

ANNUAL REPORT & ACCOUNTS

Year ended 31 December 2018

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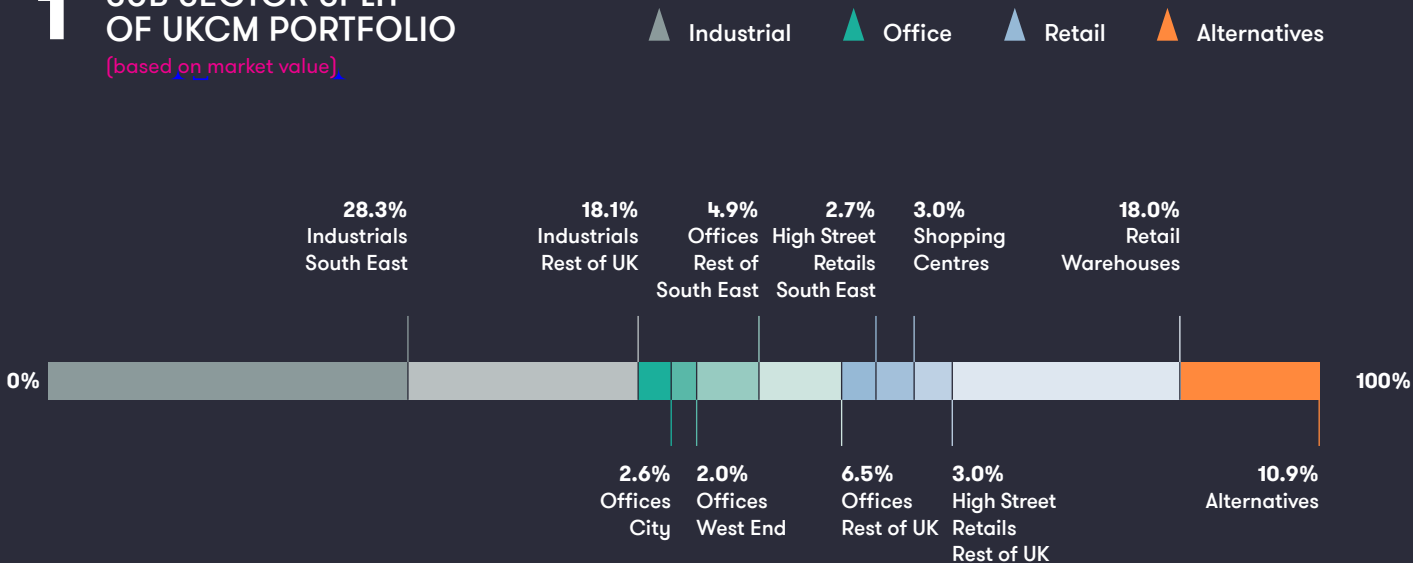
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UKCM PORTFOLIO IN NUMBERS
AS AT 31 DECEMBER 2018

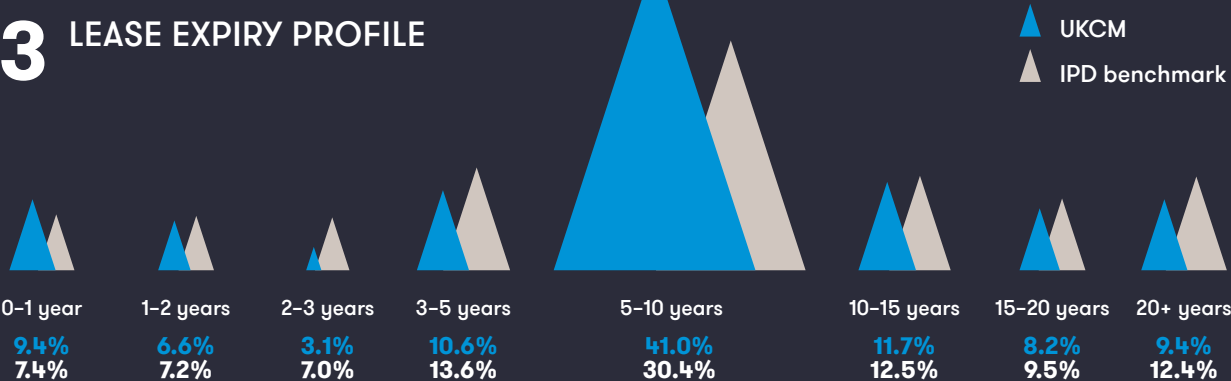
1 SUB SECTOR SPLIT
OF UKCM PORTFOLIO
(based on market value)



2 NUMBER OF PROPERTIES, TENANCIES
AND AVERAGE PROPERTY VALUE

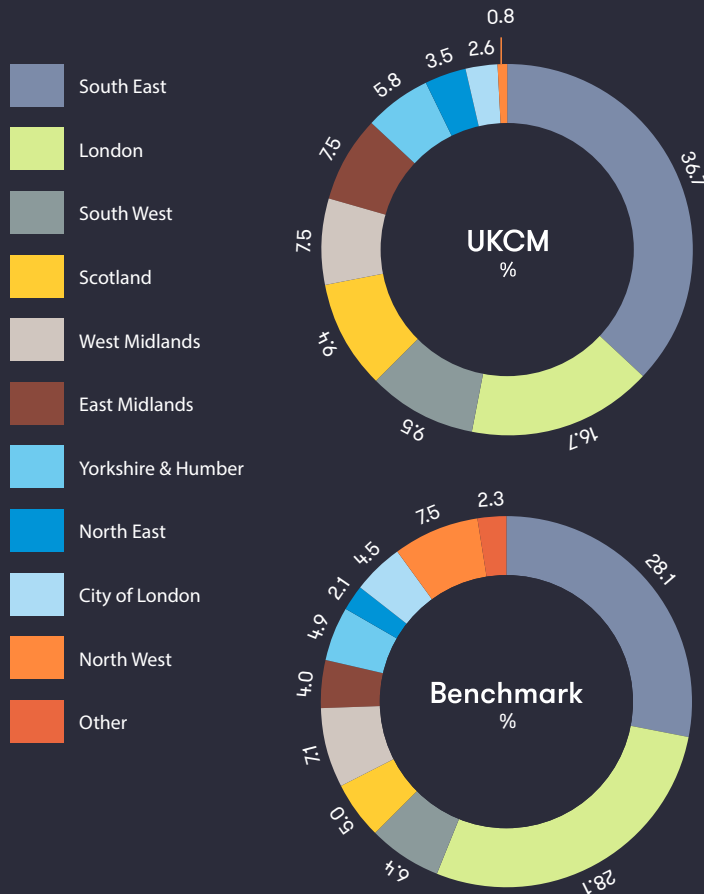


3 LEASE EXPIRY PROFILE



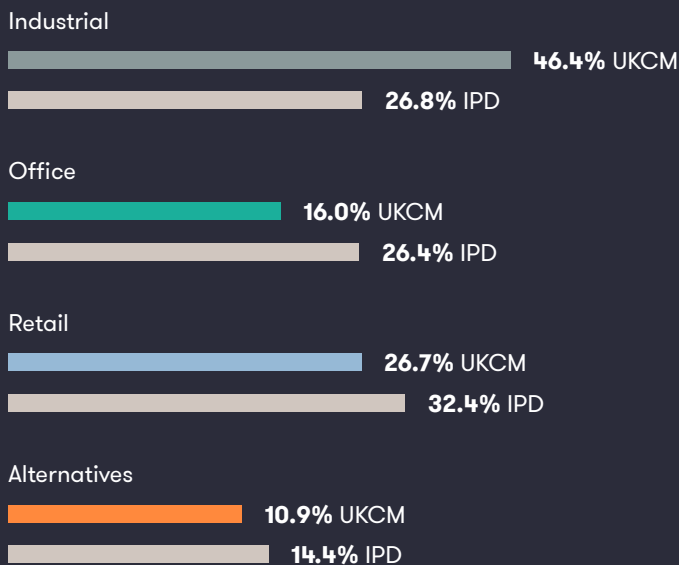
4 GEOGRAPHIC SPLIT vs IPD BENCHMARK

(based on market value)



5 SECTOR SPLIT vs IPD BENCHMARK

(based on market value)



6 TOP 10 TENANTS BY CONTRACTED RENT

34.2% of contracted rent

- #01 **B&Q PLC**
Retail Warehouse
5.9% of contracted rent
IPD risk band: Negligible
- #02 **PUBLIC SECTOR**
Office
4.9% of contracted rent
IPD risk band: Negligible
- #03 **OCADO RETAIL LIMITED**
Industrial
4.5% of contracted rent
IPD risk band: Negligible
- #04 **MARKS AND SPENCER P.L.C.**
Industrial
3.5% of contracted rent
IPD risk band: Negligible
- #05 **DSG RETAIL LIMITED**
Retail Warehouse
3.0% of contracted rent
IPD risk band: Low
- #06 **ODEON CINEMAS LIMITED**
Alternatives
2.8% of contracted rent
IPD risk band: Negligible
- #07 **TOTAL E&P UK LIMITED**
Industrial
2.7% of contracted rent
IPD risk band: Negligible
- #08 **DALATA PLC**
Alternatives
2.4% of contracted rent
IPD risk band: Low
- #09 **CINEWORLD ESTATES LIMITED**
Alternatives
2.3% of contracted rent
IPD risk band: Negligible
- #10 **PALLETFORCE LIMITED**
Industrial
2.2% of contracted rent
IPD risk band: Negligible

COMPANY SUMMARY

An overview

The Company

UK Commercial Property REIT Limited (“the Company” – formerly known as UK Commercial Property Trust Limited) is an authorised closed ended, Guernsey registered investment company which was launched on 22 September 2006. On 1 July 2018 the Company became tax resident in the United Kingdom, entered the real estate investment trust (“REIT”) regime and changed its name to UK Commercial Property REIT Limited (see below for further information on a REIT).

The Company has a single class of share in issue, which is premium listed on the official list and traded on the London Stock Exchange.

The Company has an indefinite life, subject to periodic continuation votes, and was incorporated on 24 August 2006. The next periodic continuation vote is scheduled for the first quarter of 2020.

The Group

The Group consists of the Company and its subsidiaries. The Company is the ultimate controlling party. Details of all subsidiaries are set out on [page 82](#) of the report.

The Group invests in a diversified portfolio of predominantly prime, institutional quality properties across the industrial, office, retail and alternative sectors.

Through its Investment Manager, the Group also works closely with its tenant to understand their needs and actively implements asset management initiatives which will enhance the tenants’ experience and add value to the portfolio.

REIT

A Real Estate Investment Trust (REIT) is a specialist and tax-efficient collective investment vehicle consisting primarily of properties with rental income. REITs are a well established and globally recognised structure for real estate investments. They provide investors with the opportunity to invest in a diverse portfolio of properties across different sectors for less capital and in a more liquid form compared to direct property investment.

The UK REIT tax regime was first introduced and approved by HMRC in 2007. A UK REIT is a UK listed company or group of companies, that own and manage a portfolio of properties to generate rental income and capital gains for its shareholders. A UK REIT is exempt from UK corporation tax on its rental profits and capital gains derived from its UK property rental activities, providing certain qualifying conditions are met. A key requirement is to distribute a minimum of 90% of its net property rental income to investors within 12 months of each accounting period. These distributions are termed as “property income distributions” (PIDs) and can be supplemented by normal dividends. The effect of this tax treatment is to transfer the tax liability from the REIT to the shareholder, thereby removing the possibility of double taxation, and the end investor receives broadly the same tax treatment as if owning the properties directly.

Objectives

The investment objective of the Company is to provide ordinary shareholders with an attractive level of income together with the potential for capital and income growth from investing in a diversified portfolio of UK commercial properties. The investment policy of the Company is set out on [page 28](#).

Management

From 10 December 2018, Aberdeen Standard Fund Managers Limited became the Investment Manager of the Group, taking over from Standard Life (Corporate Funds) Limited.

Further details of the management contract are provided in note 4 to the Accounts.

ISA Status

The Company’s shares are eligible for ISA investment and are also included in the Aberdeen Standard Investments Investment Trust Share Plan more details of which are provided on [pages 110–111](#).

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your ordinary shares in UK Commercial Property REIT Limited, please forward this document, together with the accompanying documents, immediately to the purchaser or transferee, or to the stockbroker bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.





Strategic Report

FINANCIAL HIGHLIGHTS

As at 31 December 2018



4.5%



NAV TOTAL RETURN

Continued growth in NAV against a background of continued political uncertainty with NAV Total Return of 4.5% (2017: 12.2%).



4.4%



DIVIDEND YIELD

Dividend Yield of 4.4% (2017: 4.2%) as at 31 December 2018. Attractive dividend yield in an environment where interest rates are forecast to stay low.



SHARE PRICE TOTAL RETURN

Share Price Total Return of -2.0% in the year compares favourably to the FTSE All-Share REIT and FTSE All-Share Indices total returns of -12.4% and -9.5% respectively.

UKCM

-2.0%

FTSE All-Share REIT

-12.4%

FTSE All-Share Index

-9.5%

Picton
25.0%

F&C Commercial
Property Trust
21.2%

UKCP REIT
14.6%



NET GEARING

Net gearing of 14.6% (2017: 12.8%) at the year end remains one of the lowest in the Company's peer group and the wider REIT sector. Debt refinancing post year also reduced the cost of the Company's debt and increased the maturity profile.

Dividend cover of

82%

(2017: 93%)

European Public Real
Estate Association
("EPRA") earnings per
share (excluding non
recurring tax items)

3.03p



£95m



AVAILABLE FOR INVESTMENT

£95m available for investment following debt refinancing in February 2019 which increased the quantum of resources available for investment opportunities.



EPRA EARNINGS PER SHARE

EPRA Earnings Per Share of 3.03p (2017: 3.42p) – Equates to dividend cover of 82% in the year but earnings on an upward trajectory at year end due to acquisition of Midlands distribution portfolio in December 2018.

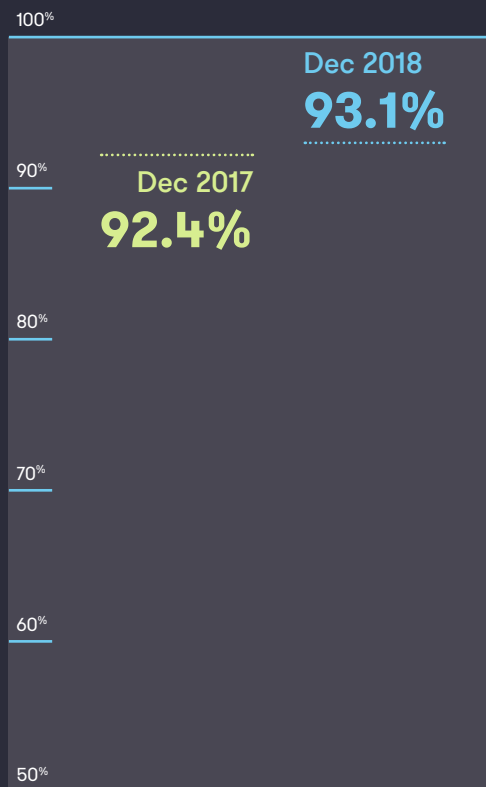
PORTFOLIO HIGHLIGHTS

£1.45bn



PORTFOLIO VALUE

Portfolio Value of £1.45 billion (2017 – £1.40 billion) due to continued capital growth in the portfolio and investment.



UKCM 2018
5.9%

UKCM
3 years
24.0%



IPD 2018
6.7%

IPD
3 years
22.2%



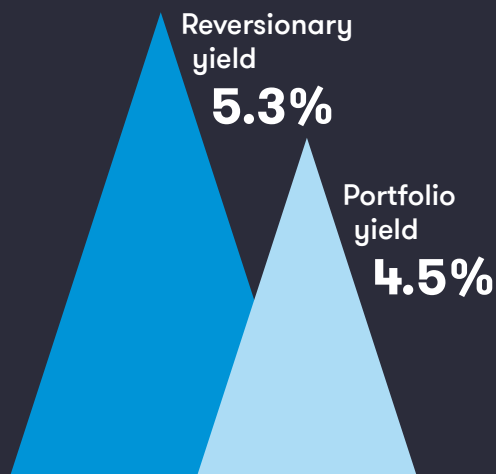
OCCUPANCY RATE

Occupancy rate increased to 93.1% in the year (Dec 2017 – 92.4%) and compares favourably to the benchmark occupancy rate of 92.8%. Over half the remaining vacancy is in well located units in the industrial sector which offer opportunities to improve future returns. Less than 20% of the vacancy is in the retail sector.



PORTFOLIO TOTAL RETURN

Portfolio total return of 5.9% (2017: 12.2%) in the year compared to MSCI IPD benchmark return of 6.7% (2017: 10.7%) as real estate returns continued to prove resilient compared to other asset classes. Over three years the portfolio has outperformed returning 24.0% compared to MSCI IPD return of 22.2%.



PORTFOLIO YIELD

Portfolio has strong reversionary potential with a reversionary yield of 5.3% (2017: 5.6%) compared to the current portfolio yield of 4.5% (2017: 4.5%) highlighting potential for earnings growth over the medium term.



RENT COLLECTION

Rent collection of 99% (2017: 99%) within 21 days underlining strong tenant base that has a weighted average unexpired lease term of 9.4 years (2017: 8.1 years).

PERFORMANCE SUMMARY

	31 December 2018	31 December 2017	% Change
CAPITAL VALUES AND GEARING			
Total assets less current liabilities (excl bank loan & swap) £'000	1,462,982	1,457,262	0.4
Net asset value per share (p)	93.3	92.8	0.5
Ordinary share price (p)	83.2	88.6	(6.1)
Discount to net asset value (%)	(10.8)	(4.5)	n/a
Gearing (%) — Net*	14.6	12.8	n/a
Gearing (%) — Gross**	17.1	17.2	n/a

	1 year % return	3 year % return	5 year % return
TOTAL RETURN			
NAV [†]	4.5	21.7	59.0
Share price [†]	(2.0)	11.3	35.1
MSCI IPD Balanced Monthly and Quarterly Funds Benchmark	6.7	22.2	61.8
FTSE Real Estate Investment Trusts Index	(12.4)	(8.6)	25.1
FTSE All-Share Index	(9.5)	19.5	22.1

	31 December 2018	31 December 2017
EARNINGS AND DIVIDENDS		
EPRA Earnings per share (p)	3.03	3.42
IFRS Earnings per share (p)	4.08	10.12
Dividends declared per ordinary share (p)	3.68	3.68
Dividend yield (%)	4.4	4.2
IPD benchmark yield (%)	4.7	4.8
FTSE Real Estate Investment Trusts Index Yield (%)	4.7	3.4
FTSE All-Share Index yield (%)	4.5	3.6

ONGOING CHARGES AND VACANCY RATE***		
As a % of average net assets including direct property costs	1.5	1.5
As a % of average net assets including direct property costs	0.9	0.9
Vacancy rate (%)	6.9	7.6

* Calculated as net borrowings (gross borrowings less cash, excl swap valuation) divided by total assets less current liabilities (excl cash, borrowing and swaps). See alternative performance measures on [pages 115–117](#) for further details

** Calculated as gross borrowings (excl swap valuation) divided by total assets less current liabilities (excl borrowing and swaps)

*** These Alternative Performance Measures (APMs) are defined in the Glossary on [pages 115 to 117](#)

† Assumes re-investment of dividends excluding transaction costs.

