a financial risk relating to the availability and cost of the credit facility. Financial risk management and objectives and policies are further detailed in Note 20 of the Financial Statements.

An analysis of the principal risks and uncertainties is set out below:

## Principal risks and their potential impact

## How risk is managed

### REAL ESTATE RISKS

#### Tenant default

Failure by tenants to comply with their rental obligations could affect the income that the properties earn and the ability of the Company to pay dividends to its shareholders.

Tenant covenant checks are carried out on new tenants where there are concerns as to their creditworthiness.

Asset management team conducts ongoing monitoring and liaison with tenants to manage potential bad debt risk.

#### Asset management initiatives

Asset management initiatives, such as refurbishment works, may prove to be more extensive, expensive and take longer than anticipated. Cost overruns may have a material adverse effect on the Company's profitability, the NAV and the share price.

Costs incurred on asset management initiatives are closely monitored against budgets and reviewed in regular presentations to the Investment Management Committee of the Investment Manager.

#### Due diligence

Due diligence may not identify all the risks and liabilities in respect of an acquisition (including any environmental, structural or operational defects) that may lead to a material adverse effect on the Company's profitability, the Net Asset Value and the price of the Company's Ordinary Shares.

The Company's due diligence relies on the work (such as legal reports on title, property valuations, environmental, building surveys) outsourced to third parties who have expertise in their areas. Such third parties have Professional Indemnity cover in place.

#### Fall in rental rates

Rental rates may be adversely affected by general UK economic conditions and other factors that depress rental rates, including local factors relating to particular properties/locations (such as increased competition).

The Company mitigates this risk through building a diversified property and tenant base with subsequent monitoring of concentration to individual occupiers (top 10 tenants) and sectors (geographical and sector exposure).

Any fall in the rental rates for the Company's properties may have a material adverse effect on the Company's profitability, the NAV, the price of the Ordinary Shares and the Company's ability to meet interest and capital repayments on any debt facilities.

Quarterly meetings are held with the Investment Strategy Committee of the Investment Manager and Board of Directors to assess whether any changes in the market present risks that should be addressed in our strategy.

## Principal Risks and Uncertainties (continued)

### Principal risks and their potential impact

### How risk is managed

#### REAL ESTATE RISKS (continued)

##### Property market

Any property market recession or future deterioration in the property market could, inter alia, (i) cause the Company to realise its investments at lower valuations; and (ii) delay the timings of the Company's realisations. These risks could have a material adverse effect on the ability of the Company to achieve its investment objective.

The Company has investment restrictions in place to invest and manage its assets with the objective of spreading and mitigating risk.

##### Property valuation

Property and property-related assets are inherently difficult to value due to the individual nature of each property.

The Company uses an independent valuer (Knight Frank) to value the properties at fair value in accordance with accepted RICS appraisal and valuation standards.

There may be an adverse effect on the Company's profitability, the NAV and the price of Ordinary Shares in cases where properties are sold whose valuations have previously been materially overstated.

## FINANCIAL RISKS

##### Breach of borrowing covenants

The Company has entered into a term credit facility.

The Company monitors the use of borrowings on an ongoing basis through weekly cash flow forecasting and quarterly risk monitoring to monitor financial covenants.

##### Interest rate rises

The Company's borrowings through a term credit facility are subject to interest rate risk through changing LIBOR rates. Any increases in LIBOR rates may have an adverse effect on the Company's ability to pay dividends.

An interest rate cap of 2.5% is in place to mitigate the adverse impact of possible interest rate rises.

##### Availability and cost of the credit facility

The term credit facility expires in October 2020. In the event that RBSi does not renew the facility the Company may need to sell assets to repay the outstanding loan. Any increase in the financing costs of the facility on renewal would adversely impact on the Company's profitability.

The Company maintains a good relationship with the bank providing the term credit facility.

The Company monitors the projected usage and covenants of the credit facility on a quarterly basis.

## Principal Risks and Uncertainties (continued)

### Principal risks and their potential impact

### How risk is managed

#### CORPORATE RISKS

##### Use of service providers

The Company has no employees and is reliant upon the performance of third party service providers.

Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Company.

The performance of service providers in conjunction with their service level agreements is monitored via regular calls and face to face meetings and the use of Key Performance Indicators, where relevant.

##### Dependence on the Investment Manager

The Investment Manager is responsible for providing investment management services to the Company.

The future ability of the Company to successfully pursue its investment objective and investment policy may, among other things, depend on the ability of the Investment Manager to retain its existing staff and/or to recruit individuals of similar experience and calibre.

The Investment Manager has endeavoured to ensure that the principal members of its management team are suitably incentivised.

##### Ability to meet objectives

The Company may not meet its investment objective to deliver an attractive total return to shareholders from investing predominantly in a portfolio of smaller commercial properties in the United Kingdom.

Poor relative total return performance may lead to an adverse reputational impact that affects the Company's ability to raise new capital.

The Company has an investment policy to achieve a balanced portfolio with a diversified tenant base. The Company also has investment restrictions in place to limit exposure to potential risk factors. These factors mitigate the risk of fluctuations in returns.

## Principal Risks and Uncertainties (continued)

### Principal risks and their potential impact

### How risk is managed

#### TAXATION RISKS

##### Company REIT status

The Company has a UK REIT status that provides a tax-efficient corporate structure.

If the Company fails to remain a REIT for UK tax purposes, its profits and gains will be subject to UK corporation tax.

Any change to the tax status or UK tax legislation could impact on the Company's ability to achieve its investment objectives and provide attractive returns to shareholders.

The Company monitors REIT compliance through the Investment Manager on acquisitions; the Administrator on asset and distribution levels; the Registrar and Broker on shareholdings and the use of third-party tax advisers to monitor REIT compliance requirements.

#### POLITICAL/ECONOMIC RISKS

Political and macroeconomic events present risks to the real estate and financial markets that affect the Company and the business of our tenants. The level of uncertainty that such events bring has been highlighted in recent times, most pertinently following the EU referendum vote (Brexit) in June 2016.

The Board considers the impact of political and macroeconomic events when reviewing strategy.

# Portfolio

## Industrial

### 1 Bentalls, Pips Hill Industrial Estate, Basildon

New 10 year lease, very strong occupational market



#### Property characteristics

|                |                       |
|----------------|-----------------------|
| Property type  | Industrial            |
| Area           | 32,932 sq ft          |
| Purchase price | £2.1m (£65 per sq ft) |
| Purchase yield | 8.8%                  |
| Constructed    | 1980s                 |
| Vendor         | Tenant                |

#### Lease

|         |  |
|---------|--|
| Tenants | New 10 year lease to Merson Signs Ltd. |
| Rent    | Passing rent of £6 per sq ft.          |

#### Adding value

1. The tenant has been in occupation since the 1990s and will be investing in improvements to the building over the next year.
2. The lease provides for annual rental uplifts of 2% per annum.

#### Investment summary

1. Established industrial estate.
2. Lack of Grade A industrial floor space in the region has caused secondary rents to grow by c.10% over the past 12 months.

### 349 Moorside Road, Swinton, Salford

Income longer than portfolio level WAULT, strong covenant



#### Property characteristics

|                |              |
|----------------|--------------|
| Property type  | Industrial   |
| Area           | 24,307 sq ft |
| Purchase price | £1.28m       |
| Purchase yield | 7.64%        |
| Constructed    | 2010         |
| Vendor         | Private      |

#### Lease

|         |   |
|---------|---|
| Tenants | Single let with an unexpired term of 6.3 years. Secured against National Crash Repair Centre Ltd. |
| Rent    | Low passing rent of £4.25 per sq ft.  |

#### Adding value

1. The current lease provides a strong income stream.

#### Investment summary

1. Strong covenant.
2. Income longer than portfolio level WAULT.
3. Well located a short distance from the M60 Manchester Ring Motorway.
4. Modern building.



## Portfolio (continued)

### Industrial (continued)

#### 710 Brightside Lane, Sheffield

Long income, higher alternative use potential



##### Property characteristics

|                |                  |
|----------------|------------------|
| Property type  | Industrial       |
| Area           | 121,733 sq ft    |
| Purchase price | £3.50m           |
| Purchase yield | 8.82%            |
| Constructed    | 1960s            |
| Vendor         | Property Company |

##### Lease

|         |  |
|---------|--|
| Tenants | Single let for a further 12 years with a tenant break option in 9.5 years. |
| Rent    | Average passing rent of £2.87 per sq ft.                                   |

##### Adding value

1. Potential to increase rent at review.
2. Potential for medium to long term redevelopment for higher value uses including trade counter and motor dealership.

##### Investment summary

1. Prominent frontage to busy arterial route.
2. Tenant wedded to the location having significantly invested in the roof.
3. Low capital value per sq ft and low passing rent.
4. Long term income.
5. Surrounding sites currently being redeveloped for higher value uses.

#### Apollo Business Park, Basildon

Low passing rents, very strong occupational market



##### Property characteristics

|                |                       |
|----------------|-----------------------|
| Property type  | Industrial            |
| Area           | 68,813 sq ft          |
| Purchase price | £4.6m (£66 per sq ft) |
| Purchase yield | 7.8%                  |
| Constructed    | 1970s                 |
| Vendor         | Property Company      |

##### Lease

|         |   |
|---------|---|
| Tenants | Multi let to 4 tenants.<br><br>WAULT of 3.4 years to breaks.<br><br>Largest tenant is Amari Plastics Plc (53% of passing rent). |
| Rent    | Passing rent of £5.50 per sq ft.  |

##### Adding value

1. Low passing rents of £5.50 per sq ft compared to ERV of £6.25.
2. 50% of the income secured against a very strong covenant.

##### Investment summary

1. Established industrial estate.
2. Lack of Grade A industrial floor space in the region has caused secondary rents to grow by c.10% over the past 12 months.

## Portfolio (continued)

### Industrial (continued)

#### Barbot Hall Industrial Estate Magham Road, Rotherham

Single let industrial unit in established location, reversionary potential



##### Property characteristics

|                |                  |
|----------------|------------------|
| Property type  | Industrial       |
| Area           | 81,979 sq ft     |
| Purchase price | £2.17m           |
| Purchase yield | 8.50%            |
| Vendor         | Property Company |

##### Lease

|         |   |
|---------|---|
| Tenants | Single let to Sapa Components UK Ltd with a WAULT of 1.7 years to expiry. |
| Rent    | Average passing rent of £2.38 per sq ft.                                  |

##### Adding value

1. Reversionary potential – ERV of c.£3.25 per sq ft.
2. Negotiate lease renewal on expiry of the current lease in December 2018. Sapa are wedded to the location due to their distribution network.
3. Established industrial location.

##### Investment summary

1. Increasing levels of occupier demand within the surrounding area.
2. Lack of new development has created a shortage of competing stock.
3. Strong tenant covenant.
4. Low passing rent.

#### Brockhurst Crescent, Walsall

Three fully let industrial units, strategically located near the M6



##### Property characteristics

|                |                  |
|----------------|------------------|
| Property type  | Industrial       |
| Area           | 136,171 sq ft    |
| Purchase price | £3.85m           |
| Purchase yield | 9.80%            |
| Vendor         | Property Company |

##### Lease

|         |   |
|---------|---|
| Tenants | Multi-let to Tata Steel and Micheldever Tyres providing a WAULT of 4.9 years to expiry. |
| Rent    | Average passing rent of £2.96 per sq ft.  |

##### Adding value

1. Fixed rental uplifts in 2017 taking the running yield to 11.0%.
2. Opportunity to negotiate a reversionary lease with an existing tenant to extend the income.

##### Investment summary

1. Established industrial location just off the M6 at Junction 9.
2. Fully let.
3. Attractive net initial yield.
4. Shortage of low rented industrial accommodation within the surrounding area.

## Portfolio (continued)

### Industrial (continued)

#### Carrs Coatings, North Moons Industrial Estate, Redditch

Established industrial location, strong tenant demand



##### Property characteristics

|                |              |
|----------------|--------------|
| Property type  | Industrial   |
| Area           | 37,992 sq ft |
| Purchase price | £2.00m       |
| Purchase yield | 9.5%         |

##### Lease

|         |  |
|---------|--|
| Tenants | Carrs Coatings Limited<br>11.3 years unexpired term. |
| Rent    | Average passing rent of<br>£5.35 per sq ft.          |

##### Adding value

1. The lease provides for annual RPI uplifts.
2. Strong demand from owner occupiers within the wider area due to lack of supply.

##### Investment summary

1. Attractive initial yield.
2. Long income providing annual fixed uplifts in line with RPI.
3. Located within a very well established industrial location.
4. Purchase price c.85% underpinned by vacant possession value.

#### Clarke Road, Milton Keynes

Income longer than portfolio level WAULT, strong covenant



##### Property characteristics

|                |              |
|----------------|--------------|
| Property type  | Industrial   |
| Area           | 28,348 sq ft |
| Purchase price | £1.53m       |
| Purchase yield | 7.66%        |
| Constructed    | 1980s        |
| Vendor         | Private      |

##### Lease

|         |   |
|---------|---|
| Tenants | Single let with an unexpired term of 6.3 years. Secured against National Crash Repair Centre Ltd. |
| Rent    | Average passing rent of £4.73 per sq ft.  |

##### Adding value

1. The current lease provides a strong income stream.

##### Investment summary

1. Strong covenant.
2. Income longer than portfolio level WAULT.
3. South east location.

## Portfolio (continued)

### Industrial (continued)

#### Cleaver House, Runcorn

Attractive yield, improving industrial location



#### Property characteristics

|                |              |
|----------------|--------------|
| Property type  | Industrial   |
| Area           | 16,154 sq ft |
| Purchase price | £0.91m       |
| Purchase yield | 7.92%        |
| Constructed    | 1990s        |
| Vendor         | Private      |

#### Lease

|         |   |
|---------|---|
| Tenants | Single let with an unexpired term of 3.9 years, 10 months to break. |
| Rent    | Passing rent of £4.71 per sq ft.                                    |

#### Adding value

1. The location is set to benefit from the completion of the Mersey Gateway Project in 2017 which will link Runcorn with the M56 to M62.
2. The unit was acquired following the acquisition by the Company of the wider Sarus Court estate. Cleaver House therefore assists in providing a more efficient control of estate management.
3. Potential for rental growth against an ERV of £5.25 per sq ft.

#### Investment summary

1. Established industrial location.
2. High quality, modern accommodation compared to the competing offer.
3. Fully let.

#### Cranbourne House, Bessemer Road, Basingstoke

Modern, single let industrial unit in a prime South East location



#### Property characteristics

|                |              |
|----------------|--------------|
| Property type  | Industrial   |
| Area           | 58,445 sq ft |
| Purchase price | £3.39m       |
| Purchase yield | 10.00%       |

#### Lease

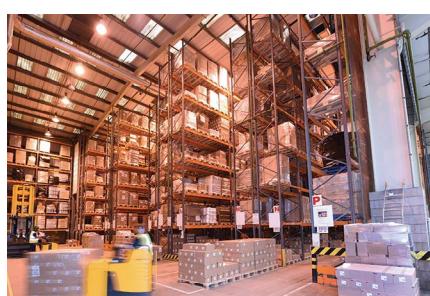
|         |  |
|---------|--|
| Tenants | Fully let to HFC Prestige Manufacturing Ltd with a WAULT of 2.7 years to break and expiry. |
| Rent    | Average passing rent of £7.01 per sq ft.   |

#### Adding value

1. Removal of tenant break option has provided an additional two years term certain.
2. Assignment to new group parent company provides a more robust covenant.

#### Investment summary

1. Established South East industrial location.
2. Modern accommodation.
3. Increasing levels of occupier demand.
4. Lack of new development.
5. Strong tenant covenant.



## Portfolio (continued)

### Industrial (continued)

#### Euroway, Bradford

Located just off the M62, low passing rent



##### Property characteristics

|                |                        |
|----------------|------------------------|
| Property type  | Industrial             |
| Area           | 143,765 sq ft          |
| Purchase price | £4.95m (£34 per sq ft) |
| Purchase yield | 8.1%                   |
| Constructed    | 1980s                  |
| Vendor         | Property Company       |

##### Lease

|         |  |
|---------|--|
| Tenants | Fully let to Advanced Processing Ltd with 8 years unexpired. |
| Rent    | Passing rent of £3 per sq ft.                                |

##### Adding value

1. Previous owner completed £400,000 of works to the roof and yard.
2. Tenant has been in occupation since 2009 and has recently extended the lease, creating an unexpired term of 8 years.

##### Investment summary

1. Strong distribution location providing excellent access to the motorway network.
2. Located directly adjacent to regional hub for Marks & Spencer.
3. Low passing rent of £3 per sq ft is well below ERV due to lack of available stock in the area.

#### Lea Green Industrial Estate, Walkers Lane, St Helen's

Single let industrial unit, long term income stream



##### Property characteristics

|                |                  |
|----------------|------------------|
| Property type  | Industrial       |
| Area           | 93,588 sq ft     |
| Purchase price | £3.44m           |
| Purchase yield | 8.24%            |
| Vendor         | Property Company |

##### Lease

|         |   |
|---------|---|
| Tenants | Single let to Kverneland Group UK Ltd with a WAULT of 8.4 years to expiry with no break option. |
| Rent    | £3.25 per sq ft.  |

##### Adding value

1. Minimal asset management required due to long lease.
2. Some reversionary potential at review.

##### Investment summary

1. Established industrial location.
2. New lease to embedded tenant.
3. Attractive WAULT.
4. Strong tenant covenant.

## Portfolio (continued)

### Industrial (continued)

#### Oak Park, Rylands Lane, Elmley Lovett, Droitwich

Industrial complex let to a strong covenant



##### Property characteristics

|                |                   |
|----------------|-------------------|
| Property type  | Industrial        |
| Area           | 188,555 sq ft     |
| Purchase price | £6.62m            |
| Purchase yield | 10.40%            |
| Vendor         | Receivership sale |

##### Lease

|         |  |
|---------|--|
| Tenants | Single let to Taylor Bins (trading name) providing a WAULT of 5.5 years to expiry. |
| Rent    | Average passing rent of £3.29 per sq ft.   |

##### Adding value

1. Investment value strongly underpinned by underlying site value.
2. Potential future change of use to residential, subject to planning.

##### Investment summary

1. Established industrial location.
2. Fully let to a strong covenant.
3. High yielding and stable income stream.

#### Sarus Court, Runcorn

Attractive yield, improving industrial location



##### Property characteristics

|                |              |
|----------------|--------------|
| Property type  | Industrial   |
| Area           | 56,123 sq ft |
| Purchase price | £3.37m       |
| Purchase yield | 8.00%        |

##### Lease

|         |   |
|---------|---|
| Tenants | Multi-let to two tenants providing a WAULT of 3.7 years to break and 4.4 years to expiry. |
| Rent    | Average passing rent of £4.80 per sq ft.  |

##### Adding value

1. The location is set to benefit from the completion of the Mersey Gateway Project in 2017 which will link Runcorn with the M56 to M62.
2. The Company has since acquired two further units on the same estate to provide more efficient control of estate management.
3. Potential for rental growth against an ERV of £5.25 per sq ft.

##### Investment summary

1. Established industrial location.
2. High quality, modern accommodation compared to the competing offer.
3. Fully let.

## Portfolio (continued)

### Industrial (continued)

#### Units 16 and 16a, Langthwaite Business Park, South Kirkby

High yielding industrial units



##### Property characteristics

|                |                  |
|----------------|------------------|
| Property type  | Industrial       |
| Area           | 230,850 sq ft    |
| Purchase price | £5.80m           |
| Purchase yield | 11.00%           |
| Vendor         | Property Company |

##### Lease

|         |  |
|---------|--|
| Tenants | Fully let to Ardagh Glass Ltd with a WAULT of 4 months to breaks and 6 months to expiry. |
| Rent    | Average passing rent of £2.95 per sq ft.   |

##### Adding value

1. Negotiations under way with the current tenant to extend the lease due to their requirement to remain within the local area.
2. High yielding industrial units located in Yorkshire, a short distance from the A1(M).

##### Investment summary

1. Strategically located for tenant due to other nearby facilities.
2. Low capital value.
3. Shortage of availability in the local market.
4. 5A1 covenant strength (Dun & Bradstreet).

#### Waggon Road, Mossley, Ashton Under Lyne

Income longer than portfolio level WAULT, strong covenant



##### Property characteristics

|                |              |
|----------------|--------------|
| Property type  | Industrial   |
| Area           | 12,836 sq ft |
| Purchase price | £0.28m       |
| Purchase yield | 11.1%        |
| Constructed    | 1980s        |
| Vendor         | Private      |

##### Lease

|         |   |
|---------|---|
| Tenants | Single let with an unexpired term of 6.3 years. Secured against National Crash Repair Centre Ltd. |
| Rent    | Low passing rent of £2.50 per sq ft.  |

##### Adding value

1. The current lease provides a strong income stream.

##### Investment summary

1. Strong covenant.
2. Income longer than portfolio level WAULT.
3. Well located a short distance from the M60 Manchester Ring Motorway.