Sources: Aberdeen Standard [Investments](#), MSCI Investment Property Databank (“IPD”)

Chair's Statement

CHAIR'S STATEMENT



Andrew Wilson
Chair

In what has been a pivotal period I am pleased to report that your Company has continued to make good progress at both a corporate and portfolio level. In 2018 and into 2019 we completed four important initiatives, all of which were undertaken to strengthen the business and are expected to enhance future returns for shareholders.

- ▲ The first of these was our conversion to a REIT, safeguarding the Company from future changes in legislation that would have negatively impacted returns. Having also changed our name to UK Commercial Property REIT Limited ("UKCP") to reflect this change, we are now one of the largest diversified REITs in the UK.
- ▲ In December, we completed the Company's largest acquisition to date through the purchase of an earnings enhancing portfolio of distribution units in the Midlands for £85.4 million. Throughout the year we concluded £329 million of sales and acquisitions as we continued to rotate our portfolio.
- ▲ In February 2019, we refinanced our debt facilities at a reduced cost, extending the maturity dates, increasing both the flexibility and quantum of debt available.
- ▲ Finally, at the time of our year end NAV statement in February, we announced that we would seek shareholder approval to expand the Company's investment policy to provide the Investment Manager with the flexibility to invest across the full spectrum of commercial property including property assets known as 'alternatives'.

Over the course of 2018, our portfolio of 43 investments, which is now valued at £1.45 billion, delivered a total return of 5.9% compared to the Company's benchmark total return of 6.7%. Performance was driven mainly by an overweight position to the strongly performing industrial sector which accounted for 46% of the portfolio by capital value at the year end and delivered a total return of 16.0% in 2018. The strong performance of our industrial assets was partially offset by the ongoing challenges faced by the retail sector and one off transaction costs in Q4 2018.

Sentiment turned increasingly negative over the year stoked by a number of well-known company voluntary administrations and the general trend towards online retail. Distribution warehousing has been reaping the benefit of this adjustment, evidenced most recently for your Company when it announced the pre-letting of its entire 180,000 sq ft industrial unit in Wembley, North London, ahead of the current occupier moving out in March 2019 upon lease expiry. The new 10-year index linked lease was signed with an international business that is due to take occupation in October after a full refurbishment of the building.

“Overall, I believe that UK Commercial Property REIT, one of the UK’s largest diversified REITs, with a continued strategy of producing income led total returns, is very well placed to continue to deliver value for its shareholders.”

Portfolio Activity

2018 was also a busy year in the continued repositioning of the UKCM portfolio in reducing its retail weighting and increasing industrial exposure. A key part of this has been realising gains on assets where there is limited future return prospects and re-investing proceeds into higher yielding assets.

The Company sold £173 million of property in 2018 including the disposal of the Company’s retail holdings in Shrewsbury for £49 million early in the year. This was followed by the sale of a High Street retail asset in Exeter for £23.5 million. As a consequence, the Company’s retail exposure reduced to 27% of the capital value of the portfolio. Profits were also crystallised in the office portfolio through the sale of 15 Great Marlborough Street, in London’s West End and 1 Rivergate in Bristol for a combined £100 million, both being lower yielding assets.

We also acquired over £160 million of properties during the year, predominantly in the industrial sector. In June, the Company purchased for around £51 million the White Building in Reading, a multi let office investment that is well set to benefit from the opening of Crossrail. This was followed by two acquisitions in the industrial sector: the M8 industrial estate near Glasgow for £24.6 million, yielding 5.9%; and, just prior to the year end, a portfolio of five Midlands distribution units for £85.4 million. The net initial yield of this latter purchase was 5.5% with an unexpired lease term of 7.4 years to expiry and, as well as being reversionary in nature, offers attractive asset management opportunities.

Overall the transactions undertaken in the year have reduced potential portfolio risk by removing assets where future returns were limited; most notably in the retail sector. The proceeds have been re-invested into higher yielding assets that offer greater security of income in favoured sectors and locations.

Additionally, we invested some £41 million of capital expenditure into maintaining or enhancing the value of the retained assets in our portfolio.

The average lease length increased in 2018 and the void rate reduced while the passing rental income at the year-end was £69 million (contracted rental income £71.9 million after expiry of rent free periods) with the estimated rental value of the portfolio being £81.4 million.

Corporate Performance

The Company achieved a net asset value (“NAV”) total return of 4.5% in 2018, accomplished with low net gearing of 14.6%. The share price total return for the year was lower at -2.0% as the discount widened in the year to 10.8% at the year end. However, the share price has risen in 2019 with the discount at 15 April being reduced to 3.7%. ~~Despite this, both~~ the NAV and share price total returns exceeded those of the FTSE-All Share REIT Index (-12.4%) and FTSE All-Share Index (-9.5%) over the same period.

Over the longer term the Company has produced stable performance with NAV and share price total returns of 91.9% and 69.0%, respectively, since inception compared with a return on the FTSE All-Share REIT Index of -16.3%.

The Company is now also a member of the Aberdeen Standard Investments Trust Share Plan, Children’s Plan and ISA which should increase the Company’s visibility amongst potential new retail shareholders.

Financial Resources

The Company continues to be in a financially strong position, having been further bolstered by the debt refinancing undertaken in February 2019. At the year end the Company’s net gearing was 14.6% at a blended rate of interest of 2.89% per annum with a revolving credit facility (“RCF”) of £50 million still available for investment. The debt refinancing enabled the Company to increase the amount of the variable rate RCF available by £100 million. This increased flexibility of the overall debt profile and allows the Company to move quickly to take advantage of attractive opportunities that may well occur in the present uncertain economic environment. The business also benefited from the low level of gilt rates taking out £100 million of additional 12 year fixed interest debt using the proceeds to repay partially the £150 million Barclays term loan which was due to mature in March 2020 with £50 million of the RCF being used to repay the remaining amount. Overall, the debt refinancing has resulted in the Company having £95 million of RCF available for investment for the next 5 years and a reduced blended rate of interest on its drawn debt of 2.79% per annum with a weighted maturity on its fixed interest rate debt of 10 years. Importantly, the Company remains one of the lowest geared companies in the REIT sector, a sensible defensive strategy given the current economic situation and the forecast moderation of capital returns in the real estate sector.

▲ **4.5%**

Robust NAV total return for the year of 4.5%

▲ **4.4%**

Attractive dividend yield of 4.4% as at 31 December 2018

▲ **£1.45bn**

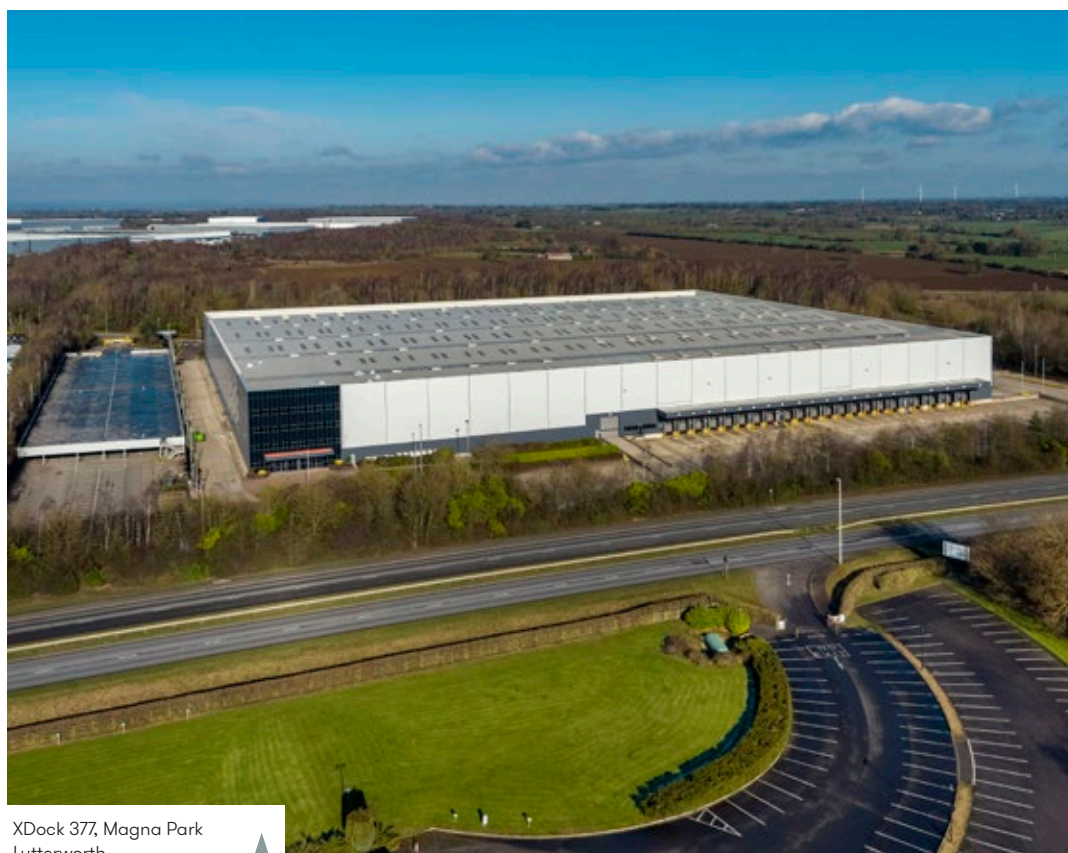
Portfolio now valued at £1.45bn (2017: £1.40bn)

CHAIR'S STATEMENT

Continued



Dolphin Estate
Sunbury-on-Thames



XDock 377, Magna Park
Lutterworth

Dividends

The Company declared and paid dividends totalling 3.68p in 2018. This equated to a yield on the year-end share price of 4.4%. In an environment where interest rates are forecast to stay lower for longer, this is a healthy return underpinned by a strong tenant base that pays 99% of its rent within 21 days and a portfolio with an increased weighted average lease length of 9.4 years and 14% of its income in fixed or inflation linked leases.

One of the key objectives of the Board is earnings growth to underpin and drive future dividend policy. The acquisition of the Midlands distribution portfolio towards the year end will add £5 million to the annual rent roll after rent free periods expire. Rental income should also grow as a result of the lettings completed in Wembley, North London and Radlett in Hertfordshire in the first quarter of 2019, and the fact that over half the Company's voids are in the industrial sector at strong locations, coupled with the reversionary nature of the portfolio.

The previously announced reduction in the Investment Managers fee, and the absence of a number of non-recurring costs in relation to the REIT conversion, as incurred in 2018, should combine to increase both our EPRA earnings per share (3.03p in 2018) and dividend cover towards 100% in the medium term.

Investment Policy

On 14 February 2019, the Company announced its intention to amend its investment policy. This modernisation of the policy, which was approved by shareholders at a General Meeting on 18 April 2019, provides the Investment Manager with the flexibility to invest across a wider spectrum of commercial property which encompasses what have been termed alternative property assets including healthcare, student housing, hotels, car parks, pubs, petroleum and automotive and the commercially-managed private rental residential sector. Whilst there are no immediate plans to invest in these assets, the usual research and due diligence will be undertaken should suitable opportunities arise.

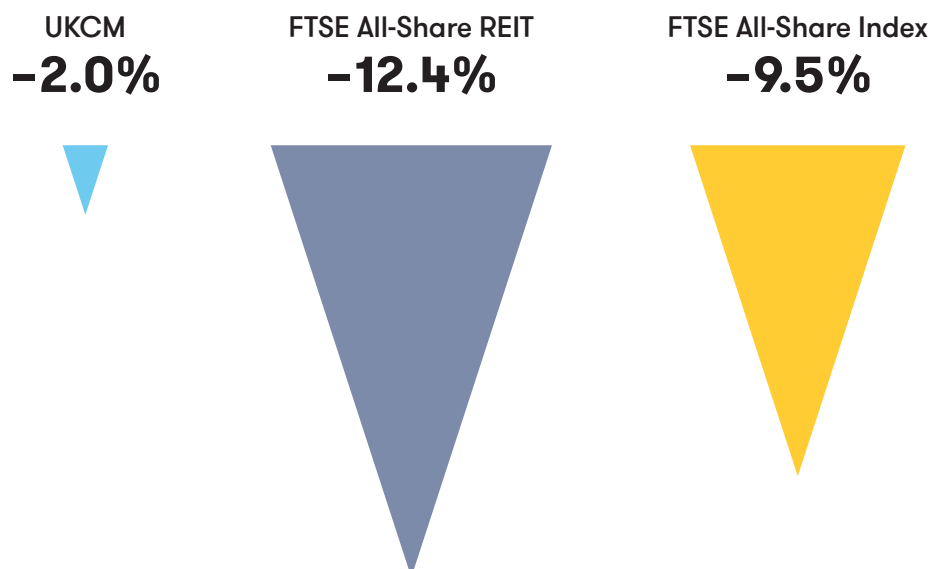
Environmental and Social Governance ("ESG")

I would also highlight the positive ESG work that is being undertaken by the Investment Manager in the portfolio. A particular highlight was the award of a Green Star ranking from the Global Real Estate Sustainability Benchmark 2018, with the Company improving its score by 9% compared with 2017 and receiving a European Sector Leader award as the top performer in its peer group.

RENT COLLECTION



SHARE PRICE TOTAL RETURN



Board

As reported in the 2016 Annual report, the Board's succession plan resulted in Mr John Robertson retiring in March 2018 and Ms Margaret Littlejohns and Mr Robert Fowlds being appointed in January and April, respectively. As previously announced, my intention was to step down from the Board at the AGM in 2019. However, in order to ensure a smooth handover of responsibilities, I will retire from the Board at the end of 2019. I am pleased to announce that my successor will be Mr Ken McCullagh, the current Audit Committee Chair and Senior Independent Director who has served on the board for six years, thereby providing valuable continuity. Mr McCullagh's knowledge of real estate coupled with his financial expertise makes him an ideal candidate to lead your company forward.

Mr Michael Ayre, a Certified Accountant, will replace Mr McCullagh as Audit Committee Chair. The Board, through its Nominations Committee, intends to appoint a further UK based Director during the course of this year. These changes have and will continue to refresh the Board but without a sudden loss of invaluable knowledge and collective experience.

Outlook

The ongoing Brexit debate and our future relationship with the European Union has caused a period of political uncertainty which has not been seen for a generation. Irrespective of the outcome, this lack of clarity has impacted the economy with both business investment and consumer spending muted. Companies triggering Brexit contingency plans may well result in parts of their businesses moving outside the UK. GDP growth in 2018 was a below-trend at 1.4%, with our Investment Manager forecasting the same level for 2019. This compares to an average forecast of 2.0% across the developed economies.

In this environment, real estate, and UKCM in particular, have a lot to offer. While poorly located retail will continue to struggle, the underlying fundamentals of the UK commercial property market remain compelling, particularly in the industrial sector. Compared to previous cycles, commercial real estate is far more prudently geared, has high occupancy levels and limited supply risk due to low levels of development. A further attraction is the ongoing and significant differential between property yields and gilts in an environment where interest rates are forecast to remain lower for longer.

Against this backdrop, UKCM is very well positioned. The portfolio is of institutional quality and geared towards the industrial sector, with a declining

proportion in retail and now just 3% in shopping centres. In addition, over half of the Company's low void level is in the industrial sector which we see as an opportunity to deliver increases in capital value and income through successful asset management initiatives, as demonstrated by the recent letting at Wembley, North London. The Company has also enhanced its financial position with the recent debt refinancing which has delivered additional, more flexible resources for investment while increasing the maturity profile, reducing the cost of our debt and allowing us to remain one of the lowest geared companies in the REIT sector. Finally, with income forecast to be the main driver of property performance in the next phase of the property cycle, UKCM generates a secure and sustainable dividend yield supported by a strong tenant base with an income profile that is reversionary in nature.

Overall, I believe that UK Commercial Property REIT, one of the UK's largest diversified REITs, with a continued strategy of producing income led total returns, is very well placed to continue to deliver value for its shareholders.

Andrew Wilson
Chair of UKCM
25 April 2019

**With income forecast t
property performance
the property cycle, UK
and sustainable divid
a strong tenant base w
that is reversionary in**

o be the main driver of
in the next phase of
CM generates a secure
end yield supported by
ith an income profile
nature.

INVESTMENT MANAGER REVIEW

Market Review

2018 UK economic growth was fairly uneven. After a weak, weather-affected start to the year, third quarter growth was well above trend at 0.6%, however this appears to have been a temporary spike rather than a decisive strengthening of the economy with indicators in the fourth quarter turning down sharply.

The ongoing uncertainty surrounding Brexit negotiations appears to be restraining business investment and household spending. With trend growth estimated to be lower, the output gap largely closed, and a relatively weak global backdrop, it is hard to see a substantial acceleration in economic growth, which slowed to just 0.2% increase to GDP in the final quarter.

The real estate market has largely followed suit with returns slowing as each quarter of 2018 passed to reach only 6% for the calendar year, with no capital growth in the second half of the year. However the average masks major differences at the sector level. While industrial real estate had another strong year and delivered returns of 16.4%, retail's return for the year was negative at -0.5%, according to the MSCI

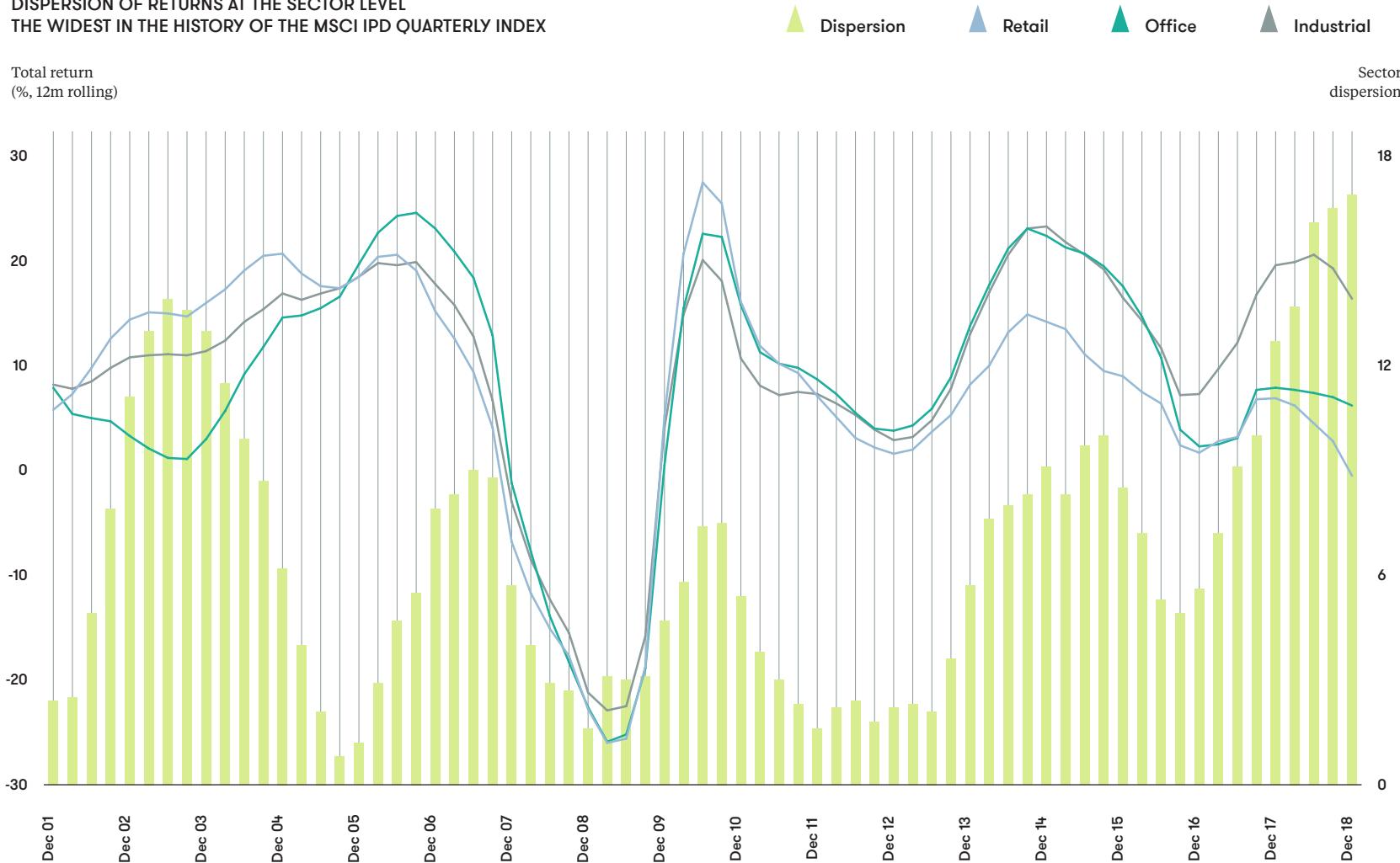
IPD Quarterly Index. As shown in the chart below, this represented the largest spread of returns across the three traditional commercial sectors in any 12-month rolling period since Index began in 2000. The FTSE UK REIT index deteriorated significantly in the second half of the year to record a -12.8% total return in 2018. This was weaker than the wider stock market, where the FTSE 100 and the FTSE All-Share returned -8.7% and -9.5% respectively. The hierarchy of preferred real estate sectors remains largely unchanged with industrials and income-focussed stocks remaining the top picks, and wide discounts for the major retail specialists.

Occupational markets continue to behave quite differently across sectors, with structural forces being the key drivers. The familiar pattern of falling retail rents, modest upticks in office rents and robust growth in industrials is little changed. However, the risk of more serious declines in the retail sector is affecting investor sentiment. The structural challenges facing the retail sector are now beginning to be reflected in MSCI IPD data with the majority of retail experiencing declining rental values. With few retailers expanding, aside from the value operators, this rental trend is expected to continue through 2019.

The industrial sector continues to be the stand-out performer in the UK real estate market, although MSCI IPD data suggests that rental growth is beginning to moderate. However, with vacancy rates remaining exceptionally low and interest in available industrial space healthy, the necessary drivers are still in place to support further rental growth for the sector.

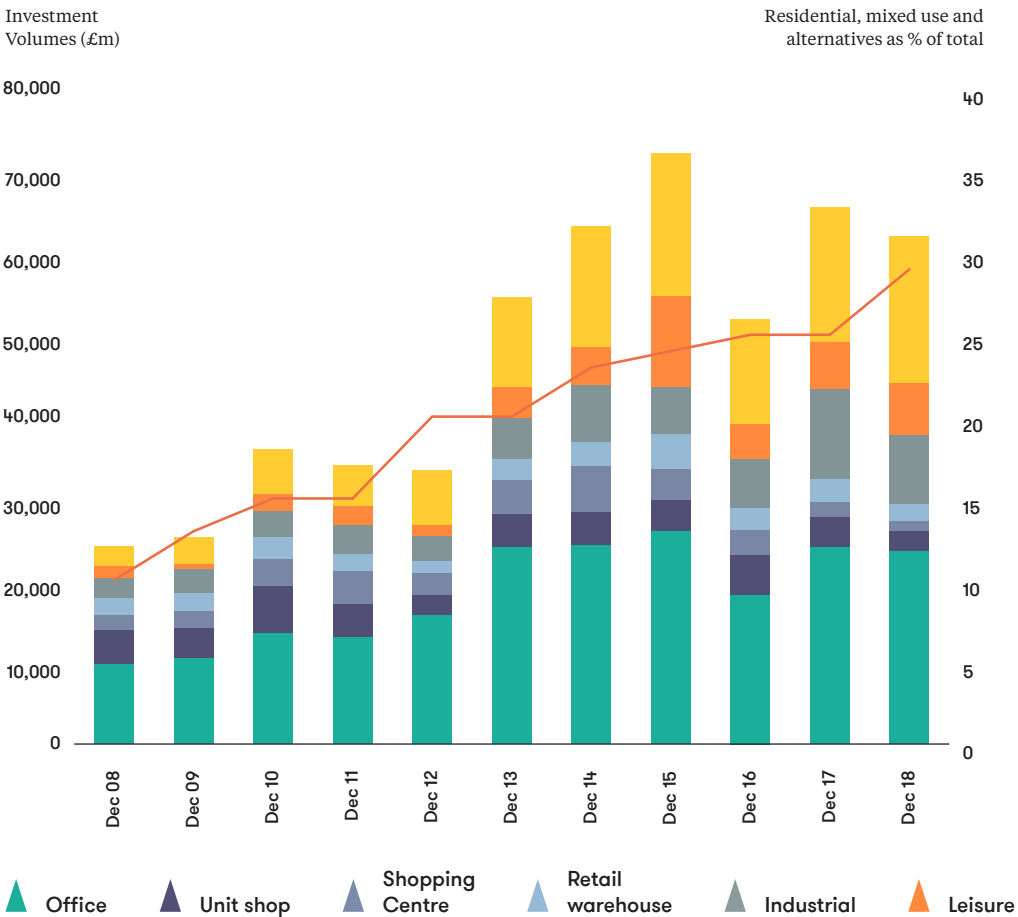
At £62.1 billion, according to Property Data, UK real estate investment volumes in 2018 were only down 5% on 2017, itself a very strong year, and substantially more than 2016's total of £52 billion. This high level of activity came despite the uncertainty facing the market and increasing caution and selectivity among investors towards the end of the year. Notably, and as illustrated by the chart below, 2018 saw the highest ever volume of transactions in the alternative space, at nearly 30% of all deals by value. This sector is fast becoming mainstream and represents the property types falling outside the traditional 'Retail', 'Office' or 'Industrial' definitions. Meanwhile, retail volumes were less than 10% of the total and, the £1.3 billion of shopping centre transactions was the lowest annual sum since Property Data's records began in 2000.

DISPERSION OF RETURNS AT THE SECTOR LEVEL THE WIDEST IN THE HISTORY OF THE MSCI IPD QUARTERLY INDEX



Source: MSCI IPD, Aberdeen Standard Investments, Feb 19

RESIDENTIAL, MIXED USE AND OTHER ALTERNATIVES
REPRESENT A GROWING SHARE OF INVESTMENT VOLUMES



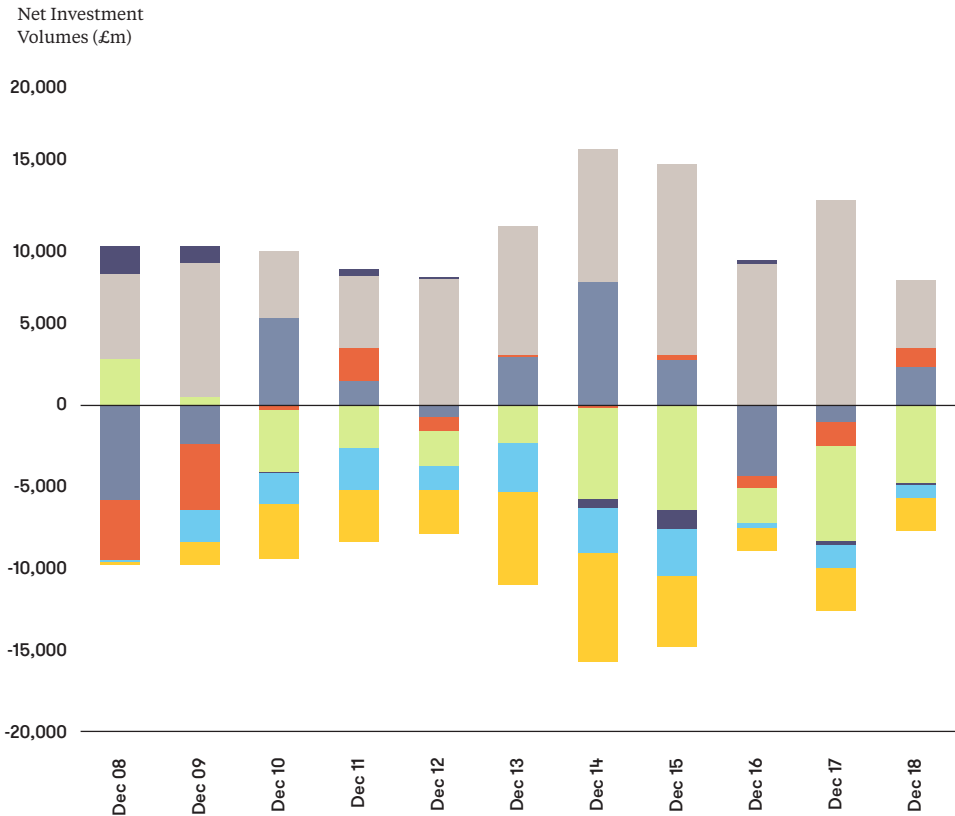
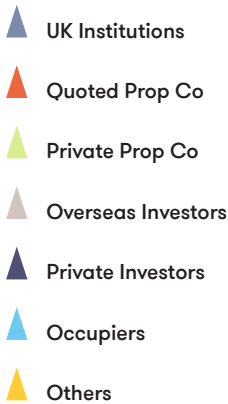
Source: Property Data and Aberdeen Standard Investments

Will Fulton UKCM Fund Manager



In contrast with the net disinvestment of the previous two years, UK institutions were net investors to the tune of £2.3 billion in 2018. This took up some of the slack from a notable drop in net investment by overseas investors from £12.6 billion in 2017 to just £4.2 billion in 2018, which was the second lowest figure since 2006 but remains significant with 44% of buyers being overseas. This was driven by nearly £6 billion of net disinvestment by US investors and a slowdown in investment from the Far East. It is likely that Brexit concerns played a part in this trend but the stronger economy and higher yields in the US may also have been a factor. Furthermore, some very large disposals, such as Goldman Sachs' sale and leaseback of its new European headquarters in London, skewed the figures somewhat.

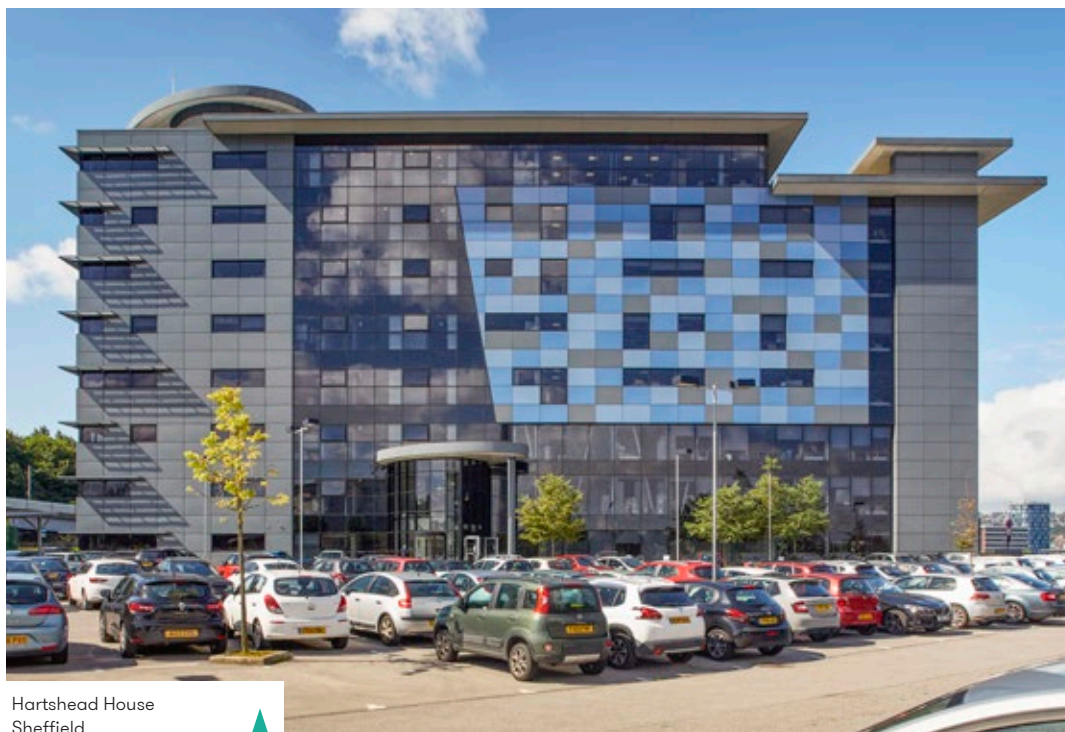
NET INVESTMENT BY OVERSEAS INVESTORS
SLOWED NOTABLY IN 2018



Source: Property Data, Feb 19

INVESTMENT MANAGER REVIEW

Continued



Hartshead House
Sheffield

16.0%

Industrial Total
return

Review by Sector

Retail — Structural change bites

According to MSCI IPD, retail performance lurched into negative territory in 2018, which is the first time since 2008 that a sector has delivered a negative total return in the calendar year. Investor sentiment in the sector has deteriorated as has liquidity. With the share prices of intu and Hammerson falling by 55% and 40% respectively in 2018, the listed market has led the way in reflecting the structural challenges in the sector. The outlook for retail tenants has become more challenging as time has gone on and this is now weighing on performance, with all forms of retail experiencing declining rental values. With few retailers expanding, aside from the value operators, and further distress and store rationalisation in the sector anticipated, it is expected that this trend will continue through 2019. There are specific concerns around department stores, which are weighing heavily on the value of the shopping centres they anchor. Supermarkets have become the best performing part of the retail market and, with a 6.4% total return, outperformed the wider UK real estate market average in 2018. There are undoubtedly challenges around store count, store sizes, over-renting and more intense competition pushing down margins. However, there remains a strong reliance on physical stores evidenced by online sales growing notably slower compared to non-food retail while long leases, often with indexation, and strong covenants have supported values. While the top-down view of the retail sector is unfavourable, many retail locations continue to perform well for retailers and offer robust income for discerning investors. Forensic stock selection and a focus on active asset management are ever more important for the delivery of performance from this evolving sector.

Office — Brexit and structural change holding London back

For the second successive year, regional offices were the best performing geographical region in the sector, delivering a total return of 8%. London's City and West End / Mid-Town sub-markets produced total returns of 6.9% and 4.6% respectively, while assets in the rest of the South East returned 6.5%. Rental value growth has slowed markedly in Central London, turning negative in the West End in 2018 despite low vacancy rates, even with a reasonable near-term pipeline of speculative construction. Take-up in 2018 was strong, with nearly 18 million square feet let across Central London, according to CoStar. In such conditions, slow growth or even falling rental values are unusual. However, Brexit uncertainty is likely to be contributing to some occupier caution, as well as incentivising landlords to secure lettings rather than push for the highest rent possible. Furthermore, a growing share of take-up is accounted for by flexible office providers, which ultimately adds to rather than absorbs supply, as those operators re-let the space back into the market at higher head count densities, competing with traditional space.

While vacancy is higher in the regions, the recent trend has been much more positive in the 'Big Six' office markets (Birmingham, Bristol, Edinburgh, Glasgow, Leeds and Manchester), with vacancy falling sharply, permitted development rights further reducing supply, very strong net absorption and some modest rental value growth, in addition to higher income returns than in Central London. The investment market continues to support pricing in Central London but remains heavily reliant on overseas investors, who have a different cost of capital and a different universe of investment targets compared with UK investors. But as the year drew to a close there were signs of greater caution, with investors adopting a 'wait and see' approach ahead of the Brexit deadline.

Industrial — Continued rental value growth supporting strong pricing

The industrial sector outperformed the wider market for the seventh successive year in 2018 and by its largest ever margin, delivering a total return more than 10 percentage points greater than all property. Rents grew by 4.6% at the headline sector level and yields moved in to a record low. Rental performance was once again stronger in the South East than the rest of the country, with rents being 30% higher than five years ago, compared with a 14% increase in the rest of the UK. Constrained supply remains the key to this growth, with industrial stock in London shrinking against a backdrop of robust demand created by the growing requirement for 'last mile' logistics space driven by retail sales transitioning to online. Outside of the South East, the market is more in balance and supply has increased in response to the rapid absorption of logistics stock between 2014 and 2017. Whilst vacancy has stabilised in the core distribution markets, the absolute level is low and still supportive of growth. There were signs towards the end of 2018 that investors were becoming more discerning around industrial investment. Interest in the strongest occupational markets remains undimmed but the pricing of some riskier and more compromised assets, in areas with less demand, may be softening.

Alternatives – Income-focused investors abound

Alternative property types are fast becoming conventional and are loosely grouped together as “Other Property” by MSCI IPD. This sector performed marginally ahead of the market average in 2018, continuing a pattern of strong relative performance in weaker return environments. With much of the sample of properties on long leases, often to secure covenants and with guaranteed but usually capped uplifts to income, values in the sector tend to be less volatile than the traditional commercial sectors. This has historically led to relative outperformance when absolute returns are lower and underperformance when absolute returns are higher. However, there are also significant structural drivers at play, such as demographics and technology, working in favour of many of these property types. The proportion of real estate investors prioritising income has increased in recent years, diverting investor interest into areas of the market offering sustainable income through either shorter leases where the fundamentals of the sub-sector are strong, or through long secure income streams.