## Portfolio (continued)

### Offices

#### 40 Queen Square, Bristol

Prime Bristol Office Location, refurbishment potential



##### Property characteristics

|                |  |
|----------------|--|
| Property type  | Office   |
| Area           | 38,326 sq ft   |
| Purchase price | £7.20m   |
| Purchase yield | 8.70%  |
| Vendor         | Fund   |
| <b>Lease</b>   |  |
| Tenants        | Multi-let to 8 tenants with 6% ERV vacancy. WAULT of 3.0 years to break and 4.9 years to expiry. |
| Rent           | Average passing rent of £20.30 per sq ft (on let space).   |

##### Adding value

1. Active asset management program to refurbish and relet vacant space has repositioned the asset and taken occupancy levels from 54% at purchase to 94%.
2. Improvements undertaken on the common facilities will continue to drive rental growth.

##### Investment summary

1. Prime office location in central Bristol.
2. Increasing levels of occupier demand is driving rental growth.

#### Bath Street, Glasgow

City centre location, attractive yield profile



##### Property characteristics

|                |   |
|----------------|---|
| Property type  | Office  |
| Area           | 88,159 sq ft  |
| Purchase price | £12.20m   |
| Purchase yield | 10.00%  |
| Constructed    | 1980s   |
| Vendor         | Fund  |
| <b>Lease</b>   |   |
| Tenants        | Let to 4 tenants providing a WAULT of 3.2 years to break and 5.9 years to expiry. |
| Rent           | Average passing rent of £14.68 per sq ft.   |

##### Adding value

1. The current low passing rents make the building well placed to benefit from future rental growth.
2. Requires minimal capex going forward e.g. improvement of tenant amenity space on the ground floor.

##### Investment summary

1. Multi-let city centre office building.
2. Comprehensively refurbished in 2008.
3. Shortage of competing stock for this size of floor plate.

## Portfolio (continued)

### Offices (continued)

#### Eastpoint Business Park, Oxford

Major south east city, improving occupier demand



##### Property characteristics

|                |                  |
|----------------|------------------|
| Property type  | Office           |
| Area           | 74,266 sq ft     |
| Purchase price | £8.20m           |
| Purchase yield | 9.40%            |
| Constructed    | 1980s            |
| Vendor         | Property Company |

##### Lease

|         |  |
|---------|--|
| Tenants | 5 tenants providing a WAULT of 6.5 years to break and 9.5 years to expiry. |
| Rent    | Average passing rent of £10.30 per sq ft.                                  |

##### Adding value

- 12,700 sq ft under offer to an existing tenant for a new 10 year term.
- Capital expenditure of £160,000 spent refreshing common parts.

##### Investment summary

- Majority refurbished office park with good road links.
- Constrained supply and improving occupier demand in a key south east location.
- Low capital value per sq ft.

#### Pearl House, Wheeler Gate, Nottingham

Major city centre location, high passing footfall



##### Property characteristics

|                |                           |
|----------------|---------------------------|
| Property type  | Retail with office uppers |
| Area           | 71,260 sq ft              |
| Purchase price | £8.15m                    |
| Purchase yield | 9.0%                      |

##### Lease

|         |  |
|---------|--|
| Tenants | Multi let to 16 tenants with a WAULT of 5.1 years to break and 5.6 years to expiry.<br><br>50% of the income from national retailers including Poundland, Costa Coffee and Lakeland. |
| Rent    | Office c.£12 per sq ft.<br><br>Wheeler Gate Retail c.£100 ITZA.  |

##### Adding value

- Complete office lease renewals. Various tenants have renewal leases in solicitors hands.
- Change of use of the larger floor plate office accommodation to a gym, subject to planning.
- Potential to sell off the office floors for change of use in the longer term, subject to planning.

##### Investment summary

- Major city centre retail pitch with high footfall.
- Well configured retail units.
- Office upper floors providing potential for a range of alternative uses. Prior approval consent received for change of use for 36 residential flats.

## Portfolio (continued)

### Offices (continued)

#### Sandford House, Solihull

Prime office location, tenant wedded to the location



##### Property characteristics

|                |              |
|----------------|--------------|
| Property type  | Office       |
| Area           | 34,418 sq ft |
| Purchase price | £5.40m       |
| Purchase yield | 10.90%       |
| Constructed    | 1988         |
| Vendor         | Fund         |

##### Lease

|         |   |
|---------|---|
| Tenants | Government tenant with 2.7 years to break and expiry. |
| Rent    | Average passing rent of £14.90 per sq ft.             |

##### Adding value

1. Potential to regear the lease with the current tenant. 2016 break option was not operated.
2. Refurbishment potential in the short term could increase rental value.
3. Ability to extend the building, subject to planning.

##### Investment summary

1. Prime Birmingham office location.
2. Significant improvement in occupier demand over the past two years.
3. Government tenant is strongly wedded to the location – Border Force have disclosed a new requirement but are very unlikely to move before break date.
4. Potential to refurbish in the short to medium term to increase rental value.

#### Vantage Point, Hemel Hempstead

Low capital value per sq ft, strong and improving occupier market



##### Property characteristics

|                |                |
|----------------|----------------|
| Property type  | Office         |
| Area           | 18,466 sq ft   |
| Purchase price | £2.18m         |
| Purchase yield | 8.40%          |
| Constructed    | 1980           |
| Vendor         | Private vendor |

##### Lease

|         |   |
|---------|---|
| Tenants | Fully let to 2 tenants providing a WAULT of 5.4 years to break and 7.4 years to expiry. |
| Rent    | Average passing rent of £10.49 per sq ft.   |

##### Adding value

1. Refurbishment potential if the first floor tenant breaks their lease and in the medium term ERV could increase to £15 per sq ft on refurbished accommodation.

##### Investment summary

1. Established south east business park location.
2. Strong south east office occupational market.
3. Low passing rent.
4. Low capital value per sq ft.

## Portfolio (continued)

### Retail Warehouse

#### Barnstaple Retail Park, Station Road, Barnstaple

Fully let on rebased rents, established location



##### Property characteristics

|                |                  |
|----------------|------------------|
| Property type  | Retail warehouse |
| Area           | 51,021 sq ft     |
| Purchase price | £6.79m           |
| Purchase yield | 8.50%            |
| Constructed    | 1988             |
| Vendor         | Charity          |

##### Lease

|         |   |
|---------|---|
| Tenants | B&Q, Sports Direct and Poundland. WAULT of 6.9 years to expiry. |
| Rent    | Average passing rent of £11.97 per sq ft.                       |

##### Adding value

1. Low base rents could create potential for future rental growth.

##### Investment summary

1. Retail warehousing scheme located within an established destination area.
2. Fully let to national occupiers on rebased rents.
3. Average weighted unexpired term of 6.9 years.
4. Attractive and stable yield profile.

#### Stoneferry Retail Park, Hull

Prominent location, attractive yield



##### Property characteristics

|                |                  |
|----------------|------------------|
| Property type  | Retail warehouse |
| Area           | 17,656 sq ft     |
| Purchase price | £2.16m           |
| Purchase yield | 10.00%           |
| Constructed    | 1994             |
| Vendor         | Fund             |

##### Lease

|         |  |
|---------|--|
| Tenants | Fully let to 3 tenants providing a WAULT of 4.8 years to expiry. |
| Rent    | Average passing rent of £12.95 per sq ft.                        |

##### Adding value

1. Potential to agree a surrender with Wren Kitchens if an alternative tenant can be found.
2. Improve signage and access.

##### Investment summary

1. Good prominence to a major roundabout junction.
2. Established retail warehousing location.
3. Attractive and stable yield profile in medium to long term.

## Portfolio (continued)

### Retail Warehouse (continued)

#### Valley Retail Park, Newtownabbey, Belfast

Modern scheme, attractive yield profile



##### Property characteristics

|                |                  |
|----------------|------------------|
| Property type  | Retail warehouse |
| Area           | 100,189 sq ft    |
| Purchase price | £7.15m           |
| Purchase yield | 14.00%           |
| Constructed    | 2003             |
| Vendor         | Asset Manager    |

##### Lease

|         |   |
|---------|---|
| Tenants | Let to 5 tenants providing a WAULT of 10.5 years to break and 13.1 years to expiry. |
| Rent    | Average passing rent of £9.75 per sq ft.  |

##### Adding value

1. Agreed surrender with Harvey Norman.
2. Let vacant units.
3. Potential addition of leisure and coffee pod.

##### Investment summary

1. Modern scheme.
2. Attractive yield profile.
3. Low vacancy level within the surrounding area.
4. Ability to offer space at a discount to surrounding schemes.
5. Halfords trading strongly.
6. Wider interpretation of bulky goods planning consent than rest of UK.

### Standard Retail

#### 11/15 Fargate, 18/36 Chapel Walk, Sheffield

Prime retailing location, attractive yield profile



##### Property characteristics

|                |              |
|----------------|--------------|
| Property type  | Retail       |
| Area           | 34,362 sq ft |
| Purchase price | £5.30m       |
| Purchase yield | 8.90%        |
| Vendor         | Fund         |

##### Lease

|         |   |
|---------|---|
| Tenants | Multi-let to 7 tenants providing a WAULT of 4.3 years to break and 7.0 years to expiry. |
| Rent    | Passing rent of £135 per sq ft on the prime units.                                      |

##### Adding value

1. Sales of vacant upper parts to a student housing developer has been completed.
2. Potential for future rental growth.

##### Investment summary

1. Prime retail location within Top 25 retailing city.
2. Low passing rent on the prime units.
3. Further retail development nearby will help to draw more footfall into the city centre.

## Portfolio (continued)

### Standard Retail (continued)

#### 69-75 Above Bar Street, Southampton

Top 20 retailing centre, improving occupier demand



##### Property characteristics

|                |              |
|----------------|--------------|
| Property type  | Retail       |
| Area           | 21,936 sq ft |
| Purchase price | £9.25m       |
| Purchase yield | 8.75%        |
| Constructed    | 1993         |
| Vendor         | Fund         |

##### Lease

|         |   |
|---------|---|
| Tenants | Fully let to 3 tenants providing a WAULT of 4.2 years to expiry.        |
| Rent    | Average passing rent of £197.00 per sq ft In Terms of Zone A ('ITZA')*. |

##### Adding value

1. Potential to increase rental value in the medium term due to rental growth within the wider area.

##### Investment summary

1. Top 20 retail centre.
2. Property located just a short walk from the prime pitch and between the two main covered centres.
3. Improving occupier demand and potential for rental growth going forward.

\* Refer to standard zoning convention at [www.rics.org.uk](http://www.rics.org.uk)

#### Bank Hey Street, Blackpool

Strong tenant covenants, asset management opportunities



##### Property characteristics

|                |                           |
|----------------|---------------------------|
| Property type  | Retail with vacant uppers |
| Area           | 100,079 sq ft             |
| Purchase price | £5.05m                    |
| Purchase yield | 9.5%                      |

##### Lease

|         |  |
|---------|--|
| Tenants | Multi-let to national occupiers JD Wetherspoon, Poundland and Sports Direct.<br>WAULT of 6.7 years to break and 9.2 years to expiry. |
| Rent    | £5.80 per sq ft.   |

##### Adding value

1. Potential sale of upper parts (no rates liability) on a long-leasehold basis.
2. Sports Direct are also interested in expanding within the building.

##### Investment summary

1. Iconic location directly adjacent to the Blackpool Tower.
2. Blackpool has seen a resurgence in visitor numbers to 13 million in 2014.
3. Attractive net initial yield.
4. Tenants reporting very strong trade.

## Portfolio (continued)

### Leisure

#### Odeon Cinema, Victoria Circus, Southend on Sea

Prominent south east town centre location, strong underlying trade



#### Property characteristics

|                |  |
|----------------|--|
| Property type  | Leisure  |
| Area           | 40,635 sq ft   |
| Purchase price | £5.70m   |
| Purchase yield | 8.40%  |
| Vendor         | Institution  |
| <b>Lease</b>   |  |
| Tenants        | Fully let to Odeon Cinemas Ltd providing a WAULT of 5.4 years to expiry. |
| Rent           | Average passing rent of £13.16 per sq ft.                                |

#### Adding value

1. Outstanding 2012 rent review now settled at an uplift of £30,000 pa.
2. 2017 rent review commenced which could yield further uplift.
3. Negotiate lease extension with the tenant. Potential to negotiate future lease extensions to add significant value through indexation.

#### Investment summary

1. Prominently located on the High Street and a short distance from the train station.
2. Only cinema within 25 minute drive time.
3. 5A1 covenant strength (Dun & Bradstreet).
4. Tenant trading strongly.
5. Attractive yield and stable income stream.

# Diversity, Social and Environmental Matters

## *Diversity*

In 2016, the Board approved and adopted a diversity policy. The policy acknowledges the importance of diversity, including gender diversity, for the Company.

The Board has established the following objectives for achieving diversity on the Board:

- All Board appointments will be made on merit, in the context of the skills, knowledge and experience that are needed for the Board to be effective.
- Any long lists of potential directors to include diverse candidates of appropriate merit.
- When engaging with executive search firms, the Company will only engage with those firms who have signed up to the voluntary Code of Conduct on gender diversity and best practice.

When selecting a new non-executive Director, the Board reviewed a list of candidates from diverse backgrounds and after meeting with several of them, selected Katrina Hart as she was the most qualified candidate.

The Directors do not have service contracts. There are three male Directors and one female Director.

## *Social, Community and Employee Responsibility*

The Company has no direct social, community or employee responsibilities. The Company has no employees and accordingly no requirement to separately report in this area as the management of the portfolio has been delegated to the Investment Manager.

The Investment Manager is an equal opportunities employer who respects and seeks to empower each individual and the diverse cultures, perspectives, skills and experiences within its workforce.

The Company is not within the scope of the Modern Slavery Act 2015 because it has not exceeded the turnover threshold and is therefore not obliged to make a slavery and human trafficking statement. The Directors are satisfied that, to the best of their knowledge, the Company's principal suppliers, which are listed on page 107, comply with the provisions of the UK Modern Slavery Act 2015.

## *Environmental Policy*

The Investment Manager acquires and manages properties on behalf of the Company. It is recognised that these activities have both direct and indirect environmental impacts.

The Investment Manager has a Sustainable and Responsible Investment ('SRI') policy. This can be found on the Investment Manager's website [www.aewuk.co.uk](http://www.aewuk.co.uk).

The Investment Manager believes environmentally responsible fund management means being active, on the ground every day. As part of this process, the Investment Manager submits disclosures to GRESB, the Global Real Estate Sustainability Benchmark. GRESB is an industry driven organisation committed to assessing the sustainability of real estate portfolios (public, private and direct) around the globe.

The Investment Manager is in the process of submitting the Company's GRESB assessment for the period from 1 May 2016 to 30 April 2017 and will receive the results of this assessment in September 2017 when it will be made available on the Company's website.

As an investment company, the Company's own direct environmental impact is minimal and greenhouse gas ('GHG') emissions are therefore negligible. Information on the GHG emissions in relation to the Company's property portfolio are disclosed on pages 61 and 62 of the Directors' Report.

The Strategic Report has been approved by the Board of Directors and signed on its behalf by:

**Mark Burton**  
**Chairman**  
7 July 2017

# Governance

## Board of Directors



**Mark Burton, non-executive Chairman  
(aged 69)**

Mr. Burton currently serves as a board member of Value Retail plc. He also sits on the real estate advisory boards for Norges Bank Investment Management and GreenOak; and acts as an advisor to Citic Capital Real Estate. Mr. Burton qualified as a Chartered Surveyor, has been a member of the UK Government Property Advisory Group and was formerly chairman of The Investment Property Forum and Urban Land Institute UK.

Appointed: 9 April 2015



**James Hyslop, non-executive non-independent Director  
(aged 71)**

Mr. Hyslop is currently a member of the Investment Committee of Paloma Real Estate Fund I LP and is a consultant to AEW UK Investment Management LLP. He was until recently a member of the investment committees of ING Lionbrook Property Partnership, CBRE Investors, Gresham Real Estate Fund I & II, Columbus UK Real Estate Fund II, Columbus UK Real Estate Fund LP (all Schroders funds) and a consultant to UBS Global Asset Management Limited.

Appointed: 9 April 2015



**Bim Sandhu, non-executive Director  
(aged 55)**

Mr. Sandhu is chief executive officer and owner of The Santon Group which has developed over £1 billion of property in the last nine years. He was a founder and chief executive officer of Raven Mount plc, a co-founder of Raven Russia Limited, which Mr. Sandhu helped to list on AIM raising over £450m, and chief executive officer of the external fund manager to that company. Mr. Sandhu is a Fellow of the Institute of Chartered Accountants, having qualified as a Chartered Accountant with KPMG LLP in London. Following qualification, he became secretary of the KPMG UK Property & Construction Group.

Appointed: 9 April 2015



**Katrina Hart, non-executive Director  
(aged 43)**

Ms. Hart is currently a board member of Miton Group plc and Polar Capital Global Financials Trust plc. She spent her executive career in investment banking, working for a range of banks in corporate finance and equity research roles, including ING Barings, HSBC and Canaccord Genuity.

Appointed: 5 June 2017

# Corporate Governance Statement

This Corporate Governance Statement comprises pages 47 to 50 and forms part of the Directors' Report.

## Statement of Compliance

The Board of AEW UK REIT plc has considered the principles and recommendations of the AIC Code of Corporate Governance ('AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code ('UK Code'), as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The Financial Reporting Council ('FRC') has confirmed that AIC member companies who report against the AIC Code and who follow the AIC Guide will meet the obligations in relation to the UK Code and associated disclosure requirements of the Disclosure Guidance and Transparency Rules.

The AIC Code can be viewed at: <http://www.theaic.co.uk>

The UK Code can be viewed at: <https://www.frc.org.uk>

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

Throughout the year ended 30 April 2017, the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below and on the following pages.

The UK Corporate Governance Code includes provisions relating to:

- the role of the chief executive
- executive directors' remuneration

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers these provisions not relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

## Corporate Governance Statement (continued)

### The Board of Directors

The Board has adopted a schedule of matters reserved for decision by the Board. These matters include responsibility for the determination of the Company's investment objective and investment policy and overall responsibility for the Company's activities, including the review of investment activity, gearing and performance and the control and supervision of the Investment Manager.

#### Board committees

The Company has two committees, the Audit Committee and the Management Engagement and Remuneration Committee. Having taken account of the size of the Board, it is not felt appropriate for the Company to have a separate Nomination Committee or a Senior Independent Director.

#### Meeting attendance

The Board's scheduled meetings are quarterly, with an additional meeting dedicated to the review of the financial statements. There were a further eight ad hoc meetings during the year, attended by those Directors available at the time. During the year to 30 April 2017, the number of scheduled Board and Committee meetings attended by each Director were as follows:

|              | <b>Board meetings</b> | <b>Audit Committee meetings</b> | <b>Management Engagement and Remuneration Committee Meetings</b> |
|--------------|-----------------------|---------------------------------|--|
|              | Number attended       | Number attended                 | Number attended  |
| Mark Burton  | 5/5                   | 3/3                             | 1/1  |
| Bim Sandhu   | 5/5                   | 3/3                             | 1/1  |
| James Hyslop | 5/5                   | N/A                             | N/A  |

#### Director independence

The Board considers and reviews the independence of each non-executive Director on an annual basis as part of the Directors' performance evaluation. In carrying out the review, consideration is given to factors such as their character, judgement, commitment and performance on the Board and committees. The independent Directors lead the appointment process for any new Directors.

The Board consists of four non-executive Directors. Mark Burton, Bim Sandhu and Katrina Hart are considered independent. James Hyslop is not considered by the Board to be independent due to the fact that he is a consultant to AEW UK Investment Management LLP.

#### Director appointment and tenure

All Directors serve on the basis of letters of appointment which are available for inspection upon request. On appointment, non-executive Directors undertake that they will have sufficient time to meet the expectations of the role. The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Directors, including the Chairman, has been imposed.

## Corporate Governance Statement (continued)

### ***Election and re-election of Directors***

James Hyslop, as a non-independent Director, is subject to annual re-election by shareholders and will stand for re-election at the 2017 Annual General Meeting. Katrina Hart will stand for election at the 2017 Annual General Meeting, being the first Annual General Meeting following her appointment to the Board on 5 June 2017. Katrina Hart, along with Mark Burton and Bim Sandhu (who both stood for election at the 2016 Annual General Meeting) will stand for re-election at intervals of no longer than three years and will stand for annual re-election by shareholders after nine years of service as recommended by the AIC Code.

As set out on page 45, Katrina Hart's appointment was in accordance with the Company's diversity policy. Neither an external search consultancy nor open advertising were used as a list of candidates from diverse backgrounds for the Board to review was presented by the Company's broker.

As a result of the performance evaluation process, the Board considers that all Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties.