While MSCI IPD includes leisure property within its “Other Property” sample, some aspects of it, especially the food and beverage elements, are more similar to retail than other alternatives. Given its reliance on consumers’ disposable income and the complementary nature of retail and leisure uses, there are concerns that retail oversupply will dampen leisure growth. Rapid restaurant expansion has absorbed some retail vacancy in recent years but this has largely been fuelled by debt and many locations would appear to be saturated. Increasingly, highly leveraged, low margin operators look vulnerable, intensifying the investor’s focus on covenant strength when investing in buildings with long leases.

Market Outlook

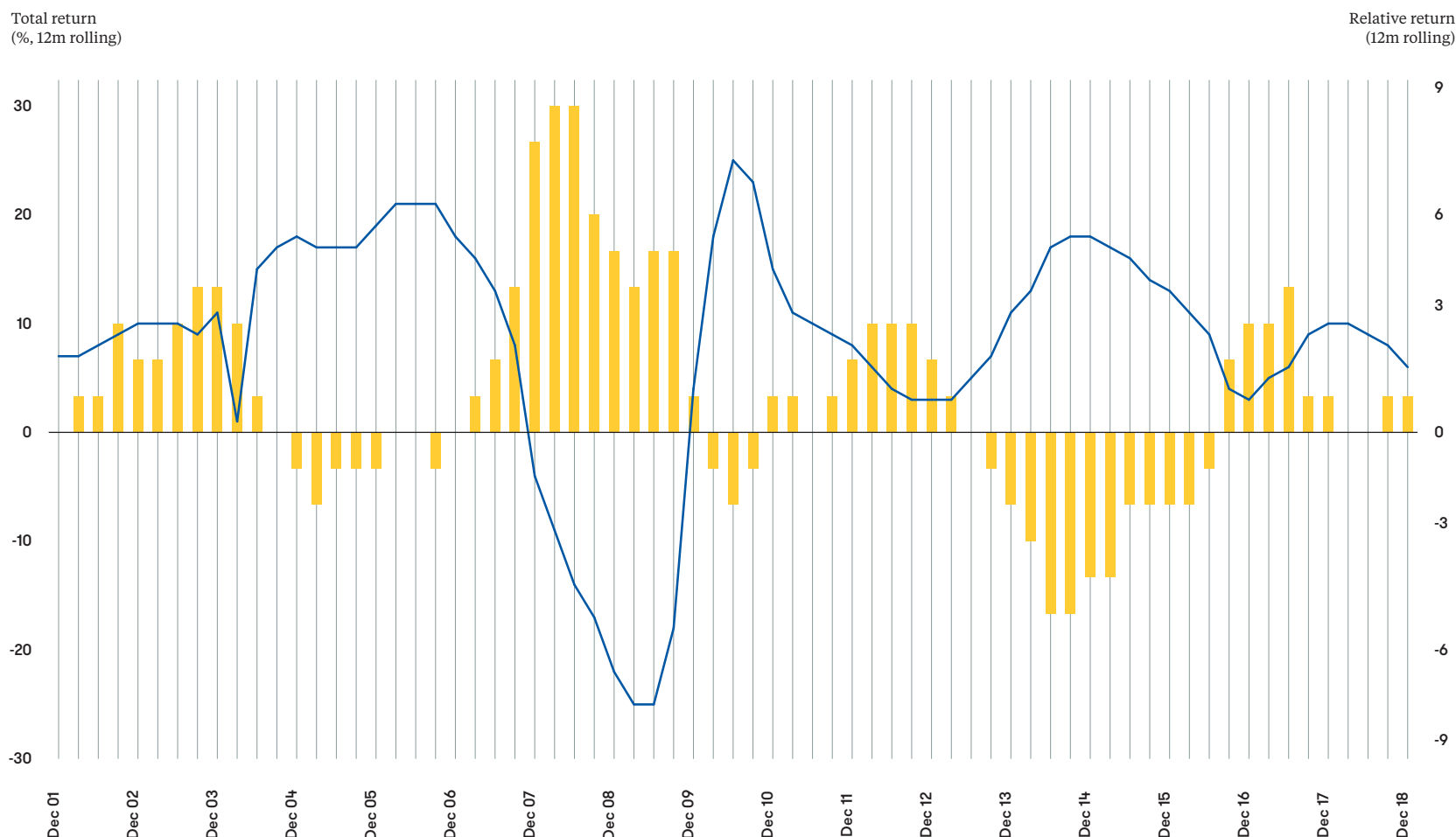
There is significant uncertainty around the near-term political outlook and, by extension, the economic outlook. Sustained uncertainty implies elevated risk and this is impairing liquidity in the UK real estate market. The paucity of buyers is

affecting pricing visibility and that may ultimately lead to a lack of confidence in valuations, with little evidence to base them on. With the risk that this uncertainty is prolonged the short-term outlook for UK real estate carries risk to values. However, absent Brexit risks, fundamentals in the market are generally robust. Low vacancy and the structural support for demand are set to drive industrial rents higher, while office vacancy is low in Central London and has fallen significantly in the regions, which should support occupational markets despite caution on the part of tenants. We expect further declines in value across the retail sector in 2019 and an end to Brexit uncertainty is unlikely to offset the market’s concerns around the sector’s structural issues or nervousness around some key tenants.

After a long period of strong total returns, with 10.6% per annum delivered from September 2009 to September 2018, it is intuitive that value across the market is now hard to unlock. But with prices now falling in many segments, some investors may be insufficiently discerning to accurately price assets relative to their true long-term worth in a turbulent market. While buyers will always be wary of further post-purchase falls in value in such a market, strong performance over the medium to long term can still be achieved, if assets are purchased below their long-term worth. Fundamentally good quality assets can be swept up in negative sentiment and may transact at levels that look favourable in the longer term offering good opportunities for shrewd investors.

OTHER PROPERTY DEMONSTRATES OUTPERFORMANCE IN PERIODS OF WEAKER RETURNS DUE TO ITS STABLE INCOME

- ▲ Other Property relative to All Property
- ▲ All Property



Source: MSCI IPD, Aberdeen Standard Investments

INVESTMENT MANAGER REVIEW

Continued



Maldron Hotel
Newcastle

Portfolio Performance

During the reporting period the Company's property portfolio generated a total return of 5.9% versus 6.7% for its MSCI IPD Balanced Monthly & Quarterly Funds benchmark. The portfolio delivered outperformance for the first nine months of the year but fell behind in Q4 due to one-off transaction costs, the timing of asset management events in the industrial portfolio and valuation adjustments across the retail portfolio. At the year end the portfolio's net initial yield was 4.5% with a reversionary yield of 5.3%, illustrating the strong potential for earnings growth through the leasing of void properties and realisation of latent income, discussed later in the Review.

Over three years the portfolio has outperformed its MSCI IPD benchmark. The table opposite sets out the components of these returns for the year to 31 December 2018 with all valuations undertaken by the Company's valuer, CBRE Ltd.

	Total Return*		Income Return		Capital Growth	
	UKCM %	Benchmark %	UKCM %	Benchmark %	UKCM %	Benchmark %
▲ Industrial	16.0	16.3	3.1	4.4	12.5	11.4
▲ Office	10.8	6.9	4.2	4.0	6.4	2.8
▲ Retail	-7.3	-0.4	5.3	5.3	-12.1	-5.4
▲ Alternatives	4.3	7.8	4.4	4.5	-0.1	3.2
TOTAL	5.9	6.7	4.1	4.6	1.8	2.0

Source: MSCI IPD, Aberdeen Standard Investments

* Multi-period capital growth and income return may not sum perfectly to total return due to the cross product that occurs as income is assumed to be reinvested on a monthly basis and is subject to capital value change.

The portfolio's income profile has continued to be the main driver of total returns, delivering 4.1% compared to a capital return of 1.8% for the 12 month period. This trend, of a reliance on income to be the dominant generator of total returns, is expected to continue. In response, the Company has continued to align the portfolio to the strongly performing industrial sector, increasing weighting to 46% with the purchase of a higher yielding regional portfolio to balance the strong but lower yielding South East portfolio. It has also decreased exposure to the retail sector, which carries the greatest level of income risk, to 27%. This strategic restructuring, combined with a high occupancy rate of 93% and attractive asset management opportunities, places the Company in a good position to deliver a sustainable income return under the prevailing market conditions.

Industrial

The industrial portfolio, which now represents just under half of the Company's holdings by capital value, has delivered a total return for the year of 16.0% against the benchmark return of 16.3%. This strong performance has been driven by the completion of significant leasing activity at Ventura Park, Radlett, Newton's Court, Dartford and The Dolphin Estate, Sunbury-on-Thames. These properties represent the top three performing assets in the portfolio over the year, each delivering returns in excess of 20%. Sector level performance has temporarily been impacted by two assets: XDock 377, Magna Park, Lutterworth and Wembley180, London. XDock 377 is a distribution warehouse, located in the logistics 'Golden Triangle' of the Midlands in close proximity to the M1 and M6 Motorways, which has recently been refurbished and is currently the Company's largest vacant property, representing just under half of the portfolio's 6.9% vacancy position. This prime property represents an excellent asset management opportunity to capture the rental growth being delivered in the sector and, upon letting, is forecast to generate a boost to capital performance and a robust income profile. Wembley180 is a prime London distribution warehouse single let to M&S on a lease which expired in March 2019. The asset's short income profile suppressed performance during the year. However, during the first quarter of 2019 the property has been pre-let to an international occupier on a 10-year index-linked lease, subject to a comprehensive refurbishment. This is due to be completed in October 2019 and is anticipated to deliver significant value together with strong income.

Office

The Company's office portfolio has performed strongly during the course of the year, delivering a total return of 10.8% compared to the benchmark return of 6.9%. This outperformance has been driven by the profitable sales of 1 Rivergate, Bristol and 15 Great Marlborough Street, London, together with the completion of lettings ahead of estimated rental values at Eldon House, London and Central Square, Newcastle. During the year the Company purchased the White Building in Reading, which

provides robust income and good asset management opportunities to take advantage of the attractive local market dynamics with the forthcoming delivery of the Elizabeth Line planned for autumn 2019. The Company now only holds two Central London office buildings: Craven House in the West End and Eldon House in the City. Combined, these assets represent just under 5% of the portfolio by capital value, placing the Company in a strong, defensive position towards the uncertain risks presented by Brexit.

Retail

The Company has sold two retail assets during the year: three shopping centres assets in Shrewsbury, treated as one sale, and 16–20 High Street Exeter, reducing the exposure to the retail sector to just 27% by capital value. The retail portfolio delivered a total return of –7.3% compared to –0.4% for its benchmark. This performance has been driven by valuation adjustments in response to established headwinds in the sector. Two assets were particularly impacted: the Company's one remaining 'shopping centre' in Swindon and St George's Retail Park, Leicester, one of the Company's smallest retail parks, which was impacted disproportionately by CVA (Company Voluntary Arrangement) activity over the year. However, with the benefit of a focused asset management agenda, the Company has completed significant leasing activity at St George's Retail Park, Leicester, Kew Retail Park, Richmond and The Parade, Swindon, resulting in a high occupancy level of 96% across the Company's retail portfolio at the year end as discussed in more detail below.

Alternatives

The Company's leisure assets, which collectively represent 11% of the portfolio by capital value, delivered a total return of 4.3% compared to the benchmark return of 7.8%. The Company's performance has been impacted by a weakening in the casual dining sector with two CVAs at Regent Circus, Swindon and two small vacancies at The Rotunda in Kingston upon Thames. Shortly before the year end the Company's forward funding of the Maldron Hotel in Newcastle was completed with the hotel element now fully income producing. This provides an attractive 35 year index linked income which further bolsters the portfolio's income profile.

Investment Activity – Delivering on Strategy

As you will read below, we have had an active year manoeuvring the portfolio in line with our strategy to position for an attractive and, we anticipate, growing level of income together with the potential for capital growth. This has taken the form of £329 million worth of investment transactions – selling retail and low yielding peak-cycle assets, and buying higher yielding, largely industrial, stock where we see further potential. We have also invested £41 million into improving property we already own the fruits of which we expect to benefit from during 2019 and beyond.

Sales

One of our key objectives since 2015 has been to reduce retail exposure. We continued this at the start of the year in January when we completed on the strategic disposal of the Charles Darwin, Pride Hill and Riverside shopping centres in Shrewsbury to Shropshire Council for approximately £51 million, ahead of the 2017 year-end valuation, leaving us just one relatively small shopping centre. In the final quarter we also completed the sale of a retail asset at 16–20 High Street, Exeter, to a UK pension fund for £23.5 million; let to H&M and Barclays Bank the sale reflected a net initial yield of 4.75%.

During the summer, having completed our asset management plan to extend the occupational lease, we sold 1 Rivergate, a single let office building on Temple Quay, Bristol, to a pension fund for a net price of £26.6 million (net after a rental top up), which was ahead of the asset's latest valuation.

In the final quarter, we completed on our largest sale of the year at 15 Great Marlborough Street, Soho, London, in an off market transaction to a major UK Insurance Company for £73.2 million. This met our twin goal of strong pricing and risk mitigation. We sold ahead of valuation capturing what we believe to be peak London office pricing, represented by a very low yield, and removed the risk of our tenant, Sony, exercising an option to break the lease and so stop paying what was a significant rent for the Company in November 2019.

Purchases

During the first half of the year we completed the acquisition of The White Building, Reading, for approximately £51 million, based upon a topped-up net initial yield of 5.75%. This multi-let office recently emerged from a £16 million refurbishment by the vendor and is proving very popular amongst tenants. It is in line with our strategy to acquire prime assets with an earnings focus and we expect the property will continue to benefit from the wider infrastructure investment being undertaken in Reading, most significantly when the new Elizabeth Line opens linking the town to Central London. The property is 82% let to nine tenants and at purchase had a weighted average unexpired lease term of five years to break. It is expected to deliver an annual rental income of around £3.0 million once fully let.

In September we acquired the M8 Industrial Estate, near Glasgow, from a private property company for a headline price of £24.6 million, based on a topped up net initial yield of 5.9%. The asset has 92% occupancy and is well let to tenants including Boots UK and Rentokil with an attractive average lease term of seven years at purchase. With an affordable rent of £5.25 per sq ft across the estate, there is an opportunity to let up the small amount of vacant space and grow income.

Close to the year end we capitalised on the opportunity to acquire a portfolio of five distribution warehouses in strategic locations across the Midlands, close to the M1 and M6 motorways. The portfolio totals 909,030 sq ft and is 100% let to a diverse mix of tenants with a low average headline rent of £5.52 per sq ft, as well as an attractive unexpired lease term of 7.4 years

INVESTMENT MANAGER REVIEW

Continued

to break and 9.6 years to expiry. This reversionary portfolio provides secure, diversified income and attractive asset management opportunities to capture rental growth and extend lease terms. Bought from Clipstone Logistics REIT for a headline price of £85.4 million, reflecting a headline net initial yield of 5.5%, the acquisition increased our exposure to the strongly performing industrial sector to 46%.

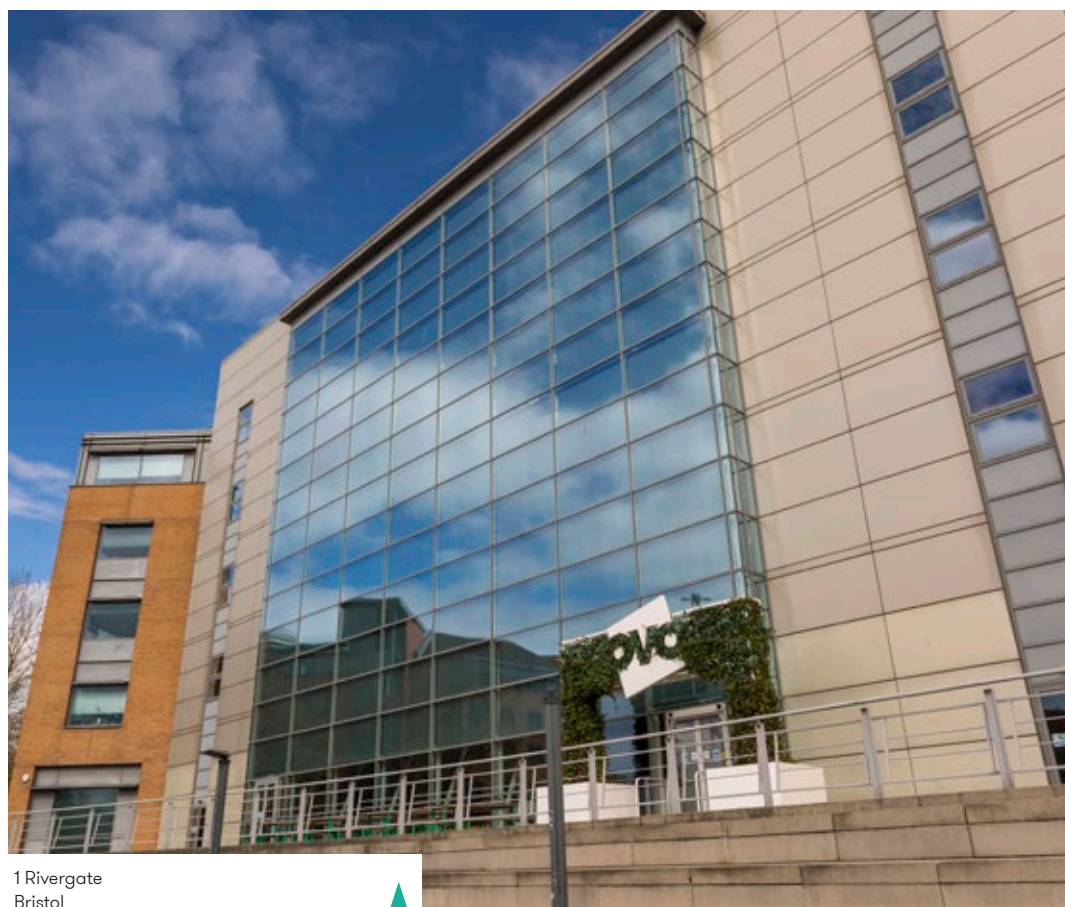
Collectively these transactions represent a recycling of capital from mature-cycle and expensive markets into higher yielding assets offering better risk-adjusted and sustainable earnings potential.

Asset Management Activity

During the year the Company continued its drive to strengthen income streams, extend lease lengths and add value to the portfolio, which now has an annual rent roll of £69 million (£71.9 million after expiration of rent free periods). Over £7.7 million of the annual income was secured after rent free periods and incentives through 19 new leases and 19 lease renewals / rent reviews.

The Company is also pleased to report that, on average, 99% of rent was collected within 21 days of each quarterly payment date during 2018.

It was good to witness the majority of open market rent reviews agreed this year generating rental increases, especially within the South East industrial sector where rents grew significantly, often ahead of Estimated Rental Value (ERV). Rent review uplifts within the Company's strongly performing industrial portfolio totalled £496,505 p.a., 16% ahead of the previous rents and 12% ahead of ERVs at the time of review.



1 Rivergate
Bristol

During the year, the weighted average unexpired lease term across the portfolio remained steady at 8.8 years at the end of the year compared to 8.9 years in December 2017, with 16.5% of portfolio income now derived from leases with fixed or inflation-linked uplifts.

Thematically we have experienced strong rental growth from the significant London based element of our industrial portfolio with good demand across both London and regional stock. Retail ERVs, particularly in the single shopping centre and most of the retail parks, have dropped through the year however our leasing experience to date has been encouraging with our overall retail occupancy level at 94% at the year end and a relatively limited impact from Company Voluntary Arrangements (CVAs) with a reduction of only 1.5% of rental income from the total portfolio. The leisure portfolio is predominantly well let on medium to long term leases and has seen minimal change in ERV although there is leasing friction on the elements of food and beverage within this subsector. The office portfolio has experienced good demand for the limited availability we had in the City of London and strong regional demand at the start of the year, waning in the autumn and winter months, but picking up in the first part of the New Year; ERVs remaining broadly flat.



Eldon House, City of London, EC2

The following asset management activity, grouped by sector with percent occupied shown as at 31 December 2018, represents a summary of noteworthy transactions:-

In Offices
93% occupied

▲ Eldon House, City of London

The Company took its only City of London property, Eldon House, to 100% let at the year end with lettings to Proclinical Ltd, MLM Building Control Ltd and Civilised Bank secured at rents between 5–10% ahead of ERV. Also at this mixed use investment a rent review was agreed with William Hill, which occupies an external shop unit, securing a new rent of £79,000 p.a., 22% ahead of the previous passing rent.

▲ 1 Rivergate, Temple Quay, Bristol

Just before the summer we completed a new eight year lease with Ovo Energy Ltd at this property, at a new rent of £1.7 million p.a., facilitating the sale of this investment ahead of valuation.

▲ Central Square, Newcastle

A new five year lease renewal was completed with Cushman & Wakefield, at this property. The new rent of £95,400 p.a. reflects an uplift of 18% ahead of ERV and the lease also improved the weighted average unexpired lease term at the building.

In Retail & Leisure
95% occupied

▲ Cineworld Complex, Glasgow

With completion in Q4 of the rearrangement and restructuring of the basement, ground and first floor leases of this property beneath Cineworld our short term asset management programme is now complete. We have replaced a short term lease at £200,000 p.a. for all three floors, with a new 25 year lease at a rent of £250,000 p.a. over the ground and first floors only with The Stone Gate Pub Company, incorporating RPI increases capped and collared at between 1% and 4%. The pub group has also invested its own money in an extensive refurbishment which further improves the facility. We then also secured a lease on the returned basement space in The Glee Club, a national comedy club, for 15 years, with a break after year three, at a rent of £100,000 p.a. extending the investment's lease term and increasing income.

▲ The Parade, Swindon

Following completion of landlord's works, the new 15 year lease completed with Wilko on the majority of the former BHS unit, secured a headline rent of £385,000 p.a. In addition the Company renewed a Tesco supermarket lease for a 10 year term, with a break option in year five, at a rent of £200,000 p.a., in line with ERV. Finally, following landlord's works, the Company completed a new lease with NatWest bank, delivering £170,000 p.a. on a 10 year lease.

▲ Kew Retail Park, Richmond

In line with our asset management plans for this investment we concluded a lease renewal with GAP at a rent 8.5% ahead of ERV securing £439,600 p.a. for a ten year term, incorporating some landlord flexibility, and let our former Mothercare unit to Sports Direct on a short term basis.

▲ St George's Retail Park, Leicester

2018 has been a busy year for St George's with construction work completed in relation to the creation of three new units that are pre-let to Wren Kitchens, Tapi Carpets and Laura Ashley. Importantly these works also included improvements to customer road access and egress from the park. The three stores opened in Q1 2019 and, with a new Costa Coffee also financed by the Company and about to open providing a much needed facility, interest from retailers in leasing the remaining vacancy has increased. St George's has been impacted by a disproportionate number of CVAs over 2018. However, at year end, two of the three units affected here were relet to Dreams and Card Factory for a combined £140,000 p.a. in line with ERV. At the year end St. George's was 17% vacant and, ahead of the expiry of a large Wickes' 25,000 sq ft 'anchor store' in January 2019, the Company exchanged an agreement for a new lease with Home Bargains at ERV on a 15 year term with fixed rental uplifts, commencing on completion of refurbishment works in April 2019.



► Central Square, Newcastle upon Tyne



Motor Park,
Portsmouth ▲

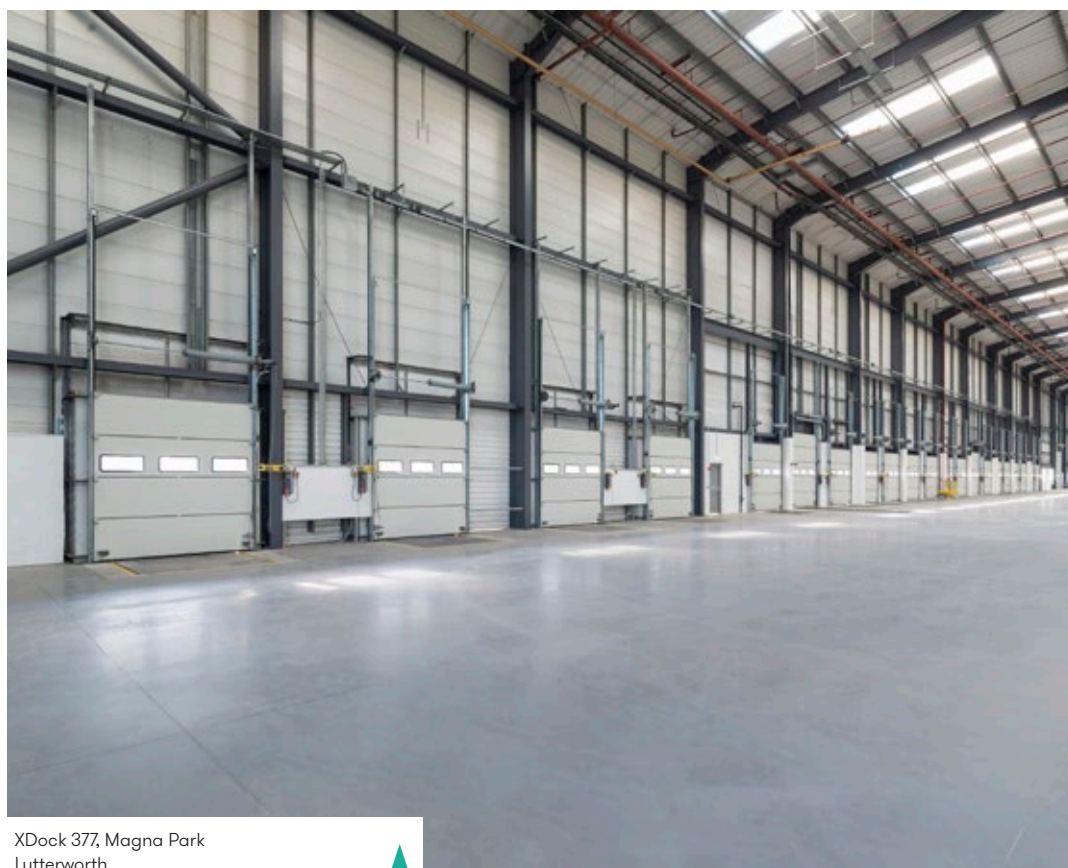
▲ Motor Park, Portsmouth

Testament to the strength of this location we successfully restructured the occupation of two tenants onto long leases. First a 20 year term to Harwoods over its 18,800 sq ft unit incorporating five yearly RPI linked rent reviews capped and collared at 1%–3% p.a. The rent agreed of £288,000 p.a. (equivalent to £15 per sq ft) was 8.5% ahead of the ERV at the time of signing and is now in line with the current ERV. The second, with Snobs Business Holdings, was for a new 25 year lease over its 30,000 sq ft unit at a rent of £440,000 p.a., equivalent to £15 per sq ft and in line with ERV. Again this lease incorporates RPI indexation, capped and collared at 1%–3.25% p.a., compounded with rent reviews every five years.

These lettings increase the weighted unexpired lease length at Motor Park, where UKCM owns a total of 160,000 sq ft of commercial space across nine units, from 6.1 years to 12.8 years, as well as maintaining occupancy at 100%.

INVESTMENT MANAGER REVIEW

Continued



XDock 377, Magna Park
Lutterworth



In Industrial/Logistics Distribution
92% occupied

▲ XDock 377, Magna Park, Lutterworth

Following the takeover of Argos by Sainsbury's, the former Argos logistics distribution unit on Magna Park, Lutterworth, fell vacant in December 2017 and accounts for just under half of the Company's 6.9% void position. During the year the unit was extensively refurbished at a cost of circa £7 million with completion of the work just after the year end. The unit is being marketed for let with good early interest and the Company, as is normal in these circumstances, is pursuing a claim against the previous tenant for the cost of dilapidations.

▲ Ocado, Distribution Facility, Hatfield

A rent review was agreed with Ocado over its distribution facility in Hatfield which secured an annual rent of £3.03 million, 12% ahead of ERV at the review date, an uplift of £322,000 p.a. After the year end Ocado's news of a distribution arrangement with Marks & Spencer appears to have been positively received by markets, partially offsetting concern over damage to its Andover facility.

▲ Newton's Court, Dartford

Whilst lagging a little behind other points of the London industrial/distribution compass, rental growth arrived in force during the year at the Company's Dartford estate. One unit has been let to Millmoll Group Holdings Ltd, an event furniture business, on a 10 year term lease with a tenant only break option in year five at a rent of £240,578 p.a., 8.5% ahead of ERV. Two existing tenants, Wilhelmsen Ship Services Ltd and Baxi Heating UK Limited, signed new ten year leases at a combined rent of £244,779 p.a., 3% ahead of ERV.

▲ Dolphin Trading Estate, Sunbury-on-Thames

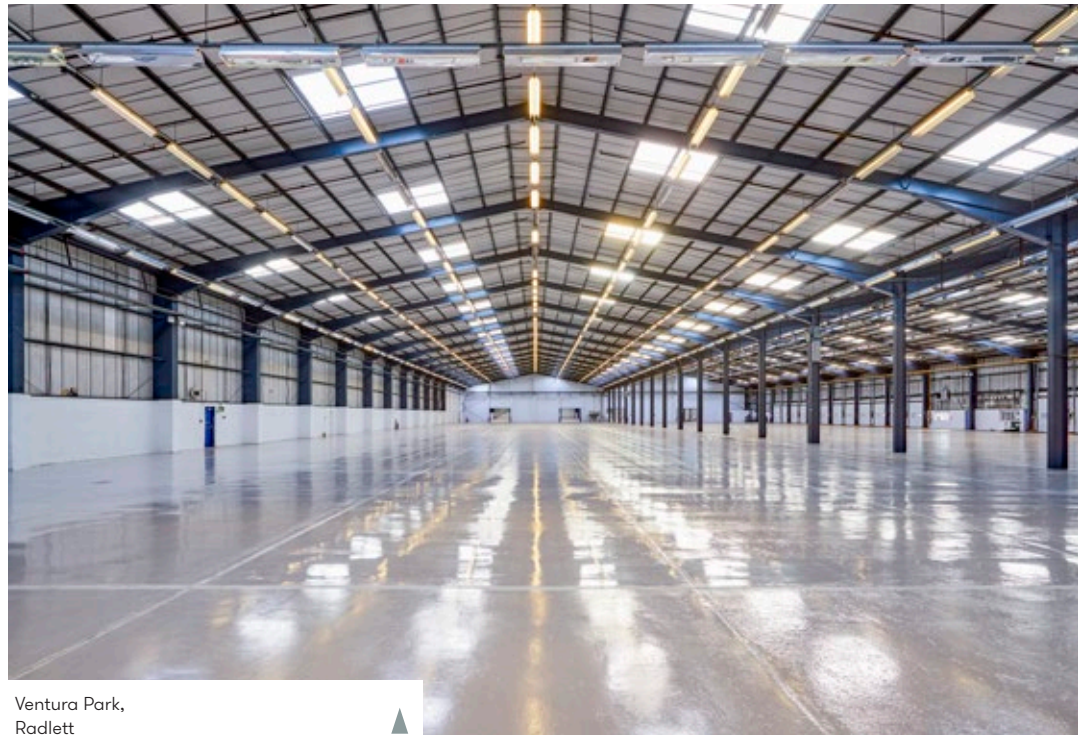
With shrinking supply in the market, particularly West London, we agreed a lease renewal 47% ahead of the previous passing rent and 15% ahead of ERV at the time with existing tenant Lubkowski Saunders & Associates Ltd for 10 years with a break at five, securing a new rent of £510,763 p.a.

▲ Emerald Park, Bristol

A new ten year lease renewal took place with Nomenca, a specialist engineering company, at Emerald Park, Bristol at a new rent of £76,000 p.a., 15% ahead of the previous passing rent and 3% ahead of ERV.

▲ Ventura Park, Radlett

A number of leasing transactions took place through the year on this, our largest South East industrial asset and largest asset in the portfolio. In Q2 the Company signed an agreement to lease the largest vacancy (26% of ERV) on the estate to an existing global tenant, at a rent of £1.34 million p.a. with five yearly inflation-linked and upwards only rent reviews; completion of the lease itself is subject to completion of certain landlord's works, expected in spring 2019. This letting represents an increase of 39% on the previous passing rent and is in line with ERV. On a smaller unit occupied by the same tenant the Company regeared the existing lease providing a 10 year certain term and securing a rent of £330,750 p.a., 3% ahead of ERV and 15% ahead of the previous rent passing. In addition a new 10 year reversionary lease was completed with Rhys Davies & Sons Ltd, incorporating a new rent of £343,485 p.a. 10% ahead of ERV. The new contract will commence upon the expiry of their current lease in 2020 and incorporates a tenant break option in 2025. This asset management activity helped to deliver one of the largest positive contributions to portfolio total return during the year driven by both capital growth and ERV improvement.



Ventura Park,
Radlett



► Emerald Park East, Bristol

Environmental, Social and Governance (ESG)

The Chair has already commented upon the Board's commitment to ESG as well as the strong GRESB sustainability rating and EPRA award. As the Company's Investment Manager, Aberdeen Standard Investments views the management of Environmental, Governance and Social issues as a fundamental part of its business. Whilst real estate investment provides valuable economic benefits and returns for investors it has, by its nature, an environmental and societal impact. We have committed to:

- ▲ Identifying, assessing, monitoring and controlling environmental, societal and regulatory risks at key stages of the investment, development and asset management operations;
- ▲ Ensuring effective governance and responding to and complying with regulatory requirements;
- ▲ Sharing our knowledge and engaging with central and local government and with other bodies in order to encourage best practice in the market and to steer government policy;
- ▲ Working in partnership with our key stakeholder groups – our investors, occupiers, employees, suppliers and the communities we serve.

A key element of our policy and approach is the employment of our ESG Impact Dial – a proprietary research framework – in support of investment strategies, underwriting decisions and asset management approach. We have identified a range of major forces for change – Environment & Climate, Governance & Engagement, Demographics and Technology & Infrastructure – which together form the basis of the ESG Impact Dial. These guide the prioritisation and integration of ESG factors within the Company's portfolio and provide a structure for engagement with, and reporting to, stakeholders. A practical example is our current investigation of the practicality, financing and returns to be generated from the installation of solar photo-voltaic energy generation on select warehouse roofs with clear benefits to both the environment and leasing prospects.

INVESTMENT MANAGER REVIEW

Continued

Portfolio Strategy

Your Company aims to deliver an attractive level of income, together with the potential for capital and income growth, through investment in a diversified UK commercial property portfolio. Our strategy to achieve this combines investment, divestment and asset management, including disciplined investment in existing stock where accretive. In order to help meet the Company's investment objective, which remains unchanged, the Company has widened its investment policy to provide greater flexibility to invest in additional sectors, which have come to be regarded as mainstream and are commonly referred to as "alternative sectors", and include healthcare, student housing, hotels, car parks, pubs, petroleum and automotive and the commercially-managed private residential rental sector, amongst others. These represent an increasing share of the commercial property investment market and have accounted for 25% of all UK real estate transactions over the last five years. Driven by a combination of favourable structural drivers which we believe are set to continue, including demographic, urbanisation and trends in technology, together with the stability of income returns and diversification benefits that investing in alternatives sectors brings, this investment flexibility is to be welcomed.

Net investment during the year utilised all surplus investment cash which will aid dividend cover going forward but the Company also took advantage of low yields in the debt markets to refinance, extend and increase its gearing capability whilst maintaining its policy of low overall gearing. The result, secured in February 2019, is £100 million of revolving credit available for investment which, currently, is intended to be used tactically where a short term sale is expected to rebalance gearing levels.

When looking at opportunities to deploy these resources our current strategy focuses on two themes; first, long-term secure income, often found in funding the construction of new 'pre let' buildings, but with caution around competitive pricing; secondly, sustainable income which exhibits growth potential within the better yielding sub-sectors of the alternative sector, not necessarily through long leases. Straddling these strategies we are alert to investments in vibrant economies with strong demographics which have opportunistic pricing through potential vendor distress; with uncertainty continuing in politics as the path to Brexit evolves, feeding into the economy and property market, we believe interesting opportunities may be available if, for example, owners require to increase liquidity quickly.

With income important to the Company, and likely to drive total return in the current market, we have successfully worked through a period of spikes in lease expiry profile which are due to enhance income in 2019. Our portfolio focus remains firmly on leasing vacant properties to generate income, and with over 50% of our vacancy in the industrial / logistics sector the outlook is positive. Meanwhile we are keeping a close eye on those assets with a weaker prognosis and strategic opportunities to disinvest. Recent examples are the sale of our Shrewsbury shopping centres to Shropshire Council in January 2018 and, as announced at the start of this year, the reletting of our Wembley logistics warehouse for 10 years crystallising growth in rental values in that location and removing the risk of a future vacancy.