### ***Director induction and training***

All Directors receive an induction on joining the Board and receive other relevant training as necessary. As the business environment changes, it is important to ensure the Directors' skills and knowledge are refreshed and updated regularly. Accordingly, the Company Secretary ensures that updates on corporate governance, regulatory and technical matters are provided to Directors at Board meetings. In this way, Directors keep their skills and knowledge relevant so as to enable them to continue to fulfil their duties effectively.

### ***Directors' conflicts of interest***

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Company, unless that conflict is first authorised by the Board. This includes potential conflicts that may arise when a Director takes up a position with another company. The Company's Articles of Association allow the Board to authorise such potential conflicts, and there is a procedure in place to deal with any actual or potential conflict of interest. The Board deals with each appointment on its individual merit and takes into consideration all the circumstances.

### ***Performance evaluation***

The Board has a formal process to evaluate its own performance annually. The Chairman leads the assessment (and the Chairman of the Audit Committee leads the assessment of the Chairman) which covers:

- the performance of the Board and its committees, including how Directors work together as a whole;
- the balance of skills, experience, independence and knowledge of the Directors; and
- individual performance, particularly considering whether each Director continues to make an effective contribution.

The assessment involves the completion of anonymous questionnaires followed by a discussion with all Directors, as a group and individually.

## Corporate Governance Statement (continued)

### *Internal controls*

The Directors have overall responsibility for the Company's systems of internal controls and risk management. An ongoing process is in place for identifying, evaluating and managing the principal risks faced by the Company. The process for identifying, evaluating and managing the principal risks faced by the Company is in line with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published in September 2014 and the FRC's Guidance on Audit Committees published in April 2016. This process has been in place during the year under review and up to the date of approval of this Report. The processes are regularly reviewed by the Board. The Audit Committee believes that the Company does not require an internal audit function as it delegates its day to day operations to third parties which are monitored by the Committee.

The following are the key internal controls which the Company has in place:

- a risk register has been produced where identified risks and controls to mitigate them can be monitored;
- a procedure to ensure that the Company can continue to be approved as a REIT;
- the Investment Manager and Administrator prepare forecasts and management accounts which allow the Board to assess performance;
- the controls at the Investment Manager and the other third party service providers, as evidenced by their ISAE 3402 or similar reports, are periodically reviewed by the Board; and
- there are agreed and defined investment criteria and specified levels of authority and exposure limits in relation to investments, leverage and payments.

The risks of any failure of the internal controls are identified in the risk register, which is regularly reviewed by the Board through the Audit Committee and which also assesses the impact of such risks. The Principal Risks and Uncertainties identified from the risk register can be found in the Strategic Report on pages 26 to 29.

Over and above the ongoing process, as part of the year end reporting process, the Board received letters of comfort from the Investment Manager, Company Secretary and Fund Administrator regarding those service providers' internal controls, accompanied by their ISAE 3402 reports if available. Following the review of these submissions from service providers and in conjunction with the evaluation of the Company's service providers generally, the Board has determined that the effectiveness of the systems of internal control were satisfactory.

During the course of the year under review, no significant failings or weaknesses in the system of internal controls were identified. The internal control systems do not eliminate risk and can only provide reasonable assurance against misstatement or loss.

### **AGM**

The Company's second AGM will take place at noon on 12 September 2017 at The Cavendish Hotel, 81 Jermyn Street, St. James', London SW1Y 6JF. All shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. The Notice of AGM can be found on the Company's website and in a booklet which is being mailed out at the same time as this Annual Report. The Notice of AGM sets out the business of the meeting and an explanatory note on all resolutions. Separate resolutions are proposed in respect of each substantive issue. The AGM is the Company's principal forum for communication with private shareholders. The Chairman of the Board and the Chairman of the Committees look forward to welcoming shareholders to the AGM and will be available to answer shareholders' questions at that meeting.

### *Contact with Shareholders*

The Board is keen to engage with the Company's shareholders and the Investment Manager and Broker regularly talk to the Company's major shareholders. In addition to the Company's AGM, the Directors are available to speak to or meet with shareholders on request. Any shareholder wishing to contact the Company should address their query to the Company Secretary at the registered office address.

# Report of the Audit Committee

## Composition

The Committee comprises the independent Directors. It is chaired by Bim Sandhu and its other members are Mark Burton and Katrina Hart. The Board considers that Bim Sandhu has recent and relevant financial experience for the purposes of the Code and the FRC's Guidance on Audit Committees. The Board is satisfied that the combined knowledge and experience of its members is such that the Committee discharges its responsibilities in an effective, informed and challenging manner. All members are considered to have experience relevant to the Company's sector.

## Role of the Audit Committee

The Committee assists the Board in discharging its responsibilities with regard to financial reporting, external audit and internal controls, including:

- Monitoring the integrity of the financial statements of the Company, including its annual and half-yearly reports and reviewing significant financial reporting issues and judgements which they contain;
- Keeping under review the adequacy and effectiveness of the Company's risk management systems and reviewing and approving the statements to be included in the annual report concerning internal controls and risk management;
- Making recommendations to the Board in relation to the re-appointment or removal of the Auditor and approving its remuneration and terms of engagement;
- Reviewing the effectiveness of the audit process; and
- Reviewing the Auditor's independence and objectivity.

The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly report remains with the Board. The Committee gives due consideration to laws and regulations, the provisions of the AIC Code and the requirements of the Listing Rules.

## Matters considered during the year

The Committee receives reports from external advisers and from the Investment Manager, as required, to enable it to discharge its duties.

The main activities undertaken during the financial year, and to the date of this report, were that the Committee:

- Reviewed financial results for publication;
- Reviewed the performance and effectiveness of the Auditor and considered their re-appointment and fees;
- Reviewed the non-audit services provided by the Auditor and the associated fees incurred;
- Reviewed and updated the Committee's terms of reference (which are available on the Company's website);
- Considered whether an internal audit function was required and agreed that because the Company delegates its day-to-day operations to third parties, which are monitored by the Committee, an internal audit function was not required; and
- Noted Companies House's comments in relation to the financial results for the period ended 30 April 2016 and worked with the Company's advisors to ensure the prompt restatement of the financial results.

## Report of the Audit Committee (continued)

### Significant issues considered by the Audit Committee

After discussion with the Investment Manager and the Auditor, the Committee determined that the key area of risk in relation to the financial statements of the Company was the valuation of the investment properties. The 29 properties in the portfolio as at 30 April 2017 are externally valued by qualified independent valuers (using the internationally accepted RICS Valuation – Professional Standards) and whilst comparable market transactions provide good valuation evidence, there are assumptions which involve significant levels of judgement. The Committee considered the valuations of the Company's portfolio at 30 April 2017 and these were discussed with the Investment Manager and Auditor at the conclusion of the audit of the financial statements.

In addition the Committee considered the Company's short and medium term cash flows, dividend cover and PID and non-PID distributions. The Committee also monitored the Company's compliance with the requirements of HMRC to maintain UK REIT status.

### Audit fees and non-audit services

During the year, the Audit Committee approved and implemented a policy on the engagement of the Auditor to supply non-audit services, taking into account the recommendations of the FRC. All non-audit services are reviewed by the Audit Committee which makes recommendations for the provision of each non-audit service, and ensure that the statutory auditor is not engaged to perform work that is prohibited under EU law or exceeds the maximum limit of 70:30 non-audit to audit fees or that would prejudice their independence as auditor. The Auditor is permitted to provide audit-related services where the work involved is closely related to the work performed in the audit. These include:

- reviews of interim financial information;
- reporting on internal financial controls when required by law or regulation;
- reporting required by law or regulation to be provided by the Auditor; and
- prospectus/capital markets reporting.

The policy is reviewed at least annually by the Audit Committee and its application is monitored.

|  | Year ended<br>30 April 2017 | Period ended<br>30 April 2016 |
|--|-----------------------------|-------------------------------|
| <b>Audit</b>   |                             |                               |
| Statutory audit of Annual Report and Accounts                            | £66,000                     | £65,000                       |
| Statutory audit of initial accounts for the period ended 31 October 2015 | –                           | £20,000                       |
|  | <b>£66,000</b>              | <b>£85,000</b>                |
| <b>Non-audit</b>   |                             |                               |
| Review of Interim Report   | £22,000                     | £10,000*                      |
| Services provided as Reporting Accountant at IPO                         | –                           | £40,000                       |
| Renewal of Company's Prospectus  | £20,500                     | –                             |
|  | <b>£42,500</b>              | <b>£50,000</b>                |
| <b>Total fees paid to KPMG LLP</b>                                       | <b>£108,500</b>             | <b>£135,000</b>               |
| <b>Percentage of total fees attributed to non-audit services</b>         | <b>39%</b>                  | <b>37%</b>                    |

\* The lower fee for review of the Company's Interim Report for the period ended 31 October 2015 was agreed in consideration of the work already completed in the statutory audit of the initial accounts for that same period.

## Report of the Audit Committee (continued)

### **Independence and objectivity of the Auditor**

It is the Committee's responsibility to monitor the performance, objectivity and independence of the Auditor and this is evaluated by the Committee each year. In evaluating KPMG LLP's performance, the Committee examines five main criteria – robustness of the audit process, independence and objectivity, quality of delivery, quality of people and service, and value-added advice.

Having carried out the review the Committee is satisfied with the Auditor's performance and that the non-audit services were appropriate, and did not compromise their objectivity and independence.

### **External Audit Process**

The Audit Committee meets at least twice a year with the Auditor, once at the planning stage before the audit (at the Committee's half-year meeting) and once after the audit at the reporting stage. The Auditor provides a planning report in advance of the annual audit, a report on the annual audit and a report on their review of the interim financial statements. The Committee has an opportunity to question and challenge the Auditor in respect of each of these reports. In addition, at least once a year, the Audit Committee has an opportunity to discuss any aspect of the Auditor's work with the Auditor in the absence of the Investment Manager. After each audit, the Audit Committee reviews the audit process and considers its effectiveness. The review of the 2017 audit concluded that the audit process had worked well, and that the significant issues had been adequately addressed.

### **Re-appointment of the Auditor**

Following the completion of the annual review of the performance of the Auditor the Committee has recommended to the Board that the re-appointment of KPMG LLP as the Company's Auditor be proposed to shareholders at the 2017 AGM and the Audit Committee be authorised to determine their remuneration. KPMG LLP were first appointed as Auditor in respect of the period ended 30 April 2016. In accordance with the EU Audit Regulation, the Company will be required to conduct a tender for audit services following the statutory audit for the year ended 30 April 2025 at the latest.

**Bim Sandhu**  
**Audit Committee Chairman**

7 July 2017

# Report of the Management Engagement and Remuneration Committee

## Composition

The Management Engagement and Remuneration Committee comprises the independent non-executive Directors, Mark Burton, Katrina Hart and Bim Sandhu. The recommendations of the AIC Code (Principle 5) state that the Chairman may be a member of, but not chair, the Remuneration Committee. Having taken account of the size of the Board and the remit of the Management Engagement and Remuneration Committee, the Board believes that Mark Burton remains the most suitable Director to chair the Management Engagement and Remuneration Committee.

## Role of the Management Engagement and Remuneration Committee

The Management Engagement and Remuneration Committee is responsible for reviewing the appropriateness of the continuing appointment of the Investment Manager, ensuring the terms and conditions of the Investment Manager's continuing appointment align with the investment policy and investment objective of the Company and setting Director's remuneration. The remuneration of the Chairman will be considered by the Management Engagement and Remuneration Committee in his absence.

## Matters considered in the year

The Committee receives reports from external advisers and from the Investment Manager, as required, to enable it to discharge its duties.

The main activities undertaken during the financial period, and to the date of this report, were that the Committee:

- Reviewed the Committee's terms of reference (which are available on the Company's website);
- Considered Directors' remuneration and recommended the introduction of a fee for the Chairman of the Audit Committee;
- Satisfied itself that the Investment Management Agreement is fair and that its terms remain competitive and sensible for shareholders and that matters of compliance are under proper review; and
- Considered the continuing appointment of the Investment Manager and made recommendations to the Board thereon.

## Continuing appointment of the Investment Manager

The Committee keeps under review the performance of the Investment Manager and the level and terms of the management fee. In the opinion of the Directors, the continuing appointment of the Investment Manager on the terms agreed is in the interests of shareholders as a whole. This is due to the Investment Manager successfully managing the Company's portfolio, and continuing to apply the Company's Investment Policy, thereby allowing the Company to continue paying dividends in accordance with the targeted investment objective.

# Directors' Remuneration Report

This Report is prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

A resolution to approve this Directors' Remuneration Report (excluding the Directors' Remuneration Policy) will be proposed at the Annual General Meeting of the Company to be held on 12 September 2017.

## Directors' Remuneration Policy

This Policy provides details of the remuneration policy for the Directors of the Company. All Directors are non-executive, appointed under the terms of Letters of Appointment, and none have a service contract. The Company has no employees.

A resolution to approve this Directors' Remuneration Policy will be proposed at the Annual General Meeting of the Company to be held on 12 September 2017. If the resolution is passed, the Remuneration Policy provisions set out below will apply until they are next put to shareholders for renewal of that approval, which must be at intervals of not more than three years, or if the Remuneration Policy is varied, in which event shareholder approval for the new Remuneration Policy will be sought.

The non-executive Directors of the Company are entitled to such rates of annual fees as the Board at its discretion shall from time to time determine, subject to the aggregate annual fees not exceeding £400,000, and reimbursement of reasonable fees and expenses incurred by them in the performance of their duties. In line with the majority of investment trusts, no component of any Director's remuneration is subject to performance factors. There are no provisions in the Directors' Letters of Appointment for recovery or withholding of fees or expenses. Annual fees are pro-rated where a change takes place during a financial period and the fees for any new Director appointed will be in accordance with this Remuneration Policy. The Board may agree to the payment of reasonable additional remuneration for the performance of any special duties or services outside the ordinary duties of a Director.

The Company is committed to ongoing shareholder dialogue and any views which are expressed by shareholders on the fees being paid to Directors would be taken into consideration by the Management Engagement and Remuneration Committee when reviewing the Directors' Remuneration Policy and in the annual review of Directors' fees.

*Table of Directors' Remuneration Components*

| Component      | Director                        | Rate at 1 May 2017 |
|----------------|---------------------------------|--------------------|
| Annual Fee     | All Directors                   | £20,000            |
| Additional Fee | Chairman of the Board           | £5,000             |
| Additional Fee | Chairman of the Audit Committee | £4,000             |
| Additional Fee | All Directors                   | n/a (see note 4)   |

Notes:

1. The Board only exercises its discretion in setting rates of fees after an analysis of fees paid to Directors of other companies having similar profiles to that of the Company.
2. The Company has no employees. Accordingly, there are no differences in policy on the remuneration of Directors and the remuneration of employees.
3. No Director is entitled to receive any remuneration which is performance-related. As a result there are no performance conditions in relation to any elements of the Directors' remuneration in existence to set out in this Remuneration Policy.
4. This is a provision of the Company's Articles of Association, and has therefore been added to the Remuneration Policy. Additional fees would only be paid in exceptional circumstances in relation to the performance of any special duties or services.

## Directors' Remuneration Report (continued)

### Report on Remuneration Implementation

#### *Statement from the Chairman*

The remuneration policy of the Board is determined by the Management Engagement and Remuneration Committee and each Director abstains from voting on their own individual remuneration. Directors' fees for the year ended 30 April 2017 were at a level of £25,000 per annum for the Chairman and £20,000 per annum for other Directors. The Chairman of the Audit Committee received an additional fee of £4,000 per annum effective from 7 July 2016, making his annual fee £24,000, which the Committee agreed was consistent with similar companies and reflected the input and the time spent by the Chairman of the Audit Committee in performing his duties.

The remuneration policy will be put to shareholder approval at the Company's AGM on 12 September 2017 and is substantially unchanged since the previous policy was approved by shareholders. The only change is the inclusion of the provision in the Company's Articles of Association to pay Directors additional fees for special duties or services. No significant changes are expected in the Company's approach to remuneration.

The Company's Articles of Association permit the Company to provide pensions or similar benefits for Directors and employees of the Company. However, no pension schemes or other similar arrangements have been established and no Director is entitled to any pension or similar benefits. No Director is entitled to any other monetary payment or any assets of the Company. Accordingly the Single Total Figure table below does not include columns for any of these items or their monetary equivalents.

As the Company does not have a Chief Executive Officer or any executive Directors, there are no percentage increases to disclose in respect of their total remuneration, and it has not reported on those aspects of remuneration that relate to executive Directors.

#### *Voting at Annual General Meeting*

A binding Ordinary Resolution approving the Directors' Remuneration Policy and a non-binding Ordinary Resolution adopting the Directors' Remuneration Report for the period ended 30 April 2016 were approved by shareholders at the Annual General Meeting held on 7 September 2016. The votes cast by proxy were as follows:

#### **Remuneration Policy 2016**

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|  |            |
|--|------------|
| For – % of votes cast                      | 99.97      |
| Against – % of votes cast                  | 0.03       |
| At Chairman's discretion – % of votes cast | –          |
| Total votes cast                           | 16,927,802 |
| Number of votes withheld                   | –          |

#### **Remuneration Report 2016**

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|  |            |
|--|------------|
| For – % of votes cast                      | 99.97      |
| Against – % of votes cast                  | 0.03       |
| At Chairman's discretion – % of votes cast | –          |
| Total votes cast                           | 16,927,802 |
| Number of votes withheld                   | –          |

## Directors' Remuneration Report (continued)

The Directors who served during the year received the following emoluments:

### Single Total Figure Table (audited information)

| Name of Director | Fees paid      |                | Taxable benefits |      | Total          |                |
|------------------|----------------|----------------|------------------|------|----------------|----------------|
|                  | 2017           | 2016           | 2017             | 2016 | 2017           | 2016           |
| Mark Burton      | £25,000        | £26,528        | –                | –    | £25,000        | £26,528        |
| James Hyslop     | £20,000        | £21,222        | –                | –    | £20,000        | £21,222        |
| Bim Sandhu       | £23,269        | £21,222        | –                | –    | £23,269        | £21,222        |
|                  | <b>£68,269</b> | <b>£68,972</b> | –                | –    | <b>£68,269</b> | <b>£68,972</b> |

Directors' & Officers' liability insurance is maintained and paid for by the Company on behalf of the Directors.

In line with market practice, the Company has agreed to indemnify the Directors in respect of costs, charges, losses, liabilities, damages and expenses, arising out of any claims or proposed claims made for negligence, default, breach of duty, breach of trust or otherwise, or relating to any application under Section 1157 of the Companies Act 2006, in connection with the performance of their duties as Directors of the Company. The indemnities would also provide financial support from the Company should the level of cover provided by the Directors' & Officers' liability insurance maintained by the Company be exhausted.

### Sums Paid to Third Parties (audited information)

None of the fees referred to in the above table were paid to any third party in respect of the services provided by any of the Directors.

### Other Benefits

Expenses – The Company's Articles of Association provide that Directors are entitled to be reimbursed for reasonable expenses incurred by them in connection with the performance of their duties and attendance at Board and General Meetings.

### Loss of Office

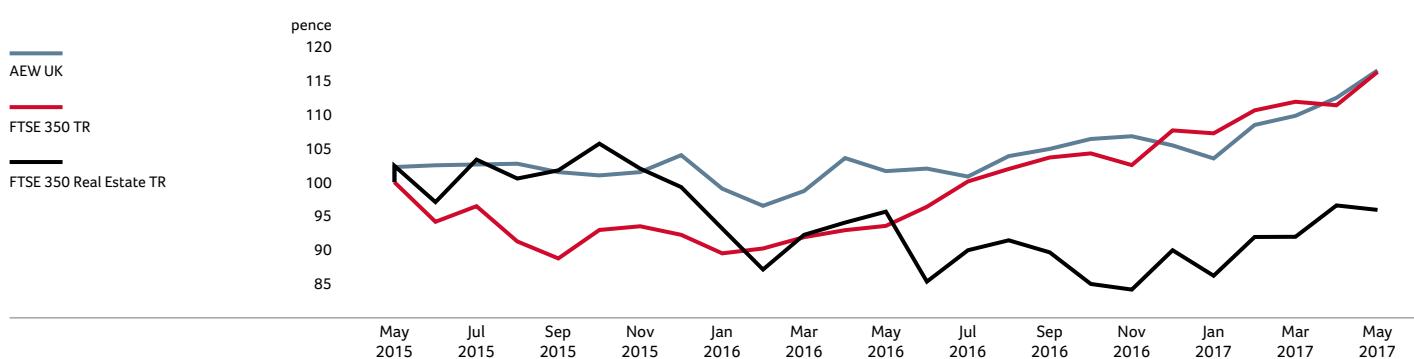
Directors do not have service contracts with the Company but are engaged under Letters of Appointment. These specifically exclude any entitlement to compensation upon leaving office for whatever reason.

## Directors' Remuneration Report (continued)

### Share Price Total Return

The chart below compares the share price total return (assuming all dividends re-invested) to shareholders compared with the total return on the FTSE 350 and FTSE 350 Real Estate Indices over the period since inception of the Company. These indices have been chosen as they are considered to be an appropriate benchmark against which to assess the relative performance of the Company.

#### Cumulative Share Price Total Return



### Relative Importance of Spend on Pay

The table below sets out, in respect of the year ended 30 April 2017:

- (a) the remuneration paid to the Directors;
- (b) the management fee and expenses which have been included to give shareholders a greater understanding of the relative importance of spend on pay; and
- (c) distributions to shareholders by way of dividend.

|                             | Year ended<br>30 April<br>2017 | Period ended<br>30 April<br>2016 |
|-----------------------------|--------------------------------|----------------------------------|
| Directors' fees*            | £68,269                        | £68,972                          |
| Management fee and expenses | £1,033,637                     | £652,706                         |
| Dividends paid              | £9,646,290                     | £3,730,125                       |

\* As the Company has no employees the total spend on remuneration comprises only the Directors' fees.

## Directors' Remuneration Report (continued)

### Statement of Directors' Shareholdings and Share Interests (audited information)

Neither the Company's Articles of Association nor the Directors' Letters of Appointment require a Director to own shares in the Company. The interests of the Directors and their persons closely associated in the equity and debt securities of the Company at 30 April 2017 are shown in the table below.

| Director     | Number of Ordinary Shares |           | % of Total Voting Rights |      |
|--------------|---------------------------|-----------|--------------------------|------|
|              | 2017                      | 2016      | 2017                     | 2016 |
| Mark Burton  | 75,000                    | 75,000    | 0.06                     | 0.06 |
| James Hyslop | 150,000                   | 100,000   | 0.12                     | 0.08 |
| Bim Sandhu   | 575,000*                  | 400,000** | 0.46                     | 0.32 |

\* 100,000 Ordinary Shares held in Mr Sandhu's spouse's name, Mrs Pardeep Sandhu, 175,000 Ordinary Shares held in The Santon Pension Fund (a small self-administered pension scheme ('SSAS') for him and his spouse), 250,000 Ordinary Shares held in The Sandhu Charitable Foundation and 50,000 Ordinary Shares held in his own name.

\*\*100,000 Ordinary Shares held in Mr Sandhu's spouse's name, Mrs Pardeep Sandhu, 150,000 Ordinary Shares held in The Santon Pension Fund (a SSAS for him and his spouse) and 150,000 Ordinary Shares held in The Sandhu Charitable Foundation.

Katrina Hart acquired 19,145 Ordinary Shares on 5 June 2017. There have been no other changes to Directors' interests between 30 April 2017 and the date of this Report.

The Company is committed to ongoing shareholder dialogue and any views which are expressed by shareholders on the fees being paid to Directors would be taken into consideration by the Management Engagement and Remuneration Committee when reviewing the Directors' Remuneration Policy and in the annual review of Directors' fees.

### Annual Statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that the above Directors' Remuneration Report, including the Directors' Remuneration Policy and the Report on Remuneration Implementation summarises, as applicable, for the year to 30 April 2017:

- (a) the major decisions on Directors' remuneration;
- (b) any substantial changes relating to Directors' remuneration made during the year; and
- (c) the context in which the changes occurred and decisions have been taken.

**Mark Burton**  
**Management Engagement and Remuneration Committee Chairman**

7 July 2017

# Directors' Report

The Directors' Report, prepared in accordance with the requirements of the Companies Act 2006 and the UK Listing Authority's Listing Rules and Disclosure Guidance and Transparency Rules, comprises pages 47 to 64, and incorporates the Corporate Governance Statement on page 47 to 50.

## Results and Dividends

The interim dividends paid by the Company are set out in Note 9 of the Financial Statements. A summary of the Company's performance during the period and significant events following the year end and future developments is set out in the Strategic Report on pages 1 to 45. The Board has not proposed the payment of a final dividend.

## Directors

The Directors who served during the year were Mark Burton, Bim Sandhu and James Hyslop. Katrina Hart was appointed on 5 June 2017. The biographies of the Directors of the Company at the year end and up to the date of this report can be found on page 46.

## Power of Directors

The Directors' powers are determined by UK legislation and the Articles of Association (the 'Articles'), which are available on the Company's website. The Articles may be amended by a special resolution of the members. The Directors may exercise all of the Company's powers provided that the Articles or applicable legislation do not stipulate that any such powers must be exercised by the members.

## Indemnity Provisions

Save for such indemnity provisions in the Company's Articles of Association, there are no qualifying third party indemnity provisions in force. The Board has agreed to a procedure by which Directors may seek independent professional advice if necessary and at the Company's expense. The Company has also arranged for the appropriate provision of Directors' and Officers' Liability Insurance.

## Going Concern

The Company has considered its cash flows, financial position, liquidity position and borrowing facilities. The Company's cash balance as at 30 April 2017 was £3.65 million, of which £1.31 million was readily available for potential investments.

As at 30 April 2017, the Company had substantial headroom against its borrowing covenants. The Company has the ability to utilise up to 30% of NAV measured at drawdown under the current borrowing facility limits with a Company Loan to NAV of 24.4% as at 30 April 2017.

The Company benefits from a secure, diversified income stream from leases which are not overly reliant on any one tenant or sector.

As a result, the Directors believe that the Company is well placed to manage its financing and other business risks. The Directors believe that there are currently no material uncertainties in relation to the Company's ability to continue for a period of at least 12 months from the date of these financial statements. The Board is, therefore, of the opinion that the going concern basis adopted in the preparation of the Annual Report is appropriate.

## Viability Statement

In accordance with the principle 21 of the AIC Code, the Directors have assessed the prospects of the Company over a period longer than the 12 months required by the 'Going Concern' provisions. The Board has considered the nature of the Company's assets and liabilities and associated cash flows and has determined that five years, up to 30 April 2022, is the maximum timescale over which the performance of the Company can be forecast with a material degree of accuracy and so is an appropriate period over which to consider the Company's viability.

Considerations in support of the Company's viability over this five year period include:

- The current unexpired term under the Company's debt facilities stands at 3.5 years;

## Directors' Report (continued)

- The Company's property portfolio has a WAULT of 6.4 years to expiry, representing a secure income stream for the period under consideration;
- The Company's portfolio reflects a diversified strategy that has invested across a broad spectrum of real estate sectors returning a diversified income stream which should spread the risk of any default.
- Most leases contain a five year rent review pattern and therefore five years allows for the forecasts to include the reversion arising from those reviews. The five year review considers the Company's cash flows, dividend cover, REIT compliance and other key financial ratios over the period.

In assessing the Company's viability, the Board has carried out a thorough review of the Company's business model, including future performance, liquidity, dividend cover and banking covenant tests for a five year period.

The business model was subject to a sensitivity analysis, which involves flexing a number of key assumptions underlying the forecasts both individually and in aggregate for normal and stressed conditions. The five year review also considers whether financing facilities will be renewed as required.

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

### Subsidiary Company

Details of the Company's subsidiary, AEW UK REIT 2015 Limited, can be found in Note 17 to the Financial Statements.

### Management Arrangements

AEW UK Investment Management LLP is the Company's Investment Manager and has been appointed as AIFM. Under the terms of the Investment Management Agreement the Investment Manager is responsible for the day to day discretionary management of the Company's investments subject to the investment objective and investment policy of the Company and the overall supervision of the Directors. The Investment Manager is entitled to receive a management fee in respect of its services of 0.9% per annum of NAV (excluding uninvested proceeds from fund raisings). Any investment by the Company into the Core Fund is not subject to management fees or performance fees otherwise charged to investors in the Core Fund by the Investment Manager. The Investment Management Agreement may be terminated by the Company or the Investment Manager giving 12 months' notice.

### Financial Risk management

The financial risk management objectives and policies can be found in Note 20 of the Financial Statements.

### Greenhouse Gas Emissions

AEW UK REIT plc has followed UK Government environmental reporting guidelines and used the UK Government 2016 greenhouse gas reporting conversion factors for company reporting to identify and report relevant GHG emissions over which it has operational control for the year ended 30 April 2017. Namely:

- Scope 1 – including direct emissions from controlled boilers and fugitive emissions from air conditioning systems under landlord control. There are no emissions from company vehicles to report within Scope 1.
- Scope 2 – including indirect emissions from electricity purchased and used within common areas, shared services and void space within owned assets.

## Directors' Report (continued)

The table below shows relevant GHG emissions (in tonnes carbon dioxide equivalent) that AEW UK REIT plc was responsible for in the year ended 30 April 2017.

| GHG Scope | Tonnes of Carbon Dioxide Equivalent (tCO <sub>2</sub> e) | Carbon Intensity (ky CO <sub>2</sub> e/m <sup>2</sup> ) |
|-----------|--|---|
| Scope 1   | 107.28 (30 April 2016: 86.4)                             | 8.2   |
| Scope 2   | 954.25 (30 April 2016: 744.6)                            | 68.5  |

The Carbon Intensity data for the period ended 30 April 2016 was not available and so there is no prior year comparator.

### *Assurance Statement*

AEW UK REIT plc GHG emissions have been calculated and verified by an independent third party in accordance with the principles of ISO 14064. A full copy of the methodology used, including scope, source or data and conversion factors, is available upon request.

## Share capital

### *Ordinary Shares*

At the AGM held on 7 September 2016, the Company was granted authority to allot up to 11,751,000 Ordinary Shares on a non pre-emptive basis. On 16 September 2016, the Company issued 2,450,000 Ordinary Shares at a price of 97 pence per Ordinary Share and on 10 October 2016 issued 3,687,250 Ordinary Shares at a price of 98.25 pence per Ordinary Share in the form of tap issues under this authority. The authority to issue Ordinary Shares will expire at the conclusion of the 2017 AGM.

At a general meeting held on 20 May 2016, the Company was granted authority to allot up to 250,000,000 Ordinary Shares in connection with a share issuance programme on a non pre-emptive basis. No Ordinary Shares have been issued under this authority. The authority will expire at the end of the Company's AGM in 2017 unless the programme is closed before this time. Further details are set out in Note 18.

### *Purchase of Own Shares*

At the Company's AGM on 7 September 2016, the Company was granted authority to purchase up to 14.99% of the Company's Ordinary Shares in issue. No shares have been bought back under this authority, which expires at the conclusion of the Company's 2017 AGM. A resolution to renew the Company's authority to purchase (either for cancellation or for placing into Treasury) up to 18,534,722 Ordinary Shares (being 14.99% of the issued Ordinary Share capital as at the date of this report), will be put to shareholders at the 2017 AGM. Any purchase will be made in the market and prices will be in accordance with the terms laid out in the Notice of AGM (enclosed separately and available on the Company's website). The authority will be used where the Directors consider it to be in the best interests of shareholders.

## Directors' Report (continued)

### *Income entitlement*

The profits of the Company (including accumulated revenue reserves) available for distribution and resolved to be distributed shall be distributed by way of interim and (where applicable) special or final dividends among the holders of Ordinary Shares.

### *Capital entitlement*

After meeting the liabilities of the Company on a winding-up, the surplus assets shall be paid to the holders of Ordinary Shares and distributed among such holders rateably according to the amounts paid up or credited as paid up on their shares.

### *Voting entitlement*

Each Ordinary shareholder is entitled to one vote on a show of hands and, on a poll, to one vote for every Ordinary Share held. The Notice of AGM and Form of Proxy stipulate the deadlines for the valid exercise of voting rights and, other than with regard to Directors not being permitted to vote their Ordinary Shares on matters in which they have an interest, there are no restrictions on the voting rights of Ordinary Shares.

## Requirements of the Listing Rules

Listing Rule 9.8.4 requires the Company to include specified information in a single identifiable section of the annual report or a cross reference table indicating where the information is set out. The information required under Listing Rule 9.8.4(7) in relation to allotments of shares is set out above. The Directors confirm that no additional disclosures are required in relation to Listing Rule 9.8.4.

## Substantial Shareholdings

As at 30 April 2017 and 7 July 2017 the Company had been notified under Disclosure Guidance and Transparency Rule ('DTR') 5 of the following significant holdings of voting rights in its Ordinary Shares. These holdings may have changed since notification, however notification of any change is not required until the next applicable threshold is crossed.

| Shareholder                          | As at 30 April 2017            |                          | As at 7 July 2017              |                          |
|--------------------------------------|--------------------------------|--------------------------|--------------------------------|--------------------------|
|                                      | Number of Ordinary Shares held | % of total voting rights | Number of Ordinary Shares held | % of total voting rights |
| Schroders plc                        | 18,545,127                     | 14.99                    | 18,545,127                     | 14.99                    |
| Close Asset Management Limited       | 14,657,939                     | 11.85                    | 13,474,954                     | 10.89                    |
| Old Mutual plc                       | 10,963,999                     | 8.87                     | 11,157,173                     | 9.02                     |
| Natixis Global Asset Management SA   | 10,000,000                     | 8.09                     | 8,000,000                      | 6.47                     |
| Coutts Multi Asset Fund plc          | 7,400,000                      | 5.98                     | 7,400,000                      | 5.98                     |
| Investec Wealth & Investment Limited | 4,813,400                      | 3.89                     | 4,813,400                      | 3.89                     |

## Directors' Report (continued)

### Related Party Transactions

Related party transactions during the year to 30 April 2017 can be found in Note 22 of the Financial Statements.

### Statement of Disclosure of Information to Auditor

So far as each Director is aware, there is no relevant information, which would be needed by the Company's Auditor in connection with preparing their audit report (which appears on pages 66 to 69), of which the Auditor is not aware; and each Director, in accordance with section 418(2) of the Companies Act 2006, has taken all reasonable steps that he ought to have taken as a Director to make himself aware of any such information and to ensure that the Auditor is aware of such information.

### Auditor

KPMG LLP has expressed its willingness to continue as the Company's Auditor. As outlined in the Report of the Audit Committee on page 53, resolutions proposing their reappointment and to authorise the Audit Committee to determine their remuneration will be proposed at the 2017 AGM.

On behalf of the Board

**Mark Burton**  
**Chairman**

7 July 2017

40 Dukes Place  
London EC3A 7NH

# Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the Directors must not approve the financial statements 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, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

## Responsibility statement of the Directors in respect of the Annual Report and Financial Statements

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties it faces.

We 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 Company's position and performance, business model and strategy.

On behalf of the Board

**Mark Burton**  
**Chairman**

7 July 2017

# Independent Auditor's Report

to the members of AEW UK REIT plc only

*Opinions and conclusions arising from our audit*

## 1. Our opinion on the financial statements is unmodified

We have audited the financial statements of AEW UK REIT plc for the year ended 30 April 2017 set out on pages 70 to 102. In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 30 April 2017 and of the Company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

### Overview

| Materiality:                               | £1.5m (2016: £1.3m)  |
|--|--|
| Financial statements as a whole            | 1% (2016: 1%) of total assets  |
| Lower materiality applied to certain items | £0.25m (2016: £0.30m)<br>2% (2016: 4%) of rental income,<br>management fees and finance expense                        |
| Coverage                                   | 100% (2016: 100%) of total assets  |
| Risks of material misstatement             | vs 2016  |
| Recurring risks                            | Valuation of investment property  |

## 2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risk of material misstatement, that had the greatest effect on our audit was as follows (unchanged from 2016):

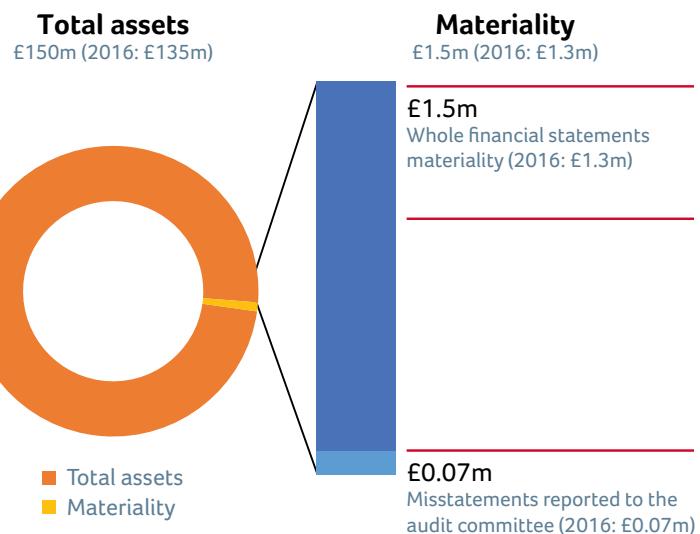
| The risk   | Our response  |
|--|---|
| <p><b>Valuation of investment property</b><br/>(£136 million (2016: £114 million))</p> <p>Refer to page 51 (Audit Committee Report), pages 74 to 80 (accounting policy) and pages 81 to 102 (financial disclosures).</p> | <p><b>Subjective valuation</b></p> <p>Investment properties represent 90% (2016: 84%) of gross assets of the Company. The portfolio comprises 29 (2016: 25) properties which are externally valued by a qualified independent valuer and held at fair value at the Statement of Financial Position date.</p> <p>Each property's fair value will be impacted by a number of factors including location, contracted and future potential rental income, quality and condition of the building, tenant covenant, and market yields.</p> <p>Whilst comparable market transactions provide good valuation evidence, the individual nature of each property means that a key factor in the property valuations are assumptions which involve significant levels of judgement.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• <b>Assessing valuer's credentials:</b> We assessed the Company's external property valuer's objectivity, professional qualifications and resources through discussions with the valuer and reading their valuation report.</li> <li>• <b>Methodology choice:</b> We held discussions with the Company's external property valuer to determine the valuation methodology used. We included our own property valuation specialist to assist us in critically assessing the results of the valuer's report by checking that the valuations were in accordance with the RICS Valuation Professional Standards 'the Red Book' and IFRS as adopted by the EU and that the methodology adopted was appropriate by reference to acceptable valuation practice.</li> <li>• <b>Benchmarking assumptions:</b> With the assistance of our own property valuation specialist, we held discussions with the Company's external property valuer to obtain an explanation for the movements in property values. For a sample of properties, we challenged the key assumptions upon which these valuations were based including those relating to forecast rents, yields, vacant periods and irrecoverable expenditure by making a comparison to our own understanding of the market and to industry benchmarks. We challenged significant or unusual movements in property values by forming our own view on the general market conditions with reference to the key assumptions noted above.</li> <li>• <b>Test of detail:</b> We compared the information provided by the Company to its external property valuer for a sample, such as lease data, rental income and property costs, to supporting documents including lease agreements and purchase agreements.</li> <li>• <b>Assessing transparency:</b> We considered the adequacy of the Company's disclosures about the degree of estimation and sensitivity to key assumptions made when valuing properties.</li> </ul> |

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

Materiality for the financial statements as a whole was set at £1.5 million (2016: £1.3 million), determined with reference to a benchmark of total assets, of which it represents 1% (2016: 1%).

In addition, we applied materiality of £0.25 million (2016: £0.30 million) to rental income, management fees and finance expense, for which we believe misstatement of lesser amounts than materiality for the financial statements as a whole can be reasonably expected to influence the Company's members' assessment of the financial performance of the Company.

We reported to the Audit Committee any corrected or uncorrected misstatements exceeding £74,000 (2016: £65,000) or £12,000 (2016: £3,500) for misstatements relating to procedures performed to the lower materiality.



### 4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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

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

- the Directors' Viability Statement on pages 60 to 61, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Company's continuing in operation over the 5 years to 30 April 2022; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

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

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

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

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

## **6. We have nothing to report in respect of the matters on which we are required to report by exception (continued)**

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statements, set out on pages 60 and 61 in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 47 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

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

### ***Scope and responsibilities***

As explained more fully in the Directors' Responsibilities Statement set out on page 65, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**Bill Holland (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL

7 July 2017

# Financial Statements

## Statement of Comprehensive Income

for the year ended 30 April 2017

|   | Notes | Year ended<br>30 April 2017<br>£'000 | For the period<br>1 April 2015 to<br>30 April 2016<br>£'000 |
|---|-------|--------------------------------------|---|
| <b>Income</b>   |       |                                      |   |
| Rental and other income   | 3     | 12,503                               | 7,185   |
| Property operating expenses                                     | 4     | (1,434)                              | (300)   |
| <b>Net rental and other income</b>                              |       | <b>11,069</b>                        | <b>6,885</b>  |
| Dividend income   | 3     | 576                                  | 653   |
| <b>Net rental and dividend income</b>                           |       | <b>11,645</b>                        | <b>7,538</b>  |
| Investment management fee                                       | 4     | (1,034)                              | (653)   |
| Auditor remuneration  | 4     | (88)                                 | (95)  |
| Operating costs   | 4     | (646)                                | (403)   |
| Directors' remuneration   | 5     | (71)                                 | (72)  |
| <b>Operating profit before fair value changes and disposals</b> |       | <b>9,806</b>                         | <b>6,315</b>  |
| Change in fair value of investment property                     | 10    | (3,159)                              | (1,935)   |
| Gains on disposal of investment property                        | 10    | 731                                  | –   |
| Change in fair value of investments                             | 10    | (407)                                | 482   |
| Loss on disposal of investments                                 | 10    | (113)                                | –   |
| <b>Operating profit</b>   |       | <b>6,858</b>                         | <b>4,862</b>  |
| Finance expense   | 6     | (759)                                | (226)   |
| <b>Profit before tax</b>  |       | <b>6,099</b>                         | <b>4,636</b>  |
| Taxation  | 7     | –                                    | –   |
| <b>Profit after tax</b>   |       | <b>6,099</b>                         | <b>4,636</b>  |
| Other comprehensive income                                      |       | –                                    | –   |
| <b>Total comprehensive income for the year/period</b>           |       | <b>6,099</b>                         | <b>4,636</b>  |
| <b>Earnings per share (pence per share) (basic and diluted)</b> | 8     | <b>5.04</b>                          | <b>4.83</b>   |

The notes on pages 74 to 102 form an integral part of these financial statements.