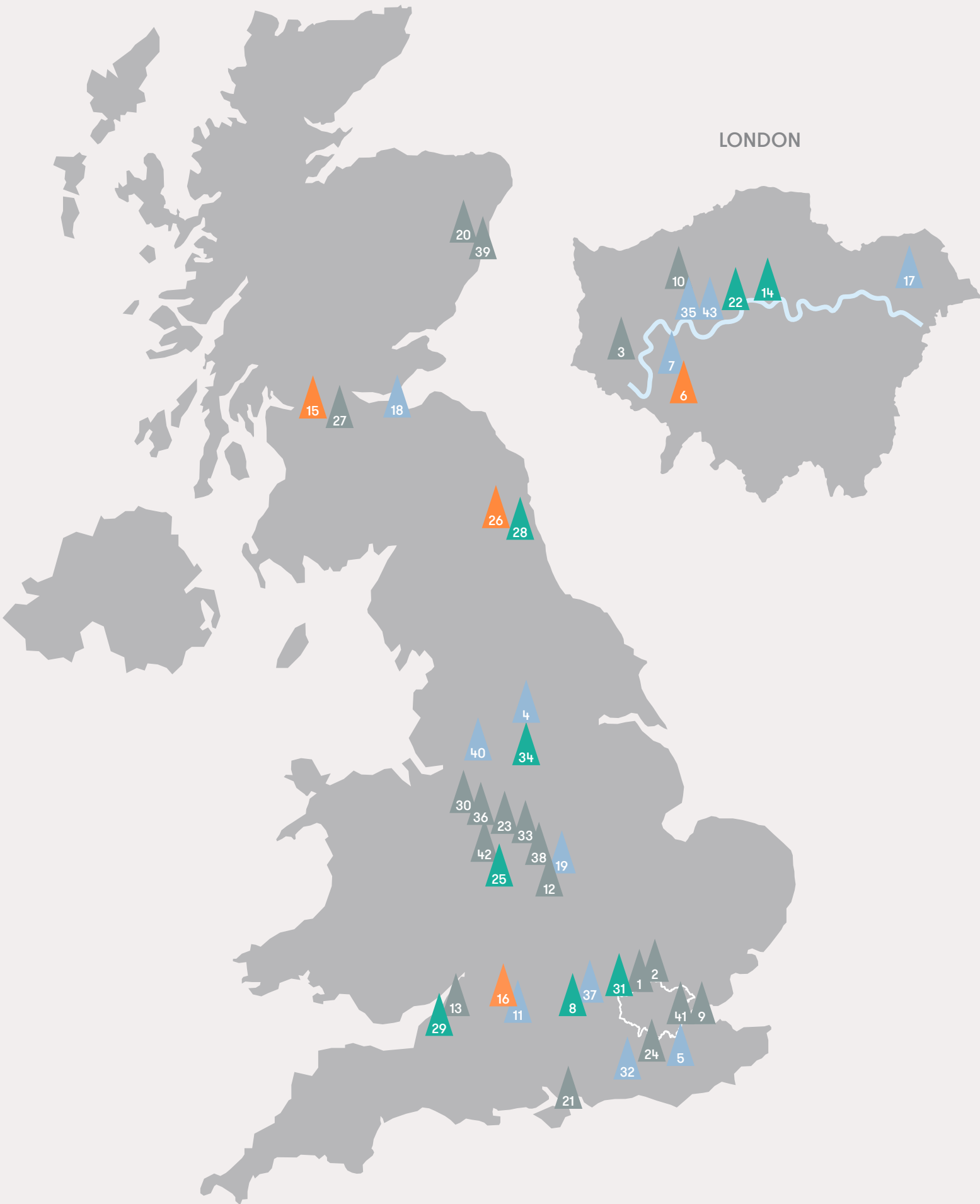
We enter 2019 ready to meet political uncertainty with a diversified portfolio biased towards favourable sectors of the market, a strong opportunity to generate additional income from our industrial-logistics portfolio, a refreshed investment policy providing greater flexibility to invest, and a strong balance sheet.

Will Fulton
Fund Manager
Aberdeen Standard Fund Managers Limited
25 April 2019

Property Portfolio

by geography

PROPERTY PORTFOLIO
as at 31 December 2018



PROPERTY		Tenure	Sector	Principal Tenant	Value Range
1	Ventura Park, Radlett	Freehold	Industrial	DHL Supply Chain Ltd	Over £50m (representing 33% of the portfolio capital value)
2	Ocado Distribution Unit, Hatfield Business Area, Hatfield	Freehold	Industrial	Ocado Ltd	
3	Dolphin Estate, Sunbury-on-Thames	Freehold	Industrial	Trans Global Freight Management Ltd	
4	Junction 27 Retail Park, Birstall, Leeds	Freehold	Retail Warehouse	DSG Retail Ltd	
5	Great Lodge Retail Park, Tunbridge Wells	Freehold	Retail Warehouse	B&Q Plc	
6	The Rotunda, Kingston upon Thames	Freehold	Alternatives	Odeon Cinemas Ltd	
7	Kew Retail Park, Richmond	Freehold	Retail Warehouse	TK Maxx Ltd	
8	White Building, Reading	Freehold	Office	Workday (UK) Ltd	£30m–£50m (representing 37% of the portfolio capital value)
9	Newton’s Court, Dartford	Freehold	Industrial	Compagnie Fruitiere UK Limited	
10	Hannah Close, London, NW10	Leasehold	Industrial	Marks & Spencer Plc	
11	The Parade, Swindon	Freehold	Shopping Centre	H&M Hennes & Mauritz UK Ltd	
12	XDock 377, Magna Park, Lutterworth	Leasehold	Industrial	Vacant	
13	Emerald Park East, Emersons Green, Bristol	Freehold	Industrial	Knorr-Bremse Systems Ltd	
14	Eldon House, City of London, EC2	Freehold	Office	Stace LLP	
15	Cineworld Complex, Glasgow	Freehold	Alternatives	Cineworld	
16	Regent Circus, Swindon	Freehold	Alternatives	WM Morrison Supermarkets Plc	
17	B&Q, Roneo Corner, Romford	Freehold	Retail Warehouse	B&Q Plc	
18	81/85 George Street, Edinburgh	Freehold	High St, Retail	Clydesdale Bank	
19	St George’s Retail Park, Leicester	Freehold	Retail Warehouse	Wickes Building Supplies Ltd	
20	Total, Aberdeen Gateway, Aberdeen	Freehold	Industrial	Total E&P UK Ltd	
21	Motor Park, Eastern Road, Portsmouth	Freehold	Industrial	Pentagon Ltd	
22	Craven House, Foubert’s Place, London, W1	Freehold	Office	Molinaire Ltd	£20m–£29.9m (representing 22% of the portfolio capital value)
23	Centrum 260, Burton upon Trent	Freehold	Industrial	Palletforce plc	
24	Gatwick Gate Industrial Estate, Crawley	Freehold	Industrial	Airbase Interiors Ltd	
25	Colmore Court, 9 Colmore Row, Birmingham	Leasehold	Office	Brewin Dolphin Limited	
26	Maldron Hotel, Newcastle*	Leasehold	Alternatives	Dalata Group plc	
27	M8 Industrial Estate, Glasgow	Freehold	Industrial	Boots UK Ltd	
28	Central Square Offices, Forth Street, Newcastle upon Tyne	Freehold	Office	Ove Arup & Partners	
29	No 2 Temple Quay, Bristol	Freehold	Office	Public Sector	
30	Newcastle-under-Lyme	Freehold	Industrial	TJX UK	
31	Network House & Meadowside House, Hemel Hempstead	Freehold	Office	Public Sector	
32	Broadbridge Retail Park, Horsham	Mixed	Retail Warehouse	HHGL Ltd	
33	Tetron Point, Swadlincote	Freehold	Industrial	Clipper Logistics Plc	
34	Hartshead House, Sheffield	Freehold	Office	Capita Business Services Ltd	
35	140/144 King’s Road, London, SW3	Freehold	High St, Retail	French Connection UK Ltd	Below £20m (representing 8% of the portfolio)
36	Whittle Road, Stoke-on-Trent	Freehold	Industrial	Bestway Pharmacy NDC Limited	
37	14–22 West Street, Marlow	Freehold	High St, Retail	Sainsbury’s Supermarket Ltd	
38	Interlink Way West, Bardon	Freehold	Industrial	Roca Ltd	
39	Tetra, Aberdeen Gateway, Aberdeen	Freehold	Industrial	Tetra Technologies UK Ltd	
40	52/56 Market Street, Manchester	Freehold	High St, Retail	Adidas (UK) Ltd	
41	Crossways Cargo Depot, Dartford	Freehold	Industrial	Veerstyle Ltd	
42	Watling Street, Cannock	Freehold	Industrial	Rhenus Logistics Limited	
43	146 King’s Road, London SW3	Freehold	High St, Retail	Telefonica O2 UK Ltd	
Overall number of properties			43		
Total number of tenancies			267		
Total average property value			£33.6m		
Total floor area			6,737,577 sq ft		
Freehold/Leasehold (leases over 100 years)			90%/10%		

STRATEGIC OVERVIEW

Investment Strategy

The Group's investment strategy is set out in its investment objective and policy below. It should be considered in conjunction with the Chair's Statement and the Investment Manager's Review which both give a more in depth review of performance and future strategy.

The Group's investment objective is to provide ordinary shareholders with an attractive level of income together with the potential for capital and income growth from investing in a diversified UK commercial property portfolio. In order to achieve this objective the Group has an investment strategy that focuses on identifying and acquiring institutional grade, secure income producing assets in favoured sectors as well as identifying assets that benefit from wider infrastructure improvements delivered by others where possible. In addition the Group will look to sell assets that have limited future return prospects or where there are significant risks to achieving future acceptable returns. As part of this investment strategy, the Group also recognizes that tenants are a key stakeholder and aims to foster a culture whereby the experience of tenants is seen as paramount to the future success of the Group. The Investment Manager works closely with tenants to understand their needs through regular communication and visits to properties. Where required, and in consultation with tenants, the Group refurbishes and manages the owned assets to improve the tenants' experience, including consideration of health and safety and environmental factors, with the aim being to generate greater tenant satisfaction and retention and hence lower voids, higher rental values and stronger returns.

In addition to the above, members of the Board also visit properties and where appropriate engage with tenants directly which enables the Board to have an enhanced understanding of each property and the tenants' requirements.

On 18 April 2019, the Investment policy was amended to provide the Investment Manager with the flexibility to invest across a wider spectrum of commercial property assets such as healthcare, car parks and the commercially-managed private rental sector. The Investment policy now reads as follows: Investment risks to the Group are managed by investing in a diversified portfolio of freehold and long leasehold UK commercial properties. The Group invests in income producing assets across the commercial property sectors including industrial, office, retail and other alternative commercial property sector assets. The Group has not set any maximum geographic exposures within the UK nor any maximum weighting limits in any of the principal property sectors. No single property shall, however, exceed at the time of acquisition 15 per cent of the gross assets of the Group.

The Group is currently permitted to invest up to 15 per cent of its total assets in indirect property funds including in other listed investment companies. The Group is permitted to invest cash, held by it for working capital purposes and awaiting investment, in cash deposits, gilts and money market funds.

At an EGM of the Company on 28 April 2011 the shareholders of the Company approved a revised gearing policy of the Group amended to read as follows: "Gearing, calculated as borrowings as a percentage of the Group's gross assets, may not exceed 65 per cent. The Board intends that borrowings of the Group at the time of draw down



9 Colmore Row
Birmingham

will not exceed 25 per cent. of the Total Assets of the Group. The Board receives recommendations on gearing levels from the Investment Manager and is responsible for setting the gearing range within which the Investment Manager may operate". As mentioned in the Chair's statement the Group restructured its debt facilities in February 2019 which increased the weighted average maturity of the Group's debt profile, lowered the cost and increased the debt available while still maintaining the 25% debt cap referred to above.

The Group's performance in meeting its objective is measured against key performance indicators as set out on [page 29](#). A review of the Group's returns during the year, the position of the Group at the end of the year, and the outlook for the coming year is contained in the Chair's Statement and the Investment Manager Review.

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate strategy, corporate governance, and risk management. Biographical details of the Directors, all of whom are non-executive, can be found on [pages 44–45](#) and indicate their range of property, investment, commercial, professional, financial and governance experience. The Company has no executive Directors or employees.

Management of Assets and Shareholder Value

The Board contractually delegated the management of the investment portfolio and other services to Aberdeen Standard Fund Managers Limited from 10 December 2018 (prior to this Standard Life (Corporate) Funds Limited).

The Group invests in properties which the Investment Manager believes will generate a combination of long-term growth in income and capital for shareholders. Investment decisions are based on analysis of, amongst other things, prospects for future capital growth, sector and geographic prospects, tenant covenant strength, lease length and initial yield. In the year to 31 December 2018, the Company generated operating cash flows of £46.9 million (2017: £42.4 million) and a net profit for the year of £53.0 million (2017: £131.6 million).

Investment risks are spread through investing in a range of geographical areas and sectors, and through letting properties to low risk tenants. A list of all the properties held as at 31 December 2018 is contained on [page 27](#) and further analysis can be found in the Investment Manager Review. At each Board meeting, the Board receives a detailed portfolio, financial, risk and shareholder presentation from the Investment Manager together with a comprehensive analysis of the performance of the portfolio during the reporting period.



Centrum 260
Burton upon Trent

The Board and the Investment Manager recognise the importance of managing the premium/discount of share price to net asset value in enhancing shareholder value. One aspect of this involves appropriate communication to gauge investor sentiment. The Investment Manager meets with current and potential new shareholders, and with stockbroking analysts who cover the investment company sector, on a regular basis. In addition, communication of quarterly portfolio information is provided through the Company's website, www.ukcpreit.com, and the Company also utilizes a public relations agency to enhance its profile among investors. In addition the Chair of the Board meets key shareholders on an annual basis.

Key Performance Indicators / Alternative Performance Measures

The Company's benchmark is the MSCI Investment Property Databank (IPD) Balanced Monthly and Quarterly Index. This benchmark incorporates all monthly and quarterly valued property funds and the Board believes this is the most appropriate measure to compare against the performance of a quarterly valued property investment company with a balanced portfolio.

The Board uses a number of performance measures to assess the Company's success in meeting its objectives. The key performance indicators / alternative performance measures are as follows:

- ▲ Net asset value and share price total return against a peer group of similar companies
- ▲ Portfolio performance against the IPD benchmark and other selected comparators.
- ▲ Premium/(Discount) of share price to net asset value.
- ▲ Dividend cover and dividend yield
- ▲ Ongoing charges

Given the structure of the Company and the Company's knowledge of its underlying shareholder base, it is believed the above measures are the most appropriate for shareholders to determine the performance of the Company. These indicators for the year ended 31 December 2018 are set out on [page 26](#). In addition the Board considers specific property KPIs such as void rates, rent collection levels and weighted average lease length on a regular basis.

UKCM remains one of the lowest geared companies in the REIT sector, a sensible defensive strategy given the current economic situation and the forecast moderation of capital returns in the real estate sector.

Risk management

In accordance with the UK Corporate Governance Code and FRC Guidance, the Board has established procedures to identify and manage risk, to oversee the internal control framework and to determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

The Board recognises its responsibility to carry out a robust assessment of the company's principal risks and emerging risks. Principal risks are defined as those that could result in events or circumstances that might threaten the company's business model, future performance, solvency or liquidity and reputation. Emerging risks are those that have not yet occurred but are at an early stage of development or are current risks that are expected to increase in significance and become more fundamental in the future.

The Board has appointed a Risk Committee to ensure that proper consideration of risk is undertaken in all aspects of the company's business on a regular basis. The Risk Committee meets quarterly and comprises all members of the Board and is chaired by Margaret Littlejohns (previously by John Robertson until 31 March 2018). Its duties include the assessment of the Company's risk appetite and the regular review of principal and emerging risks, seeking assurance that these risks are appropriately rated and that effective mitigating controls are in place, where possible.

Risks are identified and weighted according to their potential impact on the Company and to their likelihood of occurrence. The impact is evaluated in terms of the effect on the Company's business, finances and reputation, the three of which are usually interlinked. Each identified risk is assessed twice: first as a "gross risk" before taking into consideration any mitigating controls and secondly

as a residual or "net risk" after reviewing the safeguards in place to manage and reduce either the severity of its impact or the probability of its event. The Risk Committee uses a detailed Risk Matrix to prioritise the individual risks, allocating scores of 1 to 5 to each risk for both the likelihood of its occurrence (ranging from very unlikely to almost certain) and the severity of its impact (ranging from minimal to highly significant). The combined scores for both the gross risks and net risks are then colour coded, applying a traffic light system of green, amber and red to emphasise those posing the greatest threats to the Company. Those with the highest gross rating in terms of impact are highlighted as top risks within the matrix and are defined here as principal risks.

The Risk Committee, with the help of the Investment Manager's extensive research resources and market intelligence, surveys the full risk landscape of the Company in order to identify increasing and emerging risks to which the Company may be exposed in the future. In particular, the Risk Committee questions which parts of the Company's business may be vulnerable to disruption, including but not limited to the business models of its key tenants and its outsourced third party suppliers.

The Risk Committee not only reviews the existing portfolio of investments but also ensures that risk is considered in the case of each property acquisition and disposal.

The Risk Committee works closely with the Audit Committee to examine the effectiveness of the risk management systems and internal control systems upon which the Company relies to reduce risk. This monitoring covers all material controls, including financial, operational and compliance controls. All risks and mitigating controls are reviewed by the Risk Committee on a quarterly basis, and any significant changes to the Risk Matrix are presented to the Board.



Margaret Littlejohns
Chair of Risk Committee

STRATEGIC OVERVIEW

Continued

Principal Risks

The Company’s assets consist of direct investments in UK commercial property. Its risks are therefore principally related to the commercial property market in general and also to each specific property in the portfolio. Risks to the Company fall broadly under the following six categories:

Strategy (Risk A)

Management may fail to execute a clear corporate strategy successfully and the strategic objectives and performance of the fund, both absolute and relative, may become unattractive or irrelevant to its investors.

Investment and Asset Management (Risk B & C)

Ill-judged property investment decisions and associated redevelopment and refurbishment may lead to health and safety dangers and environmental issues and ultimately to poor investment returns.

Financial (Risk D, E & F)

Macro-economic changes (e.g. levels of GDP, employment, inflation and interest rate movements) political changes (e.g. new legislation and regulation) and structural changes (e.g. disruptive technology, demographics) can all impact the commercial property market, both its capital value and income generation, its access to finance and the underlying businesses of its tenants. This risk encompasses real estate market risk, liquidity risk, interest rate risk and credit risk, all of which are covered in more detail in note 18 to the accounts.

Operations (Risk G & H)

Poor service and inadequate control processes at the Company’s outsourced suppliers may lead to disruption, error and fraud, and increasingly cyber attacks. The company’s key service providers are the Investment Manager, the Company Secretary, the Managing Agent and the Registrar and are assessed annually through the Management Engagement Committee.