## Statement of Changes in Equity

for the year ended 30 April 2017

| For the year ended 30 April 2017             | Notes | Share capital | Share premium account | Capital reserve and retained earnings | Total capital and reserves attributable to owners of the Company |
|--|-------|---------------|-----------------------|---------------------------------------|--|
|  |       | £'000         | £'000                 | £'000                                 | £'000  |
| <b>Balance at beginning of the year</b>      |       | <b>1,175</b>  | <b>16,729</b>         | <b>98,471</b>                         | <b>116,375</b>   |
| Total comprehensive income                   |       | –             | –                     | 6,099                                 | 6,099  |
| Ordinary Shares issued                       | 18/19 | 61            | 5,938                 | –                                     | 5,999  |
| Share issue costs                            | 19    | –             | (153)                 | –                                     | (153)  |
| Dividends paid                               | 9     | –             | –                     | (9,646)                               | (9,646)  |
| <b>Balance at 30 April 2017</b>              |       | <b>1,236</b>  | <b>22,514</b>         | <b>94,924</b>                         | <b>118,674</b>   |
| For the period 1 April 2015 to 30 April 2016 | Notes | Share capital | Share premium account | Capital reserve and retained earnings | Total capital and reserves attributable to owners of the Company |
|  |       | £'000         | £'000                 | £'000                                 | £'000  |
| <b>Balance at beginning of the period</b>    |       | <b>–</b>      | <b>–</b>              | <b>–</b>                              | <b>–</b>   |
| Total comprehensive income                   |       | –             | –                     | 4,636                                 | 4,636  |
| Ordinary Shares issued                       | 18/19 | 1,175         | 116,505               | –                                     | 117,680  |
| Share issue costs                            | 19    | –             | (2,211)               | –                                     | (2,211)  |
| Cancellation of share premium                |       | –             | (97,565)              | 97,565                                | –  |
| Dividends paid                               | 9     | –             | –                     | (3,730)                               | (3,730)  |
| <b>Balance at 30 April 2016</b>              |       | <b>1,175</b>  | <b>16,729</b>         | <b>98,471</b>                         | <b>116,375</b>   |

The notes on pages 74 to 102 form an integral part of these financial statements.

# Statement of Financial Position

as at 30 April 2017

|   | Notes | 30 April 2017<br>£'000 | 30 April 2016<br>£'000 |
|---|-------|------------------------|------------------------|
| <b>Assets</b>   |       |                        |                        |
| <b>Non-Current Assets</b>   |       |                        |                        |
| Investment property   | 10    | 135,570                | 114,387                |
| Investments   | 10    | –                      | 10,109                 |
|   |       | <b>135,570</b>         | <b>124,496</b>         |
| <b>Current Assets</b>   |       |                        |                        |
| Investments held for sale   | 10    | 7,594                  | –                      |
| Receivables and prepayments   | 11    | 3,382                  | 2,962                  |
| Other financial assets held at fair value                                       | 12    | 31                     | 77                     |
| Cash and cash equivalents   |       | 3,653                  | 7,963                  |
|   |       | <b>14,660</b>          | <b>11,002</b>          |
| <b>Total Assets</b>   |       | <b>150,230</b>         | <b>135,498</b>         |
| <b>Non-Current Liabilities</b>  |       |                        |                        |
| Interest bearing loans and borrowings   | 13    | (28,740)               | (14,250)               |
| Finance lease obligations   | 15    | (55)                   | (1,791)                |
|   |       | <b>(28,795)</b>        | <b>(16,041)</b>        |
| <b>Current Liabilities</b>  |       |                        |                        |
| Payables and accrued expenses   | 14    | (2,756)                | (2,959)                |
| Finance lease obligations   | 15    | (5)                    | (123)                  |
|   |       | <b>(2,761)</b>         | <b>(3,082)</b>         |
| <b>Total Liabilities</b>  |       | <b>(31,556)</b>        | <b>(19,123)</b>        |
| <b>Net Assets</b>   |       | <b>118,674</b>         | <b>116,375</b>         |
| <b>Equity</b>   |       |                        |                        |
| Share capital   | 18    | 1,236                  | 1,175                  |
| Share premium account   | 19    | 22,514                 | 16,729                 |
| Capital reserve and retained earnings   |       | 94,924                 | 98,471                 |
| <b>Total capital and reserves attributable to equity holders of the Company</b> |       | <b>118,674</b>         | <b>116,375</b>         |
| <b>Net Asset Value per share (pence per share)</b>                              | 8     | <b>95.98 pps</b>       | <b>99.03 pps</b>       |

The financial statements on pages 70 to 102 were approved by the Board on 7 July 2017 and signed on its behalf by:

**Mark Burton**  
**Chairman**  
 AEW UK REIT plc  
 Company number: 09522515

The notes on pages 74 to 102 form an integral part of these financial statements.

# Statement of Cash Flows

for the year ended 30 April 2017

|  | For the year ended<br>30 April 2017<br>£'000 | For the period<br>1 April 2015 to<br>30 April 2016<br>£'000 |
|--|--|---|
| <b>Cash flows from operating activities</b>                  |  |   |
| Operating profit   | 6,858  | 4,862   |
| <b>Adjustment for non-cash items:</b>                        |  |   |
| Loss from change in fair value of investment property        | 3,159  | 1,935   |
| Loss/(gain) from change in fair value of investments         | 407  | (482)   |
| Gains on disposal of investment properties                   | (731)  | –   |
| Loss on disposal of investments                              | 113  | –   |
| Change in fair value of interest rate derivatives            | –  | (14)  |
| Increase in other receivables and prepayments                | (438)  | (2,962)   |
| (Decrease)/increase in other payables and accrued expenses   | (283)  | 2,936   |
| <b>Net cash flow generated from operating activities</b>     | <b>9,085</b>                                 | <b>6,275</b>  |
| <b>Cash flows from investing activities</b>                  |  |   |
| Purchase of investment property                              | (28,062)                                     | (114,408)   |
| Purchase of investments                                      | –  | (9,627)   |
| Disposal of investment property                              | 2,681  | –   |
| Disposal of investments                                      | 1,995  | –   |
| <b>Net cash used in investing activities</b>                 | <b>(23,386)</b>                              | <b>(124,035)</b>  |
| <b>Cash flows from financing activities</b>                  |  |   |
| Proceeds from issue of ordinary share capital                | 5,999  | 117,680   |
| Share issue costs  | (153)  | (2,211)   |
| Loan draw down   | 14,760                                       | 14,250  |
| Finance costs  | (969)  | (266)   |
| Dividends paid   | (9,646)                                      | (3,730)   |
| <b>Net cash flow generated from financing activities</b>     | <b>9,991</b>                                 | <b>125,723</b>  |
| Net (decrease)/increase in cash and cash equivalents         | (4,310)                                      | 7,963   |
| <b>Cash and cash equivalents at start of the year/period</b> | <b>7,963</b>                                 | –   |
| <b>Cash and cash equivalents at end of the year/period</b>   | <b>3,653</b>                                 | <b>7,963</b>  |

The notes on pages 74 to 102 form an integral part of these financial statements.

# Notes to the Financial Statements

for the year ended 30 April 2017

## 1. Corporate information

AEW UK REIT plc (the 'Company') is a closed ended Real Estate Investment Trust ('REIT') incorporated on 1 April 2015 and domiciled in the UK. The registered office of the Company is located at 40 Dukes Place, London, EC3A 7NH.

The Company's Ordinary Shares were listed on the Official List of the UK Listing Authority and admitted to trading on the Main Market of the London Stock Exchange on 12 May 2015.

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 to 45.

## 2. Accounting policies

### 2.1 Basis of preparation

These financial statements are prepared and approved by the Directors in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the International Accounting Standards Board ('IASB') as adopted by the European Union ('EU IFRS').

The prior period is for a period of greater than 12 months, being the first audited period from the date of incorporation. As a result the comparative information disclosed is not directly comparable.

These financial statements have been prepared under the historical-cost convention, except for investment property, investments and interest rate derivatives that have been measured at fair value.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000), except when otherwise indicated.

The Company is exempt by virtue of Section 402 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information solely about the Company as an individual undertaking.

### New standards, amendments and interpretations

There are a number of new standards and amendments to existing standards which have been published and are mandatory for the Company's accounting periods beginning after 30 April 2017 or later periods, but the Company has decided not to adopt them early. The following are the most relevant to the Company and their impact on the financial statements:

- IFRS 9 Financial Instruments. The standard will replace IAS 39 Financial Instruments and contains two primary measurement categories for financial assets (effective for annual periods beginning on or after 1 January 2018);
- IFRS 12 Disclosure of Interests in Other Entities: amended by annual improvements to IFRS Standards 2014-2016 cycle (effective for annual periods beginning on or after 1 January 2017);
- IFRS 15 Revenue from contracts. The standard replaces IAS 11 Construction Contracts, IAS 18 Revenue. The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time (effective for annual periods beginning on or after 1 January 2018);

# Notes to the Financial Statements *(continued)*

for the year ended 30 April 2017

## 2. Accounting policies *(continued)*

### 2.1 Basis of preparation *(continued)*

#### New standards, amendments and interpretations *(continued)*

- IFRS 16 Leases: introduction of a single, on-balance sheet accounting model (effective for annual periods beginning on or after 1 January 2019). The disclosure requirements of IFRS 16 will be considered in due course;
- IAS 7 Statement of Cash Flows: The amendments require disclosures that enable evaluation of changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes (effective for annual periods beginning on or after 1 January 2017); and
- IAS 40 Investment Property: Amendments by Transfers of Investment Property (effective for annual periods beginning on or after 1 July 2018).

### 2.2 Significant accounting judgements and estimates

The preparation of financial statements in accordance with EU IFRS requires the Directors of the Company to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in the future.

#### i) Valuation of investment property

The valuations of the Company's investment property will be at fair value as determined by the independent valuer on the basis of fair value in accordance with the internationally accepted Royal Institution of Chartered Surveyors ('RICS') Appraisal and Valuation Standards.

#### ii) Valuation of investments

Investments in collective investment schemes are stated at fair value with any resulting gain or loss recognised in profit or loss. Fair value is assessed by the Directors based on the best available information.

The value of the Company's interest in the Core Fund is stated at NAV of the Core Fund as at 30 April 2017 (30 April 2016: single swinging price). The Directors, in consultation with the Company's professional advisers, have adopted the amended estimation technique from 31 October 2016 in order to provide a better reflection of fair value of the Company's holding in the Core Fund.

#### iii) Segmental information

In accordance with IFRS 8, the Company is organised into one main operating segment being investment in property and property related investments in the UK.

# Notes to the Financial Statements (continued)

for the year ended 30 April 2017

## 2. Accounting policies (continued)

### 2.3 Going concern

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has the resources to continue in business for at least 12 months. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements have been prepared on the going concern basis.

### 2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

#### a) Presentation currency

These financial statements are presented in Sterling, which is the functional and presentational currency of the Company. The functional currency of the Company is principally determined by the primary economic environment in which it operates. The Company did not enter into any transactions in foreign currencies during the year.

#### b) Revenue recognition

##### i) Rental income

Rental income receivable under operating leases is recognised on a straight-line basis over the term of the lease, except for contingent rental income, which is recognised when it arises.

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the directors are reasonably certain that the tenant will exercise that option.

##### ii) Deferred income

Deferred income is rental income received in advance during the accounting period.

#### c) Dividend income

Dividend income is recognised in profit or loss on the date the entity's right to receive a dividend is established.

#### d) Financing income and expenses

Financing income comprises interest receivable on funds invested. Financing expenses comprise interest and other costs incurred in connection with the borrowing of funds. All financing expenses are recognised in profit or loss in the period in which they occur.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

# Notes to the Financial Statements *(continued)*

for the year ended 30 April 2017

## 2. Accounting policies *(continued)*

### 2.4 Summary of significant accounting policies *(continued)*

#### e) Investment property

Property is classified as investment property when it is held to earn rentals or for capital appreciation or both. Investment property is measured initially at cost including transaction costs. Transaction costs include transfer taxes and professional fees to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in profit or loss.

Investment properties are valued by the independent valuer on the basis of a full valuation with physical inspection at least once a year. Any valuation of an Immovable by the independent valuer must be undertaken in accordance with the current issue of RICS Valuation – Professional Standards (the ‘Red Book’).

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (such as lettings, tenants’ profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets.

For the purposes of these financial statements, the assessed fair value is:

- reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives; and
- increased by the carrying amount of leasehold obligations.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected after its disposal or withdrawal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period financial statements.

Any gains or losses on the retirement or disposal of investment property are recognised in the profit or loss in the year of retirement or disposal.

#### f) Investments in collective investment schemes

Investments in collective investment schemes are stated at fair value with any resulting gain or loss recognised in profit or loss.

Investments are derecognised when they have been disposed of or the rights to receive cash flow from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

# Notes to the Financial Statements *(continued)*

for the year ended 30 April 2017

## 2. Accounting policies *(continued)*

### 2.4 Summary of significant accounting policies *(continued)*

#### **g) Investments in subsidiaries**

AEW UK REIT 2015 Limited is the subsidiary of the Company. The subsidiary was dormant during the reporting period. The investment in the subsidiary is stated at cost less impairment and shown in note 17.

As permitted by Section 405 of the Companies Act 2006, the subsidiary is not consolidated as its inclusion is not material for the purposes of giving a true and fair view.

#### **h) Investment property and investments held for sale**

Investment property and investments are classified as held for sale when it is highly probable that the carrying amount will be recovered principally through a sale transaction.

Investment property and investments classified as held for sale are included within current assets within the Statement of Financial Position and measured at the lower of their carrying amount and fair value less costs to sell. Any gains or losses between the fair value and the carrying value in the year are recognised in profit or loss.

#### **i) Derivative financial instruments**

Derivative financial instruments, comprising interest rate caps for hedging purposes, are initially recognised at fair value and are subsequently measured at fair value, being the estimated amount that the Company would receive or pay to terminate the agreement at the period end date, taking into account current interest rate expectations and the current credit rating of the Company and its counterparties. Premiums payable under such arrangements are initially capitalised into the Statement of Financial Position.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole. Changes in fair value of interest rate derivatives are recognised within finance expenses in profit or loss in the period in which they occur.

#### **j) Cash and cash equivalents**

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and short-term deposits with an original maturity of three months or less.

#### **k) Receivables and prepayments**

Rent and other receivables are recognised at their original invoiced value. Where the time value of money is material, receivables are discounted and then held at amortised cost. Provision is made when there is objective evidence that the Company will not be able to recover balances in full.

# Notes to the Financial Statements *(continued)*

for the year ended 30 April 2017

## 2. Accounting policies *(continued)*

### 2.4 Summary of significant accounting policies *(continued)*

#### **i) Capital prepayments**

Capital prepayments are made for the purpose of acquiring future property assets, and held as receivables within the Statement of Financial Position. When the asset is acquired, the prepayments are capitalised as a cost of purchase. Where a purchase is not successful, these costs are expensed within profit or loss as abortive costs in the period.

#### **m) Other payables and accrued expenses**

Other payables and accrued expenses are initially recognised at fair value and subsequently held at amortised cost.

#### **n) Rent deposits**

Rent deposits represents cash received from tenants at inception of a lease and are consequently transferred to the rent agent to hold on behalf of the Company. These balances are held as creditors in the Statement of Financial Position.

#### **o) Interest bearing loans and borrowings**

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Borrowing costs are amortised over the lifetime of the facilities through profit or loss.

#### **p) Impairment of financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

#### **q) Provisions**

A provision is recognised in the Statement of Financial Position when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

#### **r) Dividend payable to shareholders**

Equity dividends are recognised when they become legally payable.

#### **s) Share issue costs**

The costs of issuing or reacquiring equity instruments (other than in a business combination) are accounted for as a deduction from equity.

# Notes to the Financial Statements *(continued)*

for the year ended 30 April 2017

## 2. Accounting policies *(continued)*

### 2.4 Summary of significant accounting policies *(continued)*

#### t) Finance leases

Finance leases are capitalised at the lease commencement, at the lower of fair value of the property and present value of the minimum lease payments, and held as a liability within the Statement of Financial Position.

#### u) Taxes

Corporation tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

As a REIT, the Company is exempt from corporation tax on the profits and gains from its investments, provided it continues to meet certain conditions as per REIT regulations.

Taxation on the profit or loss for the period not exempt under UK REIT regulations comprises current and deferred tax. Current tax is expected tax payable on any non-REIT taxable income for the period, using tax rates applicable in the period.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax that is provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the period end date.

#### v) European Public Real Estate Association

The Company has adopted European Public Real Estate Association ('EPRA') best practice recommendations, which it expects to broaden the range of potential institutional investors able to invest in the Company's Ordinary Shares. For the year ended 30 April 2017, audited EPS and NAV calculations under EPRA's methodology are included in note 8 and further unaudited measures are included on pages 103 to 105.

# Notes to the Financial Statements (continued)

for the year ended 30 April 2017

## 3. Revenue

|                                      | Year ended<br>30 April 2017<br>£'000 | Period<br>1 April 2015 to<br>30 April 2016<br>£'000 |
|--------------------------------------|--------------------------------------|---|
| Gross rental income received         | 12,147                               | 6,153   |
| Surrender premium received           | –                                    | 1,000   |
| Dilapidation income received         | 301                                  | 19  |
| Other property income                | 55                                   | 13  |
| <b>Total rental and other income</b> | <b>12,503</b>                        | <b>7,185</b>  |
| Dividend income:                     |                                      |   |
| Property income distribution *       | 552                                  | 629   |
| Dividend distribution                | 24                                   | 24  |
|                                      | <b>576</b>                           | <b>653</b>  |
| <b>Total Revenue</b>                 | <b>13,079</b>                        | <b>7,838</b>  |

\* Property income distribution ('PID') arises on the investment in the Core Fund which holds property directly.

Rent receivable under the terms of the leases, is adjusted, for the effect of any incentives agreed.

## 4. Expenses

|                             | Year ended<br>30 April 2017<br>£'000 | Period<br>1 April 2015 to<br>30 April 2016<br>£'000 |
|-----------------------------|--------------------------------------|---|
| Property operating expenses | 1,434                                | 300   |
| Investment management fee   | 1,034                                | 653   |
| Auditor remuneration        | 88                                   | 95  |
| Operating costs             | 646                                  | 403   |
| <b>Total</b>                | <b>3,202</b>                         | <b>1,451</b>  |

# Notes to the Financial Statements *(continued)*

for the year ended 30 April 2017

## 4. Expenses *(continued)*

|  | Year ended<br>30 April 2017 | Period<br>1 April 2015 to<br>30 April 2016 |
|--|-----------------------------|--|
| <b>Audit</b>   |                             |  |
| Statutory audit of Annual Report and Accounts                            | £66,000                     | £65,000                                    |
| Statutory audit of initial accounts for the period ended 31 October 2015 | –                           | £20,000                                    |
|  | <b>£66,000</b>              | <b>£85,000</b>                             |
| <b>Non-audit</b>   |                             |  |
| Review of Interim Report   | £22,000                     | £10,000*                                   |
| Services provided as Reporting Accountant at IPO                         | –                           | £40,000                                    |
| Renewal of Company's Prospectus  | £20,500                     | –  |
|  | <b>£42,500</b>              | <b>£50,000</b>                             |
| <b>Total fees paid to KPMG LLP</b>                                       | <b>£108,500</b>             | <b>£135,000</b>                            |
| <b>Percentage of total fees attributed to non-audit services</b>         | <b>39%</b>                  | <b>37%</b>                                 |

\* The lower fee for review of the Company's Interim Report for the period ended 31 October 2015 was agreed in consideration of the work already completed in the statutory audit of the initial accounts for that same period.

## 5. Directors' remuneration

|                           | Year ended<br>30 April 2017 | Period<br>1 April 2015 to<br>30 April 2016 |
|---------------------------|-----------------------------|--|
|                           | £'000                       | £'000                                      |
| Directors' fees           | 68                          | 69   |
| Tax and social security   | 3                           | 3  |
| <b>Total remuneration</b> | <b>71</b>                   | <b>72</b>                                  |

A summary of the Directors' remuneration is set out in the Directors' Remuneration Report on page 57.

The Company had no employees in either period.

# Notes to the Financial Statements (continued)

for the year ended 30 April 2017

## 6. Finance expense

|   | Year ended<br>30 April 2017<br>£'000 | Period<br>1 April 2015 to<br>30 April 2016<br>£'000 |
|---|--------------------------------------|---|
| Interest payable on loan borrowings               | 483                                  | 110   |
| Amortisation of loan arrangement fee              | 78                                   | 40  |
| Agency fee payable on loan borrowings             | 21                                   | 11  |
| Commitment fees payable on loan borrowings        | 60                                   | 51  |
|   | 642                                  | 212   |
| Change in fair value of interest rate derivatives | 117                                  | 14  |
| <b>Total</b>                                      | <b>759</b>                           | <b>226</b>  |

## 7. Taxation

|  | Year ended<br>30 April 2017<br>£'000 | Period<br>1 April 2015 to<br>30 April 2016<br>£'000 |
|--|--------------------------------------|---|
| <b>Total tax charge</b>  | <b>-</b>                             | <b>-</b>  |
| <b>Reconciliation of tax charge for the year/period</b>                                |                                      |   |
| Profit before tax  | 6,099                                | 4,636   |
| Theoretical tax at UK corporation tax standard rate of 19.92% (2016: 20%) <sup>1</sup> | 1,215                                | 927   |
| Adjusted for:  |                                      |   |
| Exempt REIT income   | (1,798)                              | (1,119)   |
| UK dividends that are not taxable  | (5)                                  | (99)  |
| Non deductible investment losses   | 588                                  | 291   |
| <b>Total tax charge</b>  | <b>-</b>                             | <b>-</b>  |

<sup>1</sup> Standard rate of corporation tax 20% to 31 March 2017, 19% from 1 April 2017. The corporation tax rate is to reduce to 17% with effect from 1 April 2020.

### Factors that may affect future tax charges

At 30 April 2017 the Company has unrelieved management expenses of £6,826 (30 April 2016: £4,182). It is unlikely that the Company will generate sufficient taxable income in the future to use these expenses to reduce future tax charges and therefore no deferred tax asset has been recognised.

Due to the Company's status as a REIT and the intention to continue meeting the conditions required to obtain approval as a REIT in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

# Notes to the Financial Statements (continued)

for the year ended 30 April 2017

## 8. Earnings per share and NAV per share

|  | Year ended<br>30 April 2017 | Period<br>1 April 2015 to<br>30 April 2016 |
|--|-----------------------------|--|
| <b>Earnings per share:</b>   |                             |  |
| Total comprehensive income (£'000)                                       | 6,099                       | 4,636                                      |
| Weighted average number of shares  | 121,084,416                 | 96,022,424                                 |
| <b>Earnings per share (basic and diluted) (pence)</b>                    | <b>5.04</b>                 | <b>4.83</b>                                |
| <b>EPRA earnings per share:</b>  |                             |  |
| Total comprehensive income (£'000)                                       | 6,099                       | 4,636                                      |
| Adjustment to total comprehensive income:                                |                             |  |
| Unrealised loss from change in fair value of investment property (£'000) | 3,159                       | 1,935                                      |
| Realised gain on disposal of investment property (£'000)                 | (731)                       | –  |
| Loss/(gain) from change in fair value of investment (£'000)              | 407                         | (482)                                      |
| Realised loss on disposal of investments (£'000)                         | 113                         | –  |
| Change in fair value of interest rate derivatives (£'000)                | 117                         | (14)                                       |
| Total EPRA Earnings (£'000)  | 9,164                       | 6,075                                      |
| <b>EPRA earnings per share (basic and diluted) (pence)</b>               | <b>7.57</b>                 | <b>6.33</b>                                |
| <b>NAV per share:</b>  |                             |  |
| Net assets (£'000)   | 118,674                     | 116,375                                    |
| Ordinary Shares  | 123,647,250                 | 117,510,000                                |
| <b>NAV per share (pence)</b>   | <b>95.98</b>                | <b>99.03</b>                               |
| <b>EPRA NAV per share:</b>   |                             |  |
| Net assets (£'000)   | 118,674                     | 116,375                                    |
| Adjustments to net assets:   |                             |  |
| Other financial assets held at fair value (£'000)                        | (31)                        | (77)                                       |
| EPRA NAV (£'000)   | 118,643                     | 116,298                                    |
| <b>EPRA NAV per share (pence)</b>  | <b>95.95</b>                | <b>98.97</b>                               |

Earnings per share (EPS) amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period. As at 30 April 2017, EPRA NNNAV was equal to IFRS NAV and as such a reconciliation between the two measures has not been performed.

# Notes to the Financial Statements (continued)

for the year ended 30 April 2017

## 9. Dividends paid

| For the year ended 30 April 2017  | £'000        |
|---|--------------|
| Fourth interim dividend paid in respect of the period 1 February 2016 to 30 April 2016 at 2p per Ordinary Share       | 2,350        |
| First interim dividend paid in respect of the period 1 May 2016 to 31 July 2016 at 2p per Ordinary Share              | 2,350        |
| Second interim dividend paid in respect of the period 1 August 2016 to 31 October 2016 at 2p per Ordinary Share       | 2,473        |
| Third interim dividend paid in respect of the period 1 November 2016 to 31 January 2017 at 2p per Ordinary Share      | 2,473        |
| <b>Total dividends paid during the year</b>   | <b>9,646</b> |
| Fourth interim dividend declared for the period 1 February 2017 to 30 April 2017 at 2p per Ordinary Share*            | 2,473        |
| Fourth interim dividend declared for the period 1 February 2016 to 30 April 2016 at 2p per Ordinary Share             | (2,350)      |
| <b>Total dividends in respect of the year</b>   | <b>9,769</b> |
| <b>Paid as</b>  |              |
| Property income distributions at 6.95p per Ordinary Share   | 8,471        |
| Ordinary dividends at 1.05p per Ordinary Share  | 1,298        |
| <b>Total</b>  | <b>9,769</b> |
| For the period 1 April 2015 to 30 April 2016  | £'000        |
| First interim dividend paid in respect of the period ended 31 October 2015 at 1.5p per Ordinary Share                 | 1,507        |
| Second interim dividend paid in respect of the period 1 November 2015 to 14 December 2015 at 0.75p per Ordinary Share | 754          |
| Third interim dividend paid in respect of the period 15 December 2015 to 31 January 2016 at 1.25p per Ordinary Share  | 1,469        |
| <b>Total dividends paid during the period</b>   | <b>3,730</b> |
| Fourth interim dividend declared for the period 1 February 2016 to 30 April 2016 at 2p per Ordinary Share             | 2,350        |
| <b>Total dividends in respect of the period</b>   | <b>6,080</b> |
| <b>Paid as</b>  |              |
| Property income distributions at 5.5p per Ordinary Share  | 6,080        |
| <b>Total</b>  | <b>6,080</b> |

\* The fourth interim dividend declared is not included in the accounts as a liability as at 30 April 2017.

# Notes to the Financial Statements (continued)

for the year ended 30 April 2017

## 10. Investments

### 10.a) Investment property

|   | 30 April 2017                      |                                     |                | 30 April 2016  |
|---|------------------------------------|-------------------------------------|----------------|----------------|
|   | Investment property freehold £'000 | Investment property leasehold £'000 | Total £'000    | Total £'000    |
| <b>UK investment property</b>   |                                    |                                     |                |                |
| As at beginning of the year/period                                    | 92,390                             | 21,950                              | 114,340        | –              |
| Purchases in the year/period  | 27,481                             | 665                                 | 28,146         | 114,408        |
| Disposals in the year/period  | (1,950)                            | –                                   | (1,950)        | –              |
| Revaluation of investment property                                    | (2,076)                            | (640)                               | (2,716)        | (68)           |
| <b>Valuation provided by Knight Frank</b>                             | <b>115,845</b>                     | <b>21,975</b>                       | <b>137,820</b> | <b>114,340</b> |
| Adjustment to fair value for rent free debtor                         |                                    |                                     | (2,230)        | (1,082)        |
| Adjustment to fair value for rent guarantee debtor                    |                                    |                                     | (80)           | (785)          |
| Adjustment for finance lease obligations                              |                                    |                                     | 60             | 1,914          |
| <b>Total investment property</b>                                      | <b>135,570</b>                     | <b>21,975</b>                       | <b>135,570</b> | <b>114,387</b> |
| <b>Change in fair value of investment property</b>                    |                                    |                                     |                |                |
| Loss from change in fair value  |                                    |                                     | (2,716)        | (68)           |
| Adjustment for movement in the year/period:                           |                                    |                                     |                |                |
| in fair value for rent free debtor                                    |                                    |                                     | (1,148)        | (1,082)        |
| in fair value for rent guarantee debtor                               |                                    |                                     | 705            | (785)          |
|   |                                    |                                     | (3,159)        | (1,935)        |
| <b>Gains on sale of the investment property</b>                       |                                    |                                     |                |                |
| Proceeds from disposals of investment property during the year/period |                                    |                                     | 2,681          | –              |
| Cost of disposal  |                                    |                                     | (1,950)        | –              |
| <b>Gains on disposal of investment property</b>                       | <b>731</b>                         | <b>–</b>                            | <b>731</b>     | <b>–</b>       |

# Notes to the Financial Statements (continued)

for the year ended 30 April 2017

## 10. Investments (continued)

### 10.a) Investment property (continued)

#### Valuation of investment property

Valuation of investment property is performed by Knight Frank LLP, an accredited external valuer with recognised and relevant professional qualifications and recent experience of the location and category of the investment property being valued.

The valuation of the Company's investment property at fair value is determined by the external valuer on the basis of fair value in accordance with the internationally accepted RICS Valuation – Professional Standards (incorporating the International Valuation Standards).

The determination of the fair value of investment property requires the use of estimates, such as future cash flows from assets (based on lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those flows.

### 10.b) Investment

|  | Year ended<br>30 April<br>2017 | Total<br>£'000 | Period<br>1 April 2015 to<br>30 April<br>2016 | Total<br>£'000 |
|--|--------------------------------|----------------|---|----------------|
| <b>Investment in AEW UK Core Property Fund</b>                         |                                |                |   |                |
| As at beginning of the year/period                                     | 10,109                         |                |   | –              |
| Purchases in the year/period   | –                              |                | 9,627   |                |
| Disposals in the year/period   | (2,108)                        |                | –   |                |
| (Loss)/gain from change in fair value                                  | (407)                          |                | 482   |                |
| <b>Total Investment in AEW UK Core Property Fund</b>                   | <b>7,594</b>                   |                | <b>10,109</b>                                 |                |
| <b>Loss on disposal of the investment in AEW UK Core Property Fund</b> |                                |                |   |                |
| Proceeds from disposals of investments during the year/period          | 1,995                          |                | –   |                |
| Cost of disposal   | (2,108)                        |                | –   |                |
| <b>Loss on disposal of investment</b>                                  | <b>(113)</b>                   |                | <b>–</b>                                      |                |

As at 30 April 2017, the investment in the Core Fund was held for sale and is measured above in accordance with IFRS 5, Non Current Assets Held for Sale and Discontinued Operations and reflected within Current Assets in the Statement of Financial Position. The remaining investment was disposed of on 9 May 2017 as described in note 24.

# Notes to the Financial Statements (continued)

for the year ended 30 April 2017

## 10. Investments (continued)

### 10.b) Investment (continued)

#### Valuation of investment

Investments in collective investment schemes are stated at fair value with any resulting gain or loss recognised in profit or loss. Fair value is assessed by the Directors based on the best available information.

The value of investment in the Core Fund as at 30 April 2017 is based on the latest NAV (30 April 2016: single swinging price) of the Core Fund as the Directors consider this to be a more accurate approximation of fair value.

#### 10.c) Fair value measurement hierarchy

The following table provides the fair value measurement hierarchy for investments:

|   | 30 April 2017                                   |   |   |                |
|---|---|---|---|----------------|
|   | Quoted prices in active markets (Level 1) £'000 | Significant observable inputs (Level 2) £'000 | Significant unobservable inputs (Level 3) £'000 | Total £'000    |
| <b>Assets measured at fair value</b>    |   |   |   |                |
| Investment property                     | –   | –   | 135,570   | 135,570        |
| Investment in AEW UK Core Property Fund | –   | –   | 7,594   | 7,594          |
|   | –   | –   | <b>143,164</b>                                  | <b>143,164</b> |

|   | 30 April 2016                                   |   |   |                |
|---|---|---|---|----------------|
|   | Quoted prices in active markets (Level 1) £'000 | Significant observable inputs (Level 2) £'000 | Significant unobservable inputs (Level 3) £'000 | Total £'000    |
| <b>Assets measured at fair value</b>    |   |   |   |                |
| Investment property                     | –   | –   | 114,387   | 114,387        |
| Investment in AEW UK Core Property Fund | –   | –   | 10,109  | 10,109         |
|   | –   | –   | <b>124,496</b>                                  | <b>124,496</b> |

#### Explanation of the fair value hierarchy:

Level 1 – Quoted prices for an identical instrument in active markets;

Level 2 – Prices of recent transactions for identical instruments and valuation techniques using observable market data; and

Level 3 – Valuation techniques using non-observable data.

# Notes to the Financial Statements (continued)

for the year ended 30 April 2017

## 10. Investments (continued)

### 10.c) Fair value measurement hierarchy (continued)

#### Sensitivity analysis to significant changes in unobservable inputs within Level 3 of the hierarchy

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the portfolio of investment property and investments are:

1) Estimated Rental Value ('ERV')

2) Equivalent yield

Increases/(decreases) in the ERV (per sq ft per annum) in isolation would result in a higher/(lower) fair value measurement. Increases/(decreases) in the discount rate/yield (and exit or yield) in isolation would result in a lower/(higher) fair value measurement.

The significant unobservable input used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the Company's investment is:

1) NAV

The Company has updated its accounting policy with regard to the value of investments in the Core Fund to now be based on NAV which is considered to be the best approximation of fair value by the Directors.

Increases/(decreases) in the NAV would result in a higher/(lower) fair value measurement.

The significant unobservable inputs used in the fair value measurement, categorised within Level 3 of the fair value hierarchy of the portfolio of investment property and investments are:

| Class                | Fair Value<br>£'000 | Valuation<br>Technique | Significant<br>Unobservable Inputs | Range                             |
|----------------------|---------------------|------------------------|------------------------------------|-----------------------------------|
| <b>30 April 2017</b> |                     |                        |                                    |                                   |
| Investment property  | 137,820             | Income capitalisation  | ERV<br>Equivalent yield            | £2.00 – £160.00<br>6.94% – 10.27% |
| Investments          | 7,594               | NAV                    | NAV                                | £1.1942                           |
| <b>30 April 2016</b> |                     |                        |                                    |                                   |
| Investment property  | 114,340             | Income capitalisation  | ERV<br>Equivalent yield            | £2.00 – £160.00<br>6.70% – 11.90% |
| Investments          | 10,109              | Market capitalisation  | Single swinging price              | £1.2581                           |

The single swinging price on investments is equal to the last announced unit price for collective investment schemes as at the Statement of Financial Position date.

Where possible, sensitivity of the fair values of Level 3 assets are tested to changes in unobservable inputs against reasonable alternatives.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property and investments held at the end of the reporting period.

# Notes to the Financial Statements *(continued)*

for the year ended 30 April 2017

## 10. Investments *(continued)*

### 10.c) Fair value measurement hierarchy *(continued)*

With regards to both investment property and investments, gains and losses for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, prior to adjustment for rent free debtor and rent guarantee debtor where applicable, are recorded in profit and loss.

The carrying amount of the assets and liabilities, detailed within the Statement of Financial Position, is considered to be the same as their fair value.

| Sensitivity analysis                        | 30 April 2017 |              |               |              |                            |              |
|---|---------------|--------------|---------------|--------------|----------------------------|--------------|
|   | Change in NAV |              | Change in ERV |              | Change in equivalent yield |              |
|   | £'000<br>+5%  | £'000<br>-5% | £'000<br>+5%  | £'000<br>-5% | £'000<br>+5%               | £'000<br>-5% |
| Resulting fair value of investment property | –             | –            | 143,606       | 131,979      | 129,906                    | 145,906      |
| Resulting fair value of investments         | 7,974         | 7,214        | –             | –            | –                          | –            |

| Sensitivity analysis                        | 30 April 2016                   |              |               |              |                            |              |
|---|---------------------------------|--------------|---------------|--------------|----------------------------|--------------|
|   | Change in single swinging price |              | Change in ERV |              | Change in equivalent yield |              |
|   | £'000<br>+5%                    | £'000<br>-5% | £'000<br>+5%  | £'000<br>-5% | £'000<br>+5%               | £'000<br>-5% |
| Resulting fair value of investment property | –                               | –            | 119,303       | 109,166      | 107,815                    | 121,126      |
| Resulting fair value of investments         | 10,615                          | 9,604        | –             | –            | –                          | –            |

# Notes to the Financial Statements (continued)

for the year ended 30 April 2017

## 11. Receivables and prepayments

|                              | 30 April 2017<br>£'000 | 30 April 2016<br>£'000 |
|------------------------------|------------------------|------------------------|
| <b>Receivables</b>           |                        |                        |
| Rent debtor                  | 461                    | 622                    |
| Dividend receivable          | 110                    | 193                    |
| Other income debtors         | 192                    | –                      |
| Rent agent float account     | 57                     | 92                     |
| Other receivables            | 213                    | 29                     |
|                              | <hr/>                  | <hr/>                  |
|                              | 1,033                  | 936                    |
| Rent free debtor             | 2,230                  | 1,082                  |
| Rent guarantee debtor        | 80                     | 785                    |
|                              | <hr/>                  | <hr/>                  |
|                              | <b>3,343</b>           | <b>2,803</b>           |
| <b>Prepayments</b>           |                        |                        |
| Property related prepayments | 10                     | 130                    |
| Capital prepayments          | 1                      | 19                     |
| Depository services          | 8                      | 8                      |
| Listing fees                 | 8                      | 2                      |
| Other prepayments            | 12                     | –                      |
|                              | <hr/>                  | <hr/>                  |
|                              | <b>39</b>              | <b>159</b>             |
| <b>Total</b>                 | <b>3,382</b>           | <b>2,962</b>           |

The aged debtor analysis of receivables which are past due is as follows:

|                                   | 30 April 2017<br>£'000 | 30 April 2016<br>£'000 |
|-----------------------------------|------------------------|------------------------|
| Less than three months due        | 910                    | 573                    |
| Between three and six months due  | 1                      | 331                    |
| Between six and twelve months due | 122                    | 32                     |
| <b>Total</b>                      | <b>1,033</b>           | <b>936</b>             |

# Notes to the Financial Statements (continued)

for the year ended 30 April 2017

## 12. Interest rate derivatives

|  | 30 April 2017<br>£'000 | 30 April 2016<br>£'000 |
|--|------------------------|------------------------|
| At the beginning of the year/period                | 77                     | –                      |
| Interest rate cap premium paid                     | 71                     | 91                     |
| Changes in fair value of interest rate derivatives | (117)                  | (14)                   |
| <b>At the end of the year/period</b>               | <b>31</b>              | <b>77</b>              |

To mitigate the interest rate risk that arises as a result of entering into variable rate linked loans, the Company entered into an interest rate cap with the combined notional value of £26.51 million (2016: £14.25 million) and a strike rate of 2.5% (2016: 2.5%) for the relevant period in line with the life of the loan.

The total premium payable in the year towards securing the interest rate caps was £71,304 (2016: £91,000).

### Fair value hierarchy

The following table provides the fair value measurement hierarchy for interest rate derivatives:

| Valuation date | Quoted prices in<br>active markets<br>(Level 1)<br>£'000 | Significant<br>observable input<br>(Level 2)<br>£'000 | Significant<br>unobservable<br>inputs<br>(Level 3)<br>£'000 | Total<br>£'000 |
|----------------|--|---|---|----------------|
| 30 April 2017  | –  | 31  | –   | 31             |
| 30 April 2016  | –  | 77  | –   | 77             |

The fair value of these contracts are recorded in the Statement of Financial Position as at the year end.

There have been no transfers between level 1 and level 2 during the year, nor have there been any transfers between level 2 and level 3 during the year.

The carrying amount of the assets and liabilities, detailed within the Statement of Financial Position, is considered to be the same as their fair value.

# Notes to the Financial Statements *(continued)*

for the year ended 30 April 2017

## 13. Interest bearing loans and borrowings

|  | <b>Bank borrowings</b>             |                                    |
|--|------------------------------------|------------------------------------|
|  | <b>30 April<br/>2017<br/>£'000</b> | <b>30 April<br/>2016<br/>£'000</b> |
| At the beginning of the year/period                      | 14,250                             | —                                  |
| Bank borrowings drawn in the year/period                 | 14,760                             | 14,250                             |
| <b>Interest bearing loans and borrowings</b>             | <b>29,010</b>                      | <b>14,250</b>                      |
| Less: loan issue costs incurred                          | (388)                              | (40)                               |
| Plus: amortised loan issue costs                         | 118                                | 40                                 |
| <b>As at 30 April</b>                                    | <b>28,740</b>                      | <b>14,250</b>                      |
| Repayable between two and five years                     | 29,010                             | 14,250                             |
| Bank borrowings available but undrawn in the year/period | 10,990                             | 25,750                             |
| <b>Total facility available</b>                          | <b>40,000</b>                      | <b>40,000</b>                      |

The Company entered into a £40 million credit facility with The Royal Bank of Scotland International Limited on 20 October 2015, of which £10.99 million remained undrawn as at the year end (2016: £40 million credit facility, £25.75 million undrawn and term to maturity of 4.47 years).