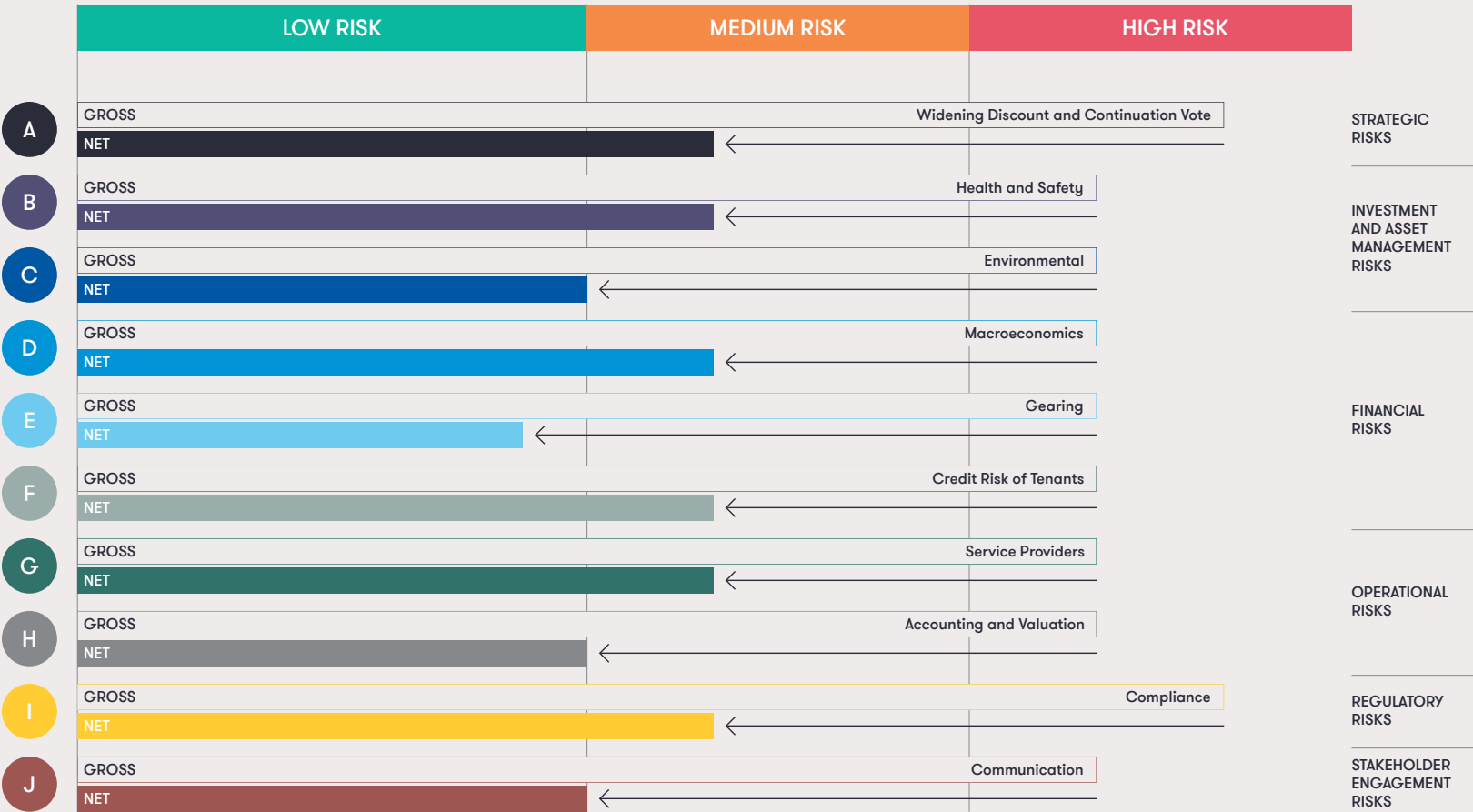
Regulation (Risk I)

Failure to comply with applicable regulation and legislation could lead to financial penalties and withdrawal of necessary permissions by governing authorities. Changes to existing regulations could also result in suboptimal performance of the Company.

Stakeholder Engagement (Risk J)

Failure to communicate effectively and consistently with the Company’s key stakeholders, in particular shareholders and tenants, could prevent the Company from understanding and responding to their needs and concerns.

The chart below illustrates the overall level of gross risk for each principal risk before mitigation and then shows the net risk after the safeguards have been put in place and highlights the significant reduction in risk given the protection afforded by the mitigating controls.



Emerging Risks

Emerging risks have been identified by the Risk Committee through a process of evaluating which of the principal risks have increased materially in the year and/or through market intelligence are expected to grow significantly. Any such emerging risks are likely to cause disruption to the business model. If ignored, they could impact the Company’s financial performance and future prospects. Alternatively, if recognised, they could provide opportunities

for transformation. In the current year three significant emerging risks have been highlighted:

1. The Company’s strategic objectives, linked to a widening of the discount and a continuation vote (Risk A).
2. Macroeconomic changes particularly associated with the uncertainty surrounding Brexit and its political impact on the UK economy and the resultant effect on the UK commercial property market (Risk D).

3. Credit risk, in particular the weakness in the retail sector and its impact on the Group’s tenants, affecting both capital values and income generation of the investment portfolio (Risk F).

The principal and emerging risks, including their impact and the actions taken by the Company to mitigate them, are provided in more detail in the table opposite:

A	STRATEGIC RISKS: WIDENING DISCOUNT AND CONTINUATION VOTE
Risks & Impact	<p>The Company's strategic objectives and performance, both absolute and relative, could become unattractive to investors leading to a widening of the share price's discount to net asset value, and potentially a continuation vote.</p>
Mitigation	<ul style="list-style-type: none"> ▲ The Company's strategy and objectives are regularly reviewed by the Board to ensure they remain appropriate and effective. ▲ The Board receives regular presentations from research analysts on both the general economy but also the property market in particular to identify structural shifts and threats, so the Board can adapt the Company's strategy if necessary. ▲ The NAV and share price are constantly monitored and regular analyses of the Company's performance are reviewed by the Board and compared with the Company's benchmark and its peer group. ▲ Cash flow projections are prepared by the Investment Manager and reviewed quarterly by the Board. ▲ Regular contact is maintained with shareholders and the Company's broker.
Commentary	<ul style="list-style-type: none"> ▲ The Company's discount has increased in the year from 4.5% at the end of 2017 to 10.8% at the end of 2018. This compares to the peer group which moved from an average premium of 0.1% to a discount of 6.4%. ▲ As at the 15 April 2019, the discount (adjusted for the shares going ex-dividend) was 3.7%. ▲ The Company is due to hold a periodic continuation vote in 2020.
Change	<p>INCREASED AND EMERGING RISK</p> <p>The Company's rating, like that of the wider peer group, has fallen to a wider discount during the year.</p>
i	<p>See page 50 for details of the current discount control policy.</p>

B	INVESTMENT AND ASSET MANAGEMENT RISKS: HEALTH AND SAFETY
Risks & Impact	<p>The Company could fail to identify, mitigate or manage major Health & Safety issues potentially leading to injury, loss of life, litigation and the ensuing financial & reputational damage.</p>
Mitigation	<ul style="list-style-type: none"> ▲ Health and safety checks are included as a key part of due diligence for any new property acquisition. ▲ For existing multi-tenancy properties the Group's Managing Agent (Jones Lang LaSalle) are responsible for managing and monitoring health and safety matters of each building. ▲ The Investment Manager monitors on an ongoing basis all identified Health and Safety issues with strict deadlines for resolution by the Managing Agent. ▲ The Investment Manager also engages S2 Partnership Limited who provide an independent Health & Safety review of all properties. ▲ The Risk Committee reviews the Company's Health & Safety performance quarterly.
Commentary	<ul style="list-style-type: none"> ▲ A wider fire safety review of buildings with any type of cladding has been conducted. This has resulted in work being undertaken beyond the minimum legal requirements to ensure the highest standards of health and safety in the Company's portfolio of properties.
Change	<p>No significant change in risk.</p>
i	<p>See page 41 for further information on the Group's Health & Safety policy.</p>

STRATEGIC OVERVIEW

Continued

C	INVESTMENT AND ASSET MANAGEMENT RISKS: ENVIRONMENTAL	D	FINANCIAL RISKS: MACROECONOMIC
Risks & Impact	<p>Properties could be negatively impacted by an extreme environmental event (e.g. flooding) or the Company's own asset management activities could create environmental damage. Failure to achieve environmental targets could adversely affect the Company's reputation and result in penalties and increased costs. Legislative changes relating to sustainability could affect the viability of asset management initiatives.</p>	Risks & Impact	<p>Macroeconomic changes (e.g. levels of GDP, employment, inflation, interest rate & FX movements), political changes (e.g. Brexit, new legislation) or structural changes (e.g. new technology, demographics) could negatively impact commercial property values and the underlying businesses of tenants (market risk and credit risk). Falls in the value of investments could result in breaches of loan covenants and solvency issues.</p>
Mitigation	<ul style="list-style-type: none"> ▲ The Company considers its impact on the environment and its local communities in all its activities. ▲ In-depth research is undertaken on each property at acquisition with a detailed environmental survey. ▲ Experienced advisers on environmental, social and governance matters are consulted both internally at the Investment Manager and externally where required. ▲ The Investment Manager has adopted a thorough environmental policy which is applied to all properties within the portfolio. ▲ EPC rating benchmarks have been set to ensure compliance with Minimum Energy Efficiency Standards (MEES). 	Mitigation	<ul style="list-style-type: none"> ▲ The Aberdeen Standard Investments Research team takes into account macroeconomic conditions when collating property forecasts. This research is fed into the Investment Manager's decisions on purchases and sales and sector allocations. ▲ The portfolio is UK based and diversified across a number of different sectors and regions of the UK and also has a wide and diverse tenant base to minimize any risk concentration. ▲ There is a wide range of lease expiry dates within the portfolio in order to minimise concentrated re-letting risk. ▲ The Company is lowly geared with 25% limit on overall gearing. ▲ The Company has limited exposure to speculative development and is only undertaken on a pre-let basis. ▲ Rigorous portfolio reviews are undertaken by the Investment Manager and presented to the Board on a regular basis. ▲ Annual asset plans are developed for each property and every building has comprehensive insurance to cover both the property itself and injury to associated third parties. ▲ Individual investment decisions are subject to robust risk versus return evaluation and approval.
Commentary	<ul style="list-style-type: none"> ▲ The Company has achieved Sector Leader status in the Global Real Estate Sustainability Benchmark ("GRESB") as a top performer in ESG (environmental, social and governance). It was awarded an 'A' score for Public Disclosure; EPRA "Gold" rating for European Sustainability Best Practice Recommendations in September 2018. ▲ A full review of EPC ratings across the Group's portfolio has been undertaken with now only 2 units rated as below standard. A strategy has been put in place to improve these sub-par ratings before any new lease is granted. 	Commentary	<ul style="list-style-type: none"> ▲ Portfolio continues to be diversified and balanced with investments across the four main commercial property sectors and across a number of geographical regions. ▲ 267 tenancies at the year end with top ten tenants accounting for only 34.2% of annualised rental income. ▲ Net gearing of 14.6% at year end. ▲ Occupancy rate of 93.1% at year end.
Change	<p>DECREASED RISK</p> <p>Given the work undertaken by the Group across the portfolio, the Board considers environmental risk has decreased in the year.</p>	Change	<p>INCREASED AND EMERGING RISK</p> <p>The ongoing uncertainty surrounding the negotiations of Great Britain's withdrawal from the EU and the ensuing political instability makes economic forecasting difficult. This uncertainty has undoubtedly impacted business investment, consumer sentiment and hence GDP growth. This in turn is likely to impact the demand for commercial property and some tenants' business prospects and their financial strength.</p>
i	See page 109 for further information on the Groups ESG policy.	i	See further details on risk in note 18 to the accounts on page 92 .

E	FINANCIAL RISKS: GEARING
Risks & Impact	<p>An inappropriate level of gearing, magnifying investment losses in a declining market, could result in breaches of loan covenants and threaten the Company's liquidity and solvency. An inability to secure adequate borrowing with appropriate tenor and competitive rates could also negatively impact the Company.</p>
Mitigation	<ul style="list-style-type: none"> ▲ Gearing is restricted to a maximum of 25% of gross assets. This low gearing limit means that the Company should, barring unforeseen circumstances, have adequate resources to service and repay its debt. ▲ The Company's diversified, prime UK commercial property portfolio, underpinned by its strong tenant base, should provide sufficient value and income in a challenging market to meet the Company's future liabilities. ▲ The Company's relatively modest level of gearing attracts competitive terms and interest rates from lenders for the Company's loan facilities. ▲ The Investment Manager has relationships with multiple funders and wide access to different sources of funding on both a fixed and variable basis. ▲ Financial modelling is undertaken and stress tested annually as part of Company's viability assessment and whenever new debt facilities are being considered. ▲ Loan covenants are continually monitored and reported to the Board on a quarterly basis and also reviewed as part of the disposal process of any secured property.
Commentary	<ul style="list-style-type: none"> ▲ The Group increased and extended its loan facilities in February 2019. ▲ 57% are fixed rate and 43% are variable with a spread of repayment dates. ▲ The increased revolving credit facility will provide the Company with the flexibility to make timely acquisitions when opportunities arise. ▲ Following this refinancing, the weighted maturity profile of the Group's fixed rate debt stood at 10.0 years with an overall blended rate of interest of 2.79% and net gearing of 14.7%. ▲ There is considerable headroom before any loan covenants would be breached.
Change	<p>DECREASED RISK</p> <p>Refinancing completed in February 2019 has reduced this risk.</p>
i	<p>See further details on risk in notes 14 and 18 to the accounts on page 92.</p>

F	FINANCIAL RISKS: CREDIT RISK OF TENANTS
Risks & Impact	<p>Income might be adversely affected by macroeconomic factors. Financial difficulties could cause tenants to default on their rents and could lead to vacant properties. This might result in falling dividend cover for the Company and potential dividend cuts.</p>
Mitigation	<ul style="list-style-type: none"> ▲ Dividend cover is forecast and considered at each Board meeting. ▲ The property portfolio has a balanced mix of tenants and reflects diversity across business sectors. ▲ Rigorous due diligence is performed on all prospective tenants and their financial performance continues to be monitored during their lease. ▲ Rent collection from tenants is closely monitored so that early warning signs can be detected. ▲ Contingency plans are put in place where tenants with financial difficulties have been identified. ▲ Board approval is necessary for any material lettings.
Commentary	<ul style="list-style-type: none"> ▲ Dividend cover of 82% in 2018 but annualised rental income has increased to £69.0 per annum as at 31 December. ▲ Key focus on ongoing voids particularly at XDock 377 at Lutterworth. ▲ Retail sector continues to be of a concern with number of administrations in this sector in the last 12 months which has resulted in lost income of 1.5% of total income in the Group's portfolio.
Change	<p>INCREASED AND EMERGING RISK</p> <p>The continued weakness of the retail sector has increased this risk in 2018.</p>
i	<p>See further details on risk in note 18 to the accounts on page 92.</p>

STRATEGIC OVERVIEW

Continued

G	OPERATIONAL RISKS: SERVICE PROVIDERS
Risks & Impact	<p>Poor performance and / or inadequate procedures at key service providers i.e. Investment Manager, Company Secretary, Managing Agent, Registrar, could lead to errors, fraud, non-compliance with their contractual agreements and/or with relevant legislation. Failings in their data management processes and disaster recovery plans, including cyber security safeguards, could lead to financial loss and business disruption for the Company.</p>
Mitigation	<ul style="list-style-type: none"> ▲ UKCM has a strong control culture, that is also reflected in its partnerships with suppliers. ▲ All investment decisions are subject to a formal approval process with specified authority limits. ▲ All third party service providers are carefully selected for their expertise, reputation and financial standing. Service level agreements are negotiated with all material suppliers and regularly monitored to ensure that pre-agreed standards are met. ▲ Suppliers' business continuity and disaster recovery plans, including safeguards against cyber-crime, are also regularly examined. ▲ The Management Engagement Committee ("MEC") formally reviews all key service providers once a year.
Commentary	<p>▲ Key service providers have not changed during 2018. No material issues noted from the reviews of service providers in the year.</p>
Change	<p>No significant change in risk.</p>
i	<p>—</p>

H	OPERATIONAL RISKS: ACCOUNTING AND VALUATION
Risks & Impact	<p>Accounting records and financial statements could be incorrect or incomplete or fail to comply with current accounting standards. In particular property valuations, income and expenses could be calculated and recorded inaccurately.</p>
Mitigation	<ul style="list-style-type: none"> ▲ All properties within the portfolio are independently valued by CBRE Ltd on a quarterly basis and their year-end valuations recorded in the Company's accounts. ▲ A rigorous valuation process is undertaken each quarter by the Company's Investment Manager to ensure fair and complete property valuations that are then reviewed, challenged and verified by CBRE. ▲ The Property Valuation Committee reviews thoroughly each quarter this independent valuation process. ▲ Accounting control and reconciliation processes are in place at the Investment Manager. These are subject to regular independent assessment for their suitability and operating effectiveness by an external auditor. ▲ Financial statements are subject to a year-end audit by Deloitte LLP.
Commentary	<p>▲ No material accounting/valuation issues recorded in the year.</p>
Change	<p>No significant change in risk.</p>
i	<p>—</p>

I	REGULATORY RISKS: COMPLIANCE
Risks & Impact	The Company could fail to comply with existing legislation or adapt to new or future regulation. In particular, the Company could fail to comply with REIT legislation and ultimately lose its REIT status, thereby incurring substantial tax penalties.
Mitigation	<ul style="list-style-type: none"> ▲ The Board receives regular updates on relevant regulatory changes from its professional advisors. ▲ The highest corporate governance standards are required from all key service providers and their reputation and performance are reviewed annually by the Management Engagement Committee. ▲ The Board reviews quarterly a REIT dashboard confirming compliance with REIT regulations.
Commentary	<ul style="list-style-type: none"> ▲ Board has reviewed and taken action to ensure compliance with new UK Code of Corporate Governance. ▲ The Management Engagement Committee has ensured all key suppliers and contracts are GDPR compliant. ▲ Processes have been put in place to ensure ongoing compliance with REIT rules following conversion to a REIT on 1 July 2018.
Change	No significant change in risk.
i	—

J	STAKEHOLDER ENGAGEMENT RISKS: COMMUNICATION
Risks & Impact	A communication breakdown with key stakeholders, particularly shareholders and tenants, could prevent the Company from understanding and responding to their needs and concerns. When required to fulfil certain reporting requirements, the Company could fail to communicate with regulatory authorities about its major shareholders. As a result the Company could potentially suffer financial penalties and reputational damage.
Mitigation	<ul style="list-style-type: none"> ▲ A high degree of engagement is maintained with both shareholders and tenants. ▲ The Investment Manager regularly meets with shareholders and periodically, the Chair of the Board, also meets shareholders. ▲ Quarterly Board reports include detailed shareholder analysis, written and verbal reports from JP Morgan, the Company's Corporate Broker and feedback from shareholder and analyst meetings where appropriate. ▲ The Investment Manager works closely with tenants to understand better their needs and to remodel and refurbish buildings to fit their evolving requirements. This helps to reduce the risk of vacant properties. ▲ The Company receives professional advice on its reporting obligations regarding major shareholders to ensure that it complies with regulations.
Commentary	<ul style="list-style-type: none"> ▲ Company has held two shareholder and analyst presentations in the year and the Investment Manager has met multiple shareholders. ▲ Chair of the Board has also met with several institutional shareholders. ▲ Investment Managers have visited all properties held at least once in 2018. ▲ Board of Directors have continued to visit properties during the year as part of a rolling programme to visit all properties over a three year period.
Change	No significant change in risk.
i	—