Borrowing costs associated with the credit facility are shown as finance expenses in note 6 to these financial statements.

The term to maturity as at the year end is 3.47 years.

Since the end of the reporting period, the amount of the credit facility available has been reduced to £32.5 million.

The Company has used this facility to continue to invest in properties once the net IPO proceeds had been fully invested. The facility can be used up to 30% loan to Net Asset Value measured at drawdown.

# Notes to the Financial Statements *(continued)*

for the year ended 30 April 2017

## 14. Payables and accrued expenses

|                 | 30 April 2017<br>£'000 | 30 April 2016<br>£'000 |
|-----------------|------------------------|------------------------|
| Deferred income | 1,513                  | 1,675                  |
| Accruals        | 534                    | 1,008                  |
| Other creditors | 709                    | 276                    |
| <b>Total</b>    | <b>2,756</b>           | <b>2,959</b>           |

## 15. Finance lease obligations

Finance leases are capitalised at the lease's commencement at the lower of the fair value of the property and the present value of the minimum lease payments. The present value of the corresponding rental obligations are included as liabilities.

The following table analyses the minimum lease payments under non-cancellable finance leases:

|   | 30 April 2017<br>£'000 | 30 April 2016<br>£'000 |
|---|------------------------|------------------------|
| Not later than one year                           | 5                      | 123                    |
| Later than one year but not later than five years | 15                     | 372                    |
| Later than five years                             | 40                     | 1,419                  |
|   | 55                     | 1,791                  |
| <b>Total</b>                                      | <b>60</b>              | <b>1,914</b>           |

# Notes to the Financial Statements *(continued)*

for the year ended 30 April 2017

## 16. Guarantees and commitments

As at 30 April 2017, there were capital commitments of £48,628 relating to alteration and refurbishment works at the property 225 Bath Street, Glasgow.

### Operating lease commitments – as lessor

The Company has entered into commercial property leases on its investment property portfolio. These non-cancellable leases have a remaining term of between zero and 23 years.

Future minimum rentals receivable under non-cancellable operating leases as at 30 April 2017 are as follows:

|   | 30 April 2017<br>£'000 | 30 April 2016<br>£'000 |
|---|------------------------|------------------------|
| Within one year                             | 11,878                 | 9,902                  |
| After one year but not more than five years | 37,936                 | 31,651                 |
| More than five years                        | 27,640                 | 23,401                 |
| <b>Total</b>                                | <b>77,454</b>          | <b>64,954</b>          |

During the year ended 30 April 2017 there were contingent rents totalling £169,724 (30 April 2016: £nil) recognised as income.

## 17. Investment in subsidiary

The Company has a wholly owned subsidiary, AEW UK REIT 2015 Limited:

| Name and company number                               | Country of registration and incorporation | Principal activity | Ordinary Shares held |
|---|---|--------------------|----------------------|
| AEW UK REIT 2015 Limited<br>(Company number 09524699) | England and Wales                         | Dormant            | 100%                 |

AEW UK REIT 2015 Limited is a subsidiary of the Company incorporated in the UK on 2 April 2015. At 30 April 2017, the Company held one share being 100% of the issued share capital. AEW UK REIT 2015 Limited is wholly owned by the Company and is dormant. The cost of the subsidiary is £0.01 (30 April 2016: £0.01). The registered office of AEW UK REIT 2015 Limited is 40 Dukes Place, London, EC3A 7NH.

# Notes to the Financial Statements *(continued)*

for the year ended 30 April 2017

## 18. Issued share capital

|  | 30 April 2017 |                           | 30 April 2016 |                           |
|--|---------------|---------------------------|---------------|---------------------------|
|  | £'000         | Number of Ordinary Shares | £'000         | Number of Ordinary Shares |
| <b>Ordinary Shares (nominal value £0.01 authorised, issued and fully paid)</b>   |               |                           |               |                           |
| At the beginning of the year/period  | 1,175         | 117,510,000               | –             | 1                         |
| Issued on admission to trading on the London Stock Exchange on 12 May 2015       | –             | –                         | 1,005         | 100,499,999               |
| Issued on admission to trading on the London Stock Exchange on 15 December 2015  | –             | –                         | 170           | 17,010,000                |
| Issued on admission to trading on the London Stock Exchange on 16 September 2016 | 24            | 2,450,000                 | –             | –                         |
| Issued on admission to trading on the London Stock Exchange on 10 October 2016   | 37            | 3,687,250                 | –             | –                         |
| <b>At the end of the year/period</b>   | <b>1,236</b>  | <b>123,647,250</b>        | <b>1,175</b>  | <b>117,510,000</b>        |

On 16 September 2016, the Company issued 2,450,000 Ordinary Shares at a price of 97 pence per share in the form of a tap issue under authority granted on 7 September 2016 at the AGM. On 10 October 2016 the Company issued 3,687,250 Ordinary Shares at a price of 98.25 pence per share in the form of a tap issue under authority granted on 7 September 2016 at the AGM.

The initial raising by the Company involved the issue of Ordinary Shares to relevant subscribers at 100 pence per Ordinary Share.

# Notes to the Financial Statements *(continued)*

for the year ended 30 April 2017

## 19. Share premium account

|   | <b>Year ended<br/>30 April 2017</b><br>£'000 | Period<br>1 April 2015 to<br>30 April 2016<br>£'000 |
|---|--|---|
| <hr/>   |  |   |
| The share premium relates to amounts subscribed for share capital in excess of nominal value: |  |   |
| Balance at the beginning of the year/period   | 16,729                                       | –   |
| Issued on admission to trading on the London Stock Exchange on 12 May 2015                    | –  | 99,495  |
| Share issue costs (paid and accrued)  | –  | (1,930)   |
| Transfer to capital reduction account   | –  | (97,565)  |
| Issued on admission to trading on the London Stock Exchange on 15 December 2015               | –  | 17,010  |
| Share issue costs (paid and accrued)  | (23)   | (281)   |
| Issued on admission to trading on the London Stock Exchange on 16 September 2016              | 2,352  | –   |
| Share issue cost (paid and accrued)   | (42)   | –   |
| Issued on admission to trading on the London Stock Exchange on 10 October 2016                | 3,586  | –   |
| Share issue cost (paid and accrued)   | (88)   | –   |
| <b>Balance at the end of the year/period</b>  | <b>22,514</b>                                | <b>16,729</b>                                       |
| <hr/>   |  |   |

# Notes to the Financial Statements (continued)

for the year ended 30 April 2017

## 20. Financial risk management and objectives and policies

### 20.1 Financing instruments

The Company's principal financial assets and liabilities are those derived from its operations: receivables and prepayments, cash and cash equivalents and payables and accrued expenses. The Company's other principal financial liabilities are interest bearing loans and borrowings, the main purpose of which is to finance the acquisition and development of the Company's property portfolio.

Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments that are carried in the financial statements.

|  | 30 April 2017       |                     | 30 April 2016       |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | Book Value<br>£'000 | Fair Value<br>£'000 | Book Value<br>£'000 | Fair Value<br>£'000 |
| <b>Financial Assets</b>                      |                     |                     |                     |                     |
| Investment in AEW UK Core                    |                     |                     |                     |                     |
| Property Fund                                | 7,594               | 7,594               | 10,109              | 10,109              |
| Receivables and prepayments <sup>1</sup>     | 1,033               | 1,033               | 936                 | 936                 |
| Cash and cash equivalents                    | 3,653               | 3,653               | 7,963               | 7,963               |
| Other financial assets held at<br>fair value | 31                  | 31                  | 77                  | 77                  |
| <b>Financial Liabilities</b>                 |                     |                     |                     |                     |
| Interest bearing loans<br>and borrowings     | 28,740              | 29,010              | 14,250              | 14,250              |
| Payables and accrued expenses <sup>2</sup>   | 2,156               | 2,156               | 2,712               | 2,712               |
| Finance lease obligations                    | 60                  | 60                  | 1,914               | 1,914               |

1 Excludes VAT, certain prepayments and other debtors

2 Excludes tax and VAT liabilities

Interest rate derivatives are the only financial instruments classified as fair value through profit and loss. All other financial assets are classified as loans and receivables and all financial liabilities are measured at amortised cost. All financial instruments were designated in their current categories upon initial recognition.

Fair value measurement hierarchy has not been applied to those classes of asset and liability stated above which are not measured at fair value in the financial statements. The difference between the fair value and book value of these items is not considered to be material.

### 20.2 Financing management

The Company's activities expose it to a variety of financial risks: market risk, real estate risk, credit risk and liquidity risk.

The Company's objective in managing risk is the creation and protection of shareholder value. Risk is inherent in the Company's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls.

The principal risks facing the Company in the management of its portfolio are as follows:

# Notes to the Financial Statements *(continued)*

for the year ended 30 April 2017

## 20. Financial risk management and objectives and policies *(continued)*

### 20.3 Market price risk

Market price risk is the risk that future values of investments in direct property and related property investments will fluctuate due to changes in market prices. To manage market price risk, the Company diversifies its portfolio geographically in the United Kingdom and across property sectors.

The disciplined approach to the purchase, sale and asset management ensures that the value is maintained to its maximum potential. Prior to any property acquisition or sale, detailed research is undertaken to assess expected future cash flow. The Investment Management Committee ('IMC') of the Investment Manager, meets monthly and reserves the ultimate decision with regards to investment purchases or sales. In order to monitor property valuation fluctuations, the IMC and the Portfolio Management Team of the Investment Manager meet with the independent external valuer on a regular basis. The valuer provides a property portfolio valuation quarterly, so any movements in the value can be accounted for in a timely manner and reflected in the NAV every quarter.

### 20.4 Real estate risk

The Company is exposed to the following risks specific to its investments in investment property:

Property investments are illiquid assets and can be difficult to sell, especially if local market conditions are poor. Illiquidity may also result from the absence of an established market for investments, as well as legal or contractual restrictions on resale of such investments. In addition, property valuation is inherently subjective due to the individual characteristics of each property, and thus, coupled with illiquidity in the markets, makes the valuation in the scheme property difficult and inexact.

No assurances can be given that the valuations of properties will be reflected in the actual sale prices even where such sales occur shortly after the relevant valuation date.

There can be no certainty regarding the future performance of any of the properties acquired for the Company. The value of any property can go down as well as up. Property and property-related assets are inherently subjective as regards value due to the individual nature of each property. As a result, valuations are subject to uncertainty.

Real property investments are subject to varying degrees of risk. The yields available from investments in real estate depend on the amount of income generated and expenses incurred from such investments.

There are additional risks in vacant, part vacant, redevelopment and refurbishment situations although these are not prospective investments for the Company.

### 20.5 Credit risk

Credit risk is the risk that the counterparty (to a financial instrument) or tenant (of a property) will cause a financial loss to the Company by failing to meet a commitment it has entered into with the Company.

It is the Company's policy to enter into financial instruments with reputable counterparties. All cash deposits are placed with an approved counterparty, The Royal Bank of Scotland International Limited.

In respect of property investments, in the event of a default by a tenant, the Company will suffer a rental shortfall and additional costs concerning re-letting the property. The Investment Manager monitors tenant arrears in order to anticipate and minimise the impact of defaults by occupational tenants.

# Notes to the Financial Statements (continued)

for the year ended 30 April 2017

## 20. Financial risk management and objectives and policies (continued)

### 20.5 Credit risk (continued)

The table below shows the Company's exposure to credit risk:

|  | As at<br>30 April 2017<br>£'000 | As at<br>30 April 2016<br>£'000 |
|--|---------------------------------|---------------------------------|
| Debtors (excluding incentives and prepayments) | 1,033                           | 936                             |
| Cash and cash equivalents                      | 3,653                           | 7,963                           |
| <b>Total</b>                                   | <b>4,686</b>                    | <b>8,899</b>                    |

### 20.6 Liquidity risk

Liquidity risk arises from the Company's management of working capital and the finance charges and principal repayments on its borrowings. It is the risk the Company will encounter difficulty in meeting its financial obligations as they fall due as the majority of the Company's assets are investment properties and therefore not readily realisable. The Company's objective is to ensure it has sufficient available funds for its operations and to fund its capital expenditure. This is achieved by continuous monitoring of forecast and actual cash flows by management.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

| 30 April 2017                         | On<br>demand<br>£'000 | < 3<br>months<br>£'000 | 3–12<br>months<br>£'000 | 1–5<br>years<br>£'000 | > 5 years<br>£'000 | Total<br>£'000 |
|---------------------------------------|-----------------------|------------------------|-------------------------|-----------------------|--------------------|----------------|
| Interest bearing loans and borrowings | –                     | –                      | –                       | 29,010                | –                  | 29,010         |
| Interest payable                      | –                     | 134                    | 395                     | 1,306                 | –                  | 1,835          |
| Payables and accrued expenses         | –                     | 2,156                  | –                       | –                     | –                  | 2,156          |
| Finance lease obligation              | –                     | –                      | 5                       | 20                    | 425                | 450            |
|                                       | <b>–</b>              | <b>2,290</b>           | <b>400</b>              | <b>30,336</b>         | <b>425</b>         | <b>33,451</b>  |

| 30 April 2016                         | On<br>demand<br>£'000 | < 3<br>months<br>£'000 | 3–12<br>months<br>£'000 | 1–5<br>years<br>£'000 | > 5 years<br>£'000 | Total<br>£'000 |
|---------------------------------------|-----------------------|------------------------|-------------------------|-----------------------|--------------------|----------------|
| Interest bearing loans and borrowings | –                     | –                      | –                       | 14,250                | –                  | 14,250         |
| Interest payable                      | –                     | 102                    | 301                     | 1,400                 | –                  | 1,803          |
| Payables and accrued expenses         | –                     | 2,712                  | –                       | –                     | –                  | 2,712          |
| Finance lease obligation              | –                     | –                      | 123                     | 372                   | 1,419              | 1,914          |
|                                       | <b>–</b>              | <b>2,814</b>           | <b>424</b>              | <b>16,022</b>         | <b>1,419</b>       | <b>20,679</b>  |

# Notes to the Financial Statements (continued)

for the year ended 30 April 2017

## 21. Capital management

The primary objectives of the Company's capital management is to ensure that it qualifies for the UK REIT status and remains within its quantitative banking covenants.

To enhance returns over the medium term, the Company utilises borrowings on a limited recourse basis for each investment or all or part of the total portfolio. The Company's policy is such that its borrowings will not exceed 25% of GAV (measured at drawdown) of each investment or the total portfolio. It is currently anticipated that the level of total borrowings will typically be at the level of 20% of GAV (measured at drawdown).

Alongside the Company's borrowing policy, the Directors intend, at all times, to conduct the affairs of the Company so as to enable the Company to qualify as a REIT for the purposes of Part 12 of the CTA 2010 (and the regulations made thereunder). The REIT status compliance requirements include 90% distribution test, interest cover ratio, 75% assets test and the substantial shareholder rule, all of which the Company remained compliant with in this reporting period.

The monitoring of the Company's level of borrowing is performed primarily using a Loan to GAV ratio. The Loan to GAV Ratio is calculated as the amount of outstanding debt divided by the total assets of the Company, which includes the valuation of the investment property portfolio. The Company Loan to GAV ratio at the year end was 19.31% (30 April 2016: 10.51%).

Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. During the year under review, the Company did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan agreements.

## 22. Transactions with related parties

As defined by IAS 24 Related Parties Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

For the year ended 30 April 2017, the Directors of the Company are considered to be the key management personnel. Details of amounts paid to Directors for their services can be found within note 5, Directors' remuneration.

The Company is party to an Investment Management Agreement with the Investment Manager, pursuant to which the Company has appointed the Investment Manager to provide investment management services relating to the respective assets on a day-to-day basis in accordance with their respective investment objectives and policies, subject to the overall supervision and direction of the Board of Directors.

Under the Investment Management Agreement the Investment Manager receives a management fee which is calculated and accrued monthly at a rate equivalent to 0.9% per annum of NAV (excluding un-invested fund raising proceeds) and paid quarterly. The investment by the Company into the Core Fund is not subject to management fees or performance fees otherwise charged to investors in the AEW UK Core Property Fund by the Investment Manager. During the year, the Company incurred £1,033,637 (2016: £652,706) in respect of investment management fees and expenses of which £252,850 (2016: £230,631) was outstanding as at 30 April 2017.

On 1 May 2016, the Company had a holding of 8,035,272 shares (share class E) in the Core Fund, which were purchased for a cost of £9,627,000 (net of equalisation) on 1 June 2015. The investment is deemed to be with a related party due to the common influence of the Investment Manager over both parties. During the year, the Company disposed of 1,675,832 shares in the Core Fund for consideration of £1,995,248. As at 30 April 2017, the Company held 6,359,440 shares in the Core Fund which were valued at £7,594,443. The Company disposed of its remaining holding in the Core Fund after the year-end, as detailed in note 24.

# Notes to the Financial Statements *(continued)*

for the year ended 30 April 2017

## 23. Segmental information

Management has considered the requirements of IFRS 8 'operating segments'. The source of the Company's diversified revenue is from the ownership of investment properties across the UK. Financial information on a property by property basis is provided to senior management of the Investment Manager and Directors, which collectively comprise the chief operating decision maker. Responsibilities are not defined by type or location, each property being managed individually and reported on for the Company as a whole directly to the Board of Directors. Therefore, the Company is considered to be engaged in a single segment of business, being property investment and in one geographical area, United Kingdom.

## 24. Events after reporting date

### Dividend

On 30 May 2017, the Board declared its interim dividend of two pence per share, in respect of the period from 1 February 2017 to 30 April 2017. This was paid on 30 June 2017, to shareholders on the register as at 9 June 2017. The ex-dividend date was 8 June 2017.

### Property acquisitions

On 4 May 2017 the Company acquired Unit 1005, Sarus Court for £0.61 million. This completes the Company's acquisition of the whole of the Sarus Court industrial estate. The property provides a WAULT of approximately 3.7 years to expiry. The acquisition provides an initial yield of 7.8%, a reversionary yield of 9.1% and a capital value per sq ft of £55.

On 29 June 2017 the Company acquired Unit 34, First Avenue, Deeside for £4.31 million. The property provides a WAULT of approximately 5 years to break and 10 years to expiry. The acquisition provides an initial yield of 7.9%, a reversionary yield of 7.9% and a capital value per sq ft of £45.

### Disposal of investments

On 9 May 2017, the Company sold its remaining investment in the Core Fund for £7.62 million. This sale represented a gain of £0.03 million based on its carrying value as at 30 April 2017.

### Amendment to the Credit Facility

On 8 May 2017, the Company completed an amendment to the terms of its facility with RBSi. The total commitment has been reduced from £40.0 million to £32.5 million and the availability period has been extended to 31 March 2019.

# EPRA Unaudited Performance Measures

Detailed below is a summary table showing the EPRA performance measures of the Company

| MEASURE AND DEFINITION  | PURPOSE   | PERFORMANCE   |
|---|---|---|
| <b>1. EPRA Earnings</b><br>Earnings from operational activities.  | A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.   | £9.16 million/7.57 pps<br>EPRA earnings for the year ended 30 April 2017 (2016: £6.08 million/6.33 pps)   |
| <b>2. EPRA NAV</b><br>Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business.   | Makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long-term investment strategy. | £118.64 million/95.95 pps<br>EPRA NAV as at 30 April 2017 (2016: £116.30 million/98.97 pps)   |
| <b>3. EPRA NNNAV</b><br>EPRA NAV adjusted to include the fair values of:<br>(i) financial instruments;<br>(ii) debt and;<br>(iii) deferred taxes.   | Makes adjustments to EPRA NAV to provide stakeholders with the most relevant information on the current fair value of all the assets and liabilities within a real estate company.  | £118.67 million/95.98 pps<br>EPRA NNNAV as at 30 April 2017 (2016: £116.38 million/99.03 pps)   |
| <b>4.1 EPRA Net Initial Yield (NIY)</b><br>Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs. | A comparable measure for portfolio valuations. This measure should make it easier for investors to judge themselves, how the valuation of portfolio X compares with portfolio Y.  | 7.12%<br>EPRA NIY<br>as at 30 April 2017 (2016: 8.01%)  |
| <b>4.2 EPRA 'Topped-Up' NIY</b><br>This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).  | A comparable measure for portfolio valuations. This measure should make it easier for investors to judge themselves, how the valuation of portfolio X compares with portfolio Y.  | 8.27%<br>EPRA 'Topped-Up' NIY<br>as at 30 April 2017 (2016: 8.56%)  |
| <b>5. EPRA Vacancy</b><br>Estimated Market Rental Value (ERV) of vacant space divided by ERV of the whole portfolio.  | A 'pure' (%) measure of investment property space that is vacant, based on ERV.   | 7.22%<br>EPRA ERV<br>as at 30 April 2017 (2016: 3.16%)  |
| <b>6. EPRA Cost Ratio</b><br>Administrative and operating costs (including and excluding costs of direct vacancy) divided by gross rental income.   | A key measure to enable meaningful measurement of the changes in a company's operating costs.   | Including direct vacancy costs<br>EPRA Cost Ratio 15.37%<br>as at 30 April 2017 (2016: 12.23%)<br>9.54% EPRA Cost ratio excluding direct vacancy costs as at 30 April 2017 (2016: 10.90%) |

# EPRA Unaudited Performance Measures (continued)

## Calculation of EPRA Net Initial Yield and 'topped-up' Net Initial Yield

|   | Year ended<br>30 April 2017<br>£'000 | Period<br>1 April 2015 to<br>30 April 2016<br>£'000 |
|---|--------------------------------------|---|
| Investment property – wholly-owned                      | 137,820                              | 114,340   |
| Allowance for estimated purchasers' costs               | 8,242                                | 6,632   |
| <b>Gross up completed property portfolio valuation</b>  | <b>146,062</b>                       | <b>120,972</b>                                      |
| Annualised passing rental income                        | 11,283                               | 9,842   |
| Property outgoings                                      | (884)                                | (148)   |
| <b>Annualised net rents</b>                             | <b>10,399</b>                        | <b>9,694</b>  |
| Rent from expiry of rent-free periods and fixed uplifts | 1,685                                | 655   |
| <b>'Topped-up' net annualised rent</b>                  | <b>12,084</b>                        | <b>10,349</b>                                       |
| <b>EPRA Net Initial Yield</b>                           | <b>7.12%</b>                         | <b>8.01%</b>  |
| <b>EPRA 'topped-up' Net Initial Yield</b>               | <b>8.27%</b>                         | <b>8.56%</b>  |

## EPRA Net Initial Yield (NIY) basis of calculation

EPRA NIY is calculated as the annualised net rent, divided by the gross value of the completed property portfolio.

The valuation of grossed up completed property portfolio is determined by our external valuers as at 30 April 2017, plus an allowance for estimated purchaser's costs. Estimated purchaser's costs are determined by the relevant stamp duty liability, plus an estimate by our valuers of agent and legal fees on notional acquisition. The net rent deduction allowed for property outgoings is based on our valuers' assumptions on future recurring non-recoverable revenue expenditure.

In calculating the EPRA 'topped-up' NIY, the annualised net rent is increased by the total contracted rent from expiry of rent-free periods and future contracted rental uplifts where defined as not in lieu of growth. Overall 'topped-up' NIY is calculated by adding any other contracted future uplift to the 'topped-up' net annualised rent.

# EPRA Unaudited Performance Measures (continued)

## Calculation of EPRA Vacancy Rate

|   | Year ended<br>30 April 2017<br>£'000 | Period<br>1 April 2015 to<br>30 April 2016<br>£'000 |
|---|--------------------------------------|---|
| Annualised potential rental value of vacant premises                  | 951                                  | 342   |
| Annualised potential rental value for the complete property portfolio | 13,164                               | 10,821  |
| <b>EPRA Vacancy Rate</b>  | <b>7.22%</b>                         | <b>3.16%</b>  |

## Calculation of EPRA Cost Ratios

|  | 2017<br>£'000 | 2016<br>£'000 |
|--|---------------|---------------|
| Administrative/operating expense per IFRS income statement | 3,272         | 1,523         |
| Less: Performance & management fees                        | (1,034)       | (653)         |
| Other fees and commission                                  | (335)         | (70)          |
| Ground rent costs  | (104)         | (64)          |
| <b>EPRA Costs (including direct vacancy costs)</b>         | <b>1,799</b>  | <b>736</b>    |
| Direct vacancy costs                                       | (682)         | (80)          |
| <b>EPRA Costs (excluding direct vacancy costs)</b>         | <b>1,117</b>  | <b>656</b>    |
| Gross Rental Income less ground rent costs                 | 12,044        | 6,089         |
| Less: service charge costs of rental income                | (335)         | (70)          |
| <b>Gross rental income</b>                                 | <b>11,709</b> | <b>6,019</b>  |
| <b>EPRA Cost Ratio (including direct vacancy costs)</b>    | <b>15.37%</b> | <b>12.23%</b> |
| <b>EPRA Cost Ratio (excluding direct vacancy costs)</b>    | <b>9.54%</b>  | <b>10.90%</b> |

# Company Information

## Share Register Enquiries

The register for the Ordinary Shares is maintained by Computershare Investor Services PLC. In the event of queries regarding your holding, please contact the Registrar on 0370 889 4069 or email: [web.queries@computershare.co.uk](mailto:web.queries@computershare.co.uk)

Changes of name and/or address must be notified in writing to the Registrar, at the address shown on page 107. You can check your shareholding and find practical help on transferring shares or updating your details at [www.investorcentre.co.uk](http://www.investorcentre.co.uk). Shareholders eligible to receive dividend payments gross of tax may also download declaration forms from that website.

## Share Information

|                       |              |
|-----------------------|--------------|
| Ordinary £0.01 Shares | 123,647,250  |
| SEDOL Number          | BWD2415      |
| ISIN Number           | GB00BWD24154 |
| Ticker/TIDM           | AEWU         |

## Share Prices

The Company's Ordinary Shares are traded on the Main Market of the London Stock Exchange.

## Annual and Half-Yearly Reports

Copies of the Annual and Half-Yearly Reports are available from the Company's website

## Financial Calendar

|                   |                                     |
|-------------------|-------------------------------------|
| 12 September 2017 | Annual General Meeting              |
| 31 October 2017   | Half-year end                       |
| December 2017     | Announcement of half-yearly results |
| 30 April 2018     | Year end                            |
| July 2018         | Announcement of annual results      |

## Dividends

The following table summarises the amounts distributed to equity shareholders in respect of the year:

|  | £                |
|--|------------------|
| Interim dividend for the period 1 May 2016 to 31 July 2016<br>(payment made on 30 September 2016)      | 2,350,200        |
| Interim dividend for the period 1 August 2016 to 31 October 2016<br>(payment made on 31 December 2016) | 2,472,945        |
| Interim dividend for the period 1 November 2016 to 31 January 2017<br>(payment made on 31 March 2017)  | 2,472,945        |
| Interim dividend for the period 1 February 2017 to 30 April 2017<br>(payment made on 30 June 2017)     | 2,472,945        |
| <b>Total</b>   | <b>9,769,035</b> |

# Company Information (continued)

## Directors

Mark Burton\* (Non-executive Chairman)  
James Hyslop (Non-executive Director)  
Bimaljit (“Bim”) Sandhu\* (Non-executive Director)  
Katrina Hart\* (Non-executive Director)

## Depository

Langham Hall UK LLP  
5 Old Bailey  
London  
EC4M 7BA

## Registered Office

40 Dukes Place  
London  
EC3A 7NH

## Administrator

Capita Sinclair Henderson Limited  
Beaufort House  
51 New North Road  
Exeter  
EX4 4EP

## Investment Manager and AIFM

AEW UK Investment Management LLP  
33 Jermyn Street  
London  
SW1Y 6DN

Tel: 020 7016 4880

Website: [www.aewuk.co.uk](http://www.aewuk.co.uk)

## Company Secretary

Capita Company Secretarial Services Limited  
40 Dukes Place  
London  
EC3A 7NH

## Property Manager

Jones Lang LaSalle Limited  
22 Hanover Square  
London  
W1S 1JA

## Registrar

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol  
BS13 8AE

## Corporate Broker

Fidante Capital  
1 Tudor Street  
London  
EC4Y 0AH

## Auditors

KPMG LLP  
15 Canada Square  
London  
E14 5GL

## Legal Adviser to the Company

Gowling WLG (UK) LLP  
4 More London Riverside  
London  
SE1 2AU

## Valuer

Knight Frank LLP  
55 Baker Street  
London  
W1U 8AN

\* independent of the Investment Manager

## Frequency of NAV publication:

The Company's NAV is released to the London Stock Exchange on a quarterly basis and is published on the Company's website.

# Glossary

|   |  |
|---|--|
| <b>AEW UK Core Property Fund (the 'Core Fund')</b>      | AEW UK Core Property Fund, a property authorised investment fund ('PAIF') and a sub-fund of the AEW UK Real Estate Fund, an open ended investment company.   |
| <b>AIC</b>  | Association of Investment Companies. This is the trade body for closed-end Investment companies ( <a href="http://www.theaic.co.uk">www.theaic.co.uk</a> ).  |
| <b>AIFMD</b>  | Alternative Investment Fund Managers' Directive.   |
| <b>AIFM</b>   | Alternative Investment Fund Manager. The entity that provides portfolio management and risk management services to the Company and which ensures the Company complies with the AIFMD. The Company's AIFM is AEW UK Investment Management LLP.  |
| <b>Company</b>  | AEW UK REIT plc.   |
| <b>Company Secretary</b>                                | Capita Company Secretarial Services Limited.   |
| <b>Company website</b>                                  | <a href="http://www.aewukreit.com">www.aewukreit.com</a>   |
| <b>Contracted rent</b>                                  | The annualised rent adjusting for the inclusion of rent subject to rent-free periods.  |
| <b>Covenant strength</b>                                | The strength of a tenant's financial status and its ability to perform the covenants in the lease.   |
| <b>DTR</b>  | Disclosure Guidance and Transparency Rules, issued by the UKLA.  |
| <b>Earnings Per Share ('EPS')</b>                       | Profit for the period attributable to equity shareholders divided by the weighted average number of Ordinary Shares in issue during the period.  |
| <b>EPC</b>  | Energy Performance Certificate.  |
| <b>EPRA</b>   | European Public Real Estate Association, the industry body representing listed companies in the real estate sector.  |
| <b>EPRA cost ratio (including direct vacancy costs)</b> | The ratio of net overheads and operating expenses against gross rental income (with both amounts excluding ground rents payable). Net overheads and operating expenses relate to all administrative and operating expenses.                    |
| <b>EPRA cost ratio (excluding direct vacancy costs)</b> | The ratio calculated above, but with direct vacancy costs removed from net overheads and operating expenses balance.   |
| <b>EPRA Earnings Per Share</b>                          | Recurring earnings from core operational activities. A key measure of a company's underlying operating results from its property rental business and an indication of the extent to which current dividend payments are supported by earnings. |
| <b>EPRA NAV</b>   | Net Asset Value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business.  |
| <b>EPRA NNNAV</b>                                       | EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation on revaluations.  |
| <b>EPRA Net Initial Yield ('NIY')</b>                   | Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the fair value of the property, increased with (estimated) purchasers' costs.                 |
| <b>EPRA Topped-Up Net Initial Yield</b>                 | This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).  |
| <b>EPRA Vacancy Rate</b>                                | Estimated Market Rental Value ('ERV') of vacant space as a percentage of the ERV of the whole portfolio.   |

# Glossary (continued)

|                                       |  |
|---------------------------------------|--|
| <b>Equivalent Yield</b>               | The internal rate of return of the cash flow from the property, assuming a rise to ERV at the next review or lease expiry. No future growth is allowed for.  |
| <b>Estimated Rental Value ('ERV')</b> | The external valuers' opinion as to the open market rent which, on the date of the valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.   |
| <b>External Valuer</b>                | An independent external valuer of a property. The Company's External Valuer is Knight Frank LLP.   |
| <b>Fair Value</b>                     | The estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where parties had each acted knowledgeably, prudently and without compulsion.   |
| <b>Fair value movement</b>            | An accounting adjustment to change the book value of an asset or liability to its fair value.  |
| <b>FCA</b>                            | The Financial Conduct Authority.   |
| <b>FRI lease</b>                      | A lease which imposes full repairing and insuring obligations on the tenant, relieving the landlord from all liability for the cost of insurance and repairs.  |
| <b>Gross Asset Value ('GAV')</b>      | The aggregate value of the total assets of the Company as determined in accordance with IFRS.  |
| <b>IASB</b>                           | International Accounting Standards Board.  |
| <b>IFRS</b>                           | International Financial Reporting Standards, as adopted by the European Union.   |
| <b>Investment Manager</b>             | The Company's Investment Manager is AEW UK Investment Management LLP.  |
| <b>IPD</b>                            | Investment Property Databank. An organisation supplying independent market indices and portfolio benchmarks to the property industry.  |
| <b>IPO</b>                            | The admission to trading on the London Stock Exchange's Main Market of the share capital of the Company and admission of Ordinary Shares to the premium listing segment of the Official List on 12 May 2015.   |
| <b>Lease incentives</b>               | Incentives offered to occupiers to enter into a lease. Typically this will be an initial rent-free period, or a cash contribution to fit-out. Under accounting rules the value of the lease incentive is amortised through the Statement of Comprehensive Income on a straight-line basis until the lease expiry.  |
| <b>Lease Surrender</b>                | An agreement whereby the landlord and tenant bring a lease to an end other than by contractual expiry or the exercise of a break option. This will frequently involve the negotiation of a surrender premium by one party to the other.  |
| <b>LIBOR</b>                          | The London Interbank Offered Rate, the interest rate charged by one bank to another for lending money.   |
| <b>Loan to Value ('LTV')</b>          | The value of outstanding loans and borrowings (before adjustments for issue costs) expressed as a percentage of the combined valuation of the property portfolio (as provided by the valuer) and the fair value of other investments.  |
| <b>Net Asset Value ('NAV')</b>        | Net Asset Value is the equity attributable to shareholders calculated under IFRS.  |
| <b>Net Asset Value per share</b>      | Equity shareholders' funds divided by the number of Ordinary Shares in issue.  |
| <b>Net equivalent yield</b>           | Calculated by the Company's External Valuers, equivalent yield is the internal rate of return from an investment property, based on the gross outlays for the purchase of a property (including purchase costs), reflecting reversions to current market rent and items as voids and non-recoverable expenditure but ignoring future changes in capital value. The calculation assumes rent is received annually in arrears. |
| <b>Net initial yield</b>              | The initial net rental income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase.  |
| <b>Net rental income</b>              | Rental income receivable in the period after payment of ground rents and net property outgoings.   |
| <b>Non-PID</b>                        | Non-Property Income Distribution. The dividend received by a shareholder of the Company arising from any source other than profits and gains of the Tax Exempt Business of the Company.  |

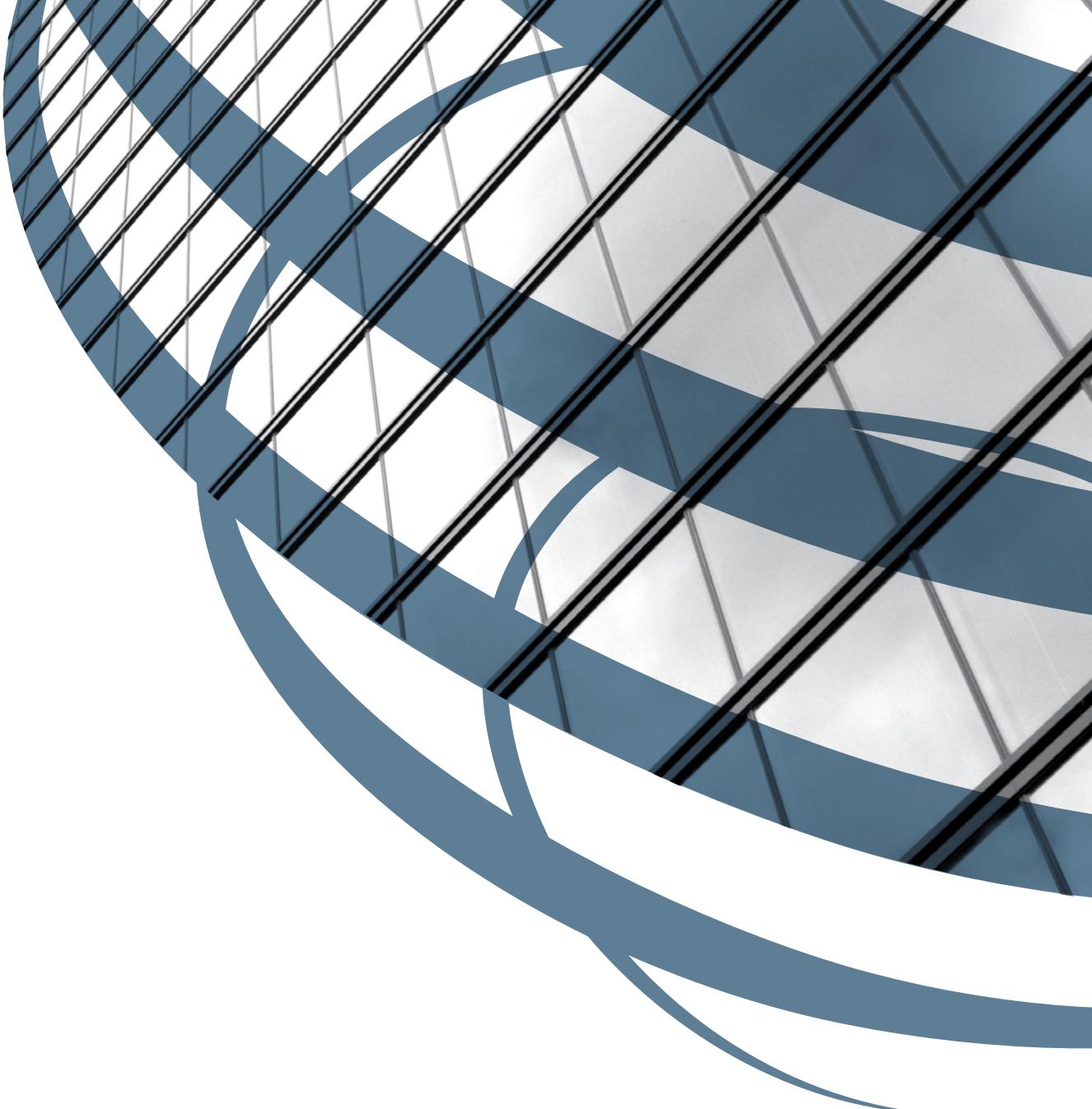
# Glossary (continued)

|  |   |
|--|---|
| <i>Ongoing charges</i>                                 | The ratio of total administration and property operating costs expressed as a percentage of average net asset value throughout the period.  |
| <i>Ordinary Shares</i>                                 | The main type of equity capital issued by conventional Investment Companies. Shareholders are entitled to their share of both income, in the form of dividends paid by the Company, and any capital growth.   |
| <i>Over-rented</i>                                     | Space where the passing rent is above the ERV.  |
| <i>Passing rent</i>                                    | The gross rent, less any ground rent payable under head leases.   |
| <i>PID</i>   | Property Income Distribution. A dividend received by a shareholder of the Company in respect of profits and gains of the tax exempt business of the Company.  |
| <i>Rack-rented</i>                                     | Space where passing rent is the same as the ERV.  |
| <i>REIT</i>  | A Real Estate Investment Trust. A company which complies with Part 12 of the Corporation tax Act 2010. Subject to the continuing relevant UK REIT criteria being met, the profits from the property business of a REIT, arising from both income and capital gains, are exempt from corporation tax.  |
| <i>Reversion</i>                                       | Increase in rent estimated by the Company's External Valuers, where the passing rent is below the ERV.  |
| <i>Reversionary yield</i>                              | The anticipated yield, which the initial yield will rise (or fall) to once the rent reaches the ERV.  |
| <i>Share price</i>                                     | The value of a share at a point in time as quoted on a stock exchange. The Company's Ordinary Shares are quoted on the Main Market of the London Stock Exchange.  |
| <i>Share Price Total Return</i>                        | The percentage change in the share price assuming dividends are reinvested to purchase additional Ordinary Shares.  |
| <i>Total returns</i>                                   | The returns to shareholders calculated on a per share basis by adding dividend paid in the period to the increase or decrease in the Share Price of NAV. The dividends are assumed to have been reinvested in the form of Ordinary Shares or Net Assets.  |
| <i>Under-rented</i>                                    | Space where the passing rent is below the ERV.  |
| <i>UK Corporate Governance Code</i>                    | A code issued by the Financial Reporting Council which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. All companies with a Premium Listing of equity shares in the UK are required under the Listing Rules to report on how they have applied the Code in their annual report and accounts. |
| <i>Voids</i>   | The amount of rent relating to properties which are unoccupied and generating no rental income. Stated as a percentage of ERV.  |
| <i>Weighted Average Unexpired Lease Term ("WAULT")</i> | The average lease term remaining for first break, or expiry, across the portfolio weighted by contracted rental income (including rent-frees).  |
| <i>Yield compression</i>                               | Occurs when the net equivalent yield of a property decreases, measured in basis points.   |

# Notes

# Notes





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