STRATEGIC OVERVIEW
Continued

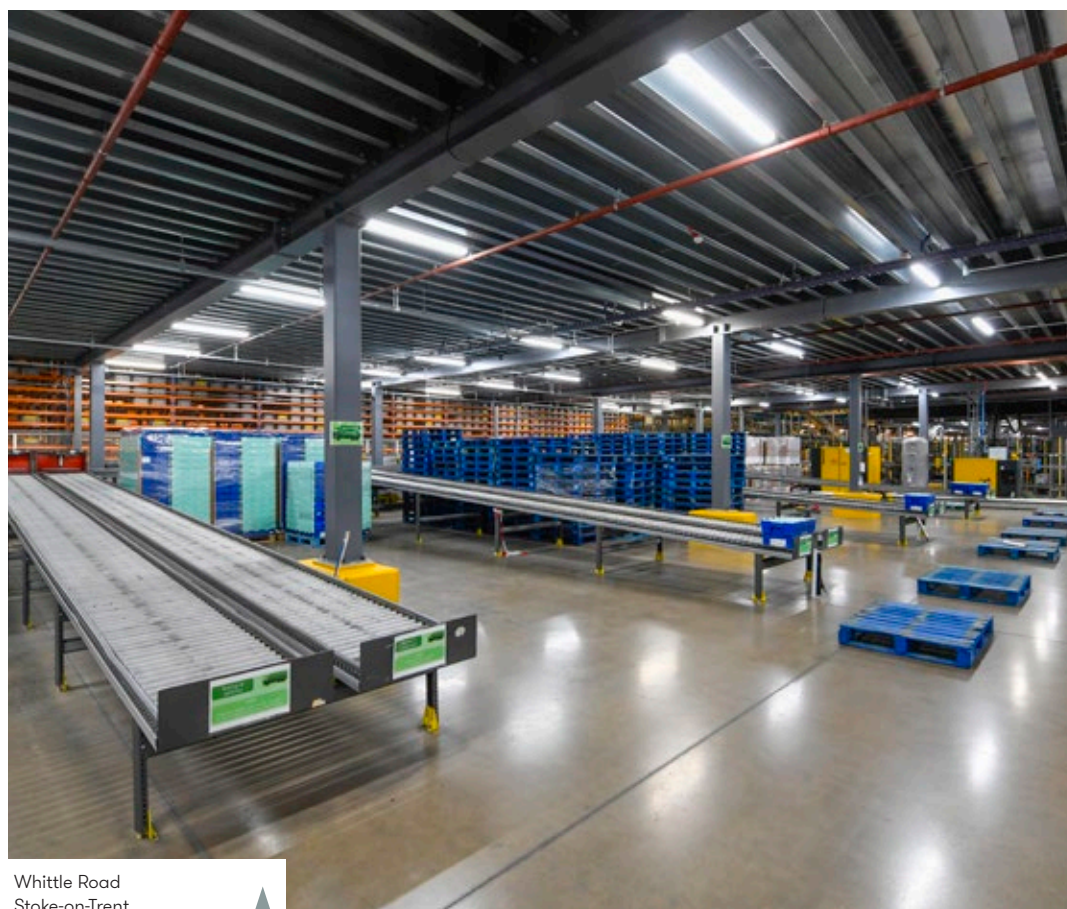


Craven House
London, W1



Viability Statement

The Board considers viability as part of its ongoing programme of monitoring risk. The Board considers five years to be a reasonable time horizon over which to review the continuing viability of the Company. The Board also considers viability over the longer term, in particular to key points outside this time frame, such as the due dates for the repayment of long-term debt. In addition, the Board considers viability in relation to continuation votes. These are held periodically with the next one scheduled for 2020 and every seven years thereafter. In addition a continuation vote may be required if the Company's shares trade at a discount of over 5% for a continuous period of 90 dealing days or more. Further details on this are set out on [page 46](#) of the Report of the Directors.



Whittle Road
Stoke-on-Trent

The Board has considered the nature of the Company's assets and liabilities and associated cash flows. The Board has determined that five years is a reasonable 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.

The Board has also carried out a robust assessment of the principal risks faced by the Company, as detailed on [pages 31–37](#). The main risks which the Board considers will affect the business model, future performance, solvency, and liquidity are ongoing discounts leading to continuation votes, tenant failure leading to a fall in dividend cover and macroeconomic uncertainty. The Board takes any potential risks to the ongoing success of the Company, and its ability to perform, very seriously and works hard to ensure that risks are consistent with the Company's risk appetite at all times.

In assessing the Company's viability, the Board has carried out thorough reviews of the following:

- ▲ Detailed NAV, cash resources and income forecasts, prepared by the Company's Investment Manager, for a five year period under both normal and stressed conditions;
- ▲ The Company's ability to pay its operational expenses, bank interest, tax and dividends over a five year period;
- ▲ Future debt repayment dates and debt covenants, in particular those in relation to LTV and interest cover;
- ▲ Demand for the Company's shares and levels of premium or discount at which the shares trade to NAV;
- ▲ Views of shareholders on the ongoing continuation of the Company; and
- ▲ The valuation and liquidity of the Company's property portfolio, the Investment Manager's portfolio strategy for the future and the market outlook.

Despite the uncertainty in the UK regarding Brexit, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five years. This assessment is based on the results of the analysis outlined above and on the assumption that the periodic continuation vote to be held in 2020 is passed.

STRATEGIC OVERVIEW

Continued

Sustainable Real Estate Investment Policy

The Investment Manager acquires, develops and manages properties on behalf of the Company. It is recognised that these activities have both direct and indirect environmental and social impacts. The Board has adopted the Investment Manager's own Environmental, Social and Governance Policy (ESG) and associated operational procedures and is committed to environmental management in all phases of the investment process.

The Manager has identified four ESG megatrends that are highly relevant for real estate investment now and in the future: Environment & Climate Change, Governance & Engagement, Population & Urban Living and Technology & Connectivity. The identification of risks and opportunities for the Company in relation to each of the megatrends is embedded throughout the investment process and at all levels, from Company-level strategic planning to asset underwriting and individual asset ESG action plans.

To facilitate this, the Manager works in partnership with contractors, suppliers, occupiers and consultants, seeking continuous improvements in ESG performance and conducting regular reviews.

The Company was awarded a Green Star ranking from the Global Real Estate Sustainability Benchmark 2018 and improved its score by 9% compared with 2017. A Green Star is awarded to entities that perform well in both categories of the GRESB assessment: Management & Policies and Implementation & Measurement. The Company also received a European Sector Leader award as the top performer in its peer group.

Following the disclosure of ESG performance against the EPRA Sustainability Best Practice Reporting guidelines in the 2018 report, the Company received both Gold and Most Improved awards from EPRA. These awards recognise the Company's strong commitment to ESG and transparency.

The full ESG disclosures for the Company, including energy, water and emissions performance for 2018 are included on [page 100](#) of this report.



Kew Retail Park
Richmond

Health & Safety Policy

Alongside these environmental principles the Company has a health and safety policy which demonstrates commitment to providing safe and secure buildings that promote a healthy working environment and a customer experience that supports a healthy lifestyle. The Company, through the Investment Manager, manages and controls health and safety risks systematically as any other critical business activity using technologically advanced systems and environmentally protective materials and equipment. By achieving a high standard of health and safety performance, the Company aims to earn the confidence and trust of tenants, customers, employees, shareholders and society at large.



Darwin Shopping Centre
Shrewsbury



The White Building
Reading

Bribery & Ethical Policy

It is the Company's Policy to prohibit and expressly forbid the offering, giving or receiving of a bribe in any circumstances. This includes those instances where it may be perceived that a payment, given or received, may be a bribe. The Company has adopted this Anti-Bribery and Corruption Policy to ensure robust compliance with The UK Bribery Act 2010. The Company has made relevant enquiries of its Investment Manager and has received assurances that appropriate anti-bribery and corruption policies have been formulated and communicated to its employees. In addition the Board has adopted an ethical policy which highlights the need for ethical considerations to be considered in the acquisition and management of both new and existing properties.

Approval of Strategic Report

The Strategic Report of the Company comprises the following on [pages 3 to 41](#): Financial and Property Highlights, Performance Summary, Chair's Statement, Investment Manager Review, Portfolio Information and Strategic Overview incorporating the risk management section.

The Strategic Report was approved by the Board on 25 April 2019.

Andrew Wilson
Director

Ken McCullagh
Director





Governance



UK
Commercial
Property
REIT

BOARD OF DIRECTORS AND MANAGEMENT TEAM

BOARD OF DIRECTORS

The Directors, all of whom are non-executive and are independent of the Investment Manager, are responsible for the determination of the investment policy of the Group and its overall supervision.



1 Ken McCullagh, Chair of Audit Committee and Senior Independent Director, is a resident of Ireland. Since 2000 he has been Chief Executive Officer of LNC Property Group, a private real estate investment company which held and managed €500 million of assets. Previously he worked as a Director and Partner of Corporate Finance for Farrell Grant Sparks, Chartered Accountants and was also a Financial Controller of Gunne Estate Agents (now CBRE) in Dublin. He is a Fellow of the Institute of Chartered Accountants of Ireland. Mr McCullagh was appointed to the Board in February 2013 and is Senior Independent Director.



2 Michael Ayre, Chair of the Property Valuation Committee, is a resident of Guernsey. He is currently a consultant to the Guernsey taxation and private client business of Intertrust Group, Intertrust Reads Private Clients Limited. Mr Ayre is also currently a Director of ABN Amro (Channel Islands) Limited. Mr Ayre is a fellow of the Association of Chartered Certified Accountants and is also a member of the Chartered Institute of Taxation. Mr Ayre was appointed to the Board in February 2016.

MANAGEMENT TEAM



7 Will Fulton graduated from the University of Aberdeen in 1987 with a degree in Land Economy when he joined Standard Life, becoming a member of the Royal Institution of Chartered Surveyors in 1990. Throughout his 30 year career he has held a variety of commercial real estate positions gaining multi-disciplinary experience spanning investment, valuation, asset management, debt facility management, development and investor relations both in the UK and across continental Europe. Prior to managing UKCM, he oversaw a team managing the £2.3 billion Standard Life Heritage With Profits Real Estate Fund.



3 Margaret Littlejohns, Chair of the Risk Committee, is a resident of the UK. Ms Littlejohns has 18 years' experience with Citigroup in investment and commercial banking, with specific expertise in risk management (both market and credit risk). Between 2004 and 2006, following an MBA at Imperial College, she co-founded two start-up ventures providing self storage facilities in the Midlands and acted as Finance Director until the businesses were successfully sold to a regional self storage chain in 2016. She is also a Non-Executive Director of JPMorgan Mid Cap Investment Trust plc and Foresight VCT plc as well as being Chair of Henderson High Income Trust plc. Ms Littlejohns was appointed to the Board on 1 January 2018.



4 Andrew Wilson, Chair of the Board, is a resident of the UK. He was formerly of Richard Ellis, Royal Insurance as Chief Surveyor and he joined Rugby Securities as a director in 1987. He was a founder director of Rugby Estates plc in 1990 and Chief Executive Officer through its official listing, move to the Alternative Investment Market and subsequent de-listing and sale. He is also a non-executive Chair of a London based Family Office and, until June 2018, a major West End office agency. He was previously a non-executive Director of a Building Society. He is a Chartered Surveyor and was until his appointment as Chair, the Senior Independent Director and Chair of the Property Valuation Committee of the Company.



5 Robert Fowlds, Non-executive Director, is a resident of the UK. Mr Fowlds is a Chartered Surveyor and worked in the listed Real Estate Sector for c.30 years. He retired in 2015 as Managing Director & Head of Real Estate Investment Banking for UK & Ireland at J.P. Morgan Cazenove, where in 10 years he doubled the size of the franchise. Prior to his career in Corporate Finance, he was Co-Head of Pan-European Real Estate Equity Research at Merrill Lynch, and previously Kleinwort Benson. His first career was as a Chartered Surveyor specialising in UK investment and development markets. Mr Fowlds now consults for a few leading real estate organisations, and was appointed to the Board on 1 April 2018. He was also appointed to the Supervisory Board of Klepierre S.A. on 24 April 2018, and appointed a Non-Executive Director of LondonMetric Property Plc on 31 January 2019. He was a member of the EPRA Board until 2012.



6 Sandra Platts, Chair of the Management Engagement Committee and Nomination Committee, is a resident of Guernsey and is a non-executive director of Investec Bank (C.I.) Ltd and Starwood European Finance Partners Ltd. Mrs Platts was Managing Director of Kleinwort Benson in Guernsey and Chief Operating Officer for Kleinwort Benson Private Banking Group (UK and Channel Islands). She also held directorships of the Kleinwort Benson Trust Company and Operating Boards, retiring from Kleinwort Benson boards in 2010. Mrs Platts holds a Masters in Business Administration and The Certificate in Company Direction from the Institute of Directors. Mrs Platts was appointed to the Board in December 2013.



9 Graeme McDonald graduated from the University of Strathclyde in 1995 with a BA degree in Accountancy and joined Hardie Caldwell Chartered Accountants in 1996 where he qualified as a Chartered Accountant in 1999. In 2001 Mr McDonald joined Glasgow Investment Managers ("GIM") as chief accountant focusing on the finance, administration and company secretarial work for three investment trusts. Following GIM's takeover by Aberdeen Asset Managers in 2007, Mr McDonald transferred to Aberdeen working on both investment trusts and Venture Capital trusts. In 2009 Mr McDonald joined Scottish Widows Investment Partnership as a finance project manager before joining Ignis in January 2011 as a Fund Accounting Manager to provide a dedicated fund accounting and company secretarial service to UKCM. Mr McDonald transferred over to Standard Life Investments in October 2014.



81/85 George Street
Edinburgh

The Directors present the report and accounts of UK Commercial Property REIT Limited, (“the Company”) for the year ended 31 December 2018.

Results and Dividends

The Group generated an IFRS profit of £53.0 million (2017: £131.6 million) in the year equating to an earnings per share of 4.08p (2017: 10.12p). The Company had cash at the year-end of £43.5 million (2017: £72.4 million). The Group paid out dividends totalling £47.8 million (2017: £47.8 million) in the year.

The Company has paid interim dividends in the year ended 31 December 2018 as follows:

	Payment date	Rate per share (p)
Fourth interim for prior period	February 2018	0.92
First interim	May 2018	0.92
Second interim	August 2018	0.92
Third interim	November 2018	0.92
TOTAL		3.68

On 7 February 2019 the Company declared a fourth interim dividend of 0.92 pence per ordinary share with an ex-dividend date of 14 February 2019, which was paid on 28 February 2019.

Principal Activity and Status

The Company is a Guernsey company and during the year carried on business as a property investment company. The Group migrated tax residence to the UK and elected to be treated as a UK REIT with effect from 1 July 2018. The principal activity and status of the Company’s subsidiaries is set out in note 7 on page 82.

Strategy

The Company’s objective and strategy is set out in detail in the Strategic Report on page 28.

Listing Requirements

Throughout the period the Company complied (and intends to continue to comply) with the conditions applicable to property investment companies set out in the Listing Rules.

Share Capital

The issued share capital at 31 December 2018 consisted of 1,299,412,465 ordinary shares of 25p each. At 30 April 2019 these numbers were unchanged. Each ordinary share of the Company carries one vote at general meetings of the Company. Save for the provision of the articles of association, there are no restrictions on the transfer of ordinary shares in the Company other than certain restrictions which may from time to time be imposed by law (for example, insider trading law).

▲ Jan 18

Margaret Littlejohns appointed as a Director

▲ Apr 18

Robert Fowlds appointed as a Director

	Date of Appointment	Shares as at 31 December 2018	Shares as at 31 December 2017
Andrew Wilson	September 2006	100,000	75,000
John Robertson retired 31 March 2018	September 2006	n/a	10,000
Ken McCullagh	February 2013	40,000	40,000
Sandra Platts	December 2013	—	—
Michael Ayre	February 2016	42,000	42,000
Margaret Littlejohns appointed 1 January 2018	January 2018	40,000	n/a
Robert Fowlds appointed 1 April 2018	April 2018	50,000	n/a

Directors

The Directors who held office during the period and their interests in the ordinary shares of the Company as at 31 December 2018 (all of which are beneficial) are shown in the table above.

There have been no changes in the above interests between 31 December 2018 and 31 March 2019.

The Directors are also Directors of UK Commercial Property Holdings Limited, UK Commercial Property GP Limited, UK Commercial Property Nominee Limited, UK Commercial Property Estates Holdings Limited, UK Commercial Property Estates Limited and UK Commercial Property Finance Holdings Limited which are all wholly owned subsidiary undertakings. The Group wholly owns Brixton Radlett Property Limited, a UK Limited Company, the Directors of which were Mr Andrew Wilson and Mr John Robertson up to 31 March 2018 and Mr Andrew Wilson, Ms Margaret Littlejohns and Mr Robert Fowlds from 1 April 2018. In addition the Group acquired UK Commercial Property Estates (Reading) Limited in June 2018, a UK Limited company, the Directors of which are Mr Andrew Wilson, Ms Margaret Littlejohns and Mr Robert Fowlds.

The Company maintains an appropriate level of insurance in respect of Directors' & Officers' liabilities in relation to work undertaken on behalf of the Company and all its subsidiaries. In addition, individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties.

As recommended by the AIC Code of Corporate Governance and the UK Corporate Governance Code, the Company's policy is for all Directors to retire and offer themselves for election at the Annual General Meeting ("AGM") immediately following their appointment and for re-election annually thereafter. Accordingly, the whole Board will retire and offer themselves for re-election at the AGM.

In February 2017, the Board engaged Boardroom Review Ltd to carry out an external evaluation of the performance of the Board, the Committees and the individual Directors. This sought to identify whether the Board demonstrates sufficient collective skill and expertise, independence and knowledge of the Company and that each Director exhibits the commitment required for the Company to achieve its objective. The evaluation concluded that the performance of the Board and the individual Directors continues to be effective with each Director making a positive contribution to the performance and long-term sustainable success of the Company. The action points arising from the review have been addressed and, where appropriate, revised policies have been adopted. Therefore, the re-election and election of all the Directors who are being put forward is recommended to shareholders at the 2019 AGM.

Alternative Investment Fund Manager ("AIFM")

Up to 10 December 2018, Standard Life Investments (Corporate Funds) Limited was the Company's AIFM. On 10 December 2018, the contract was novated to Aberdeen Standard Fund Managers Limited.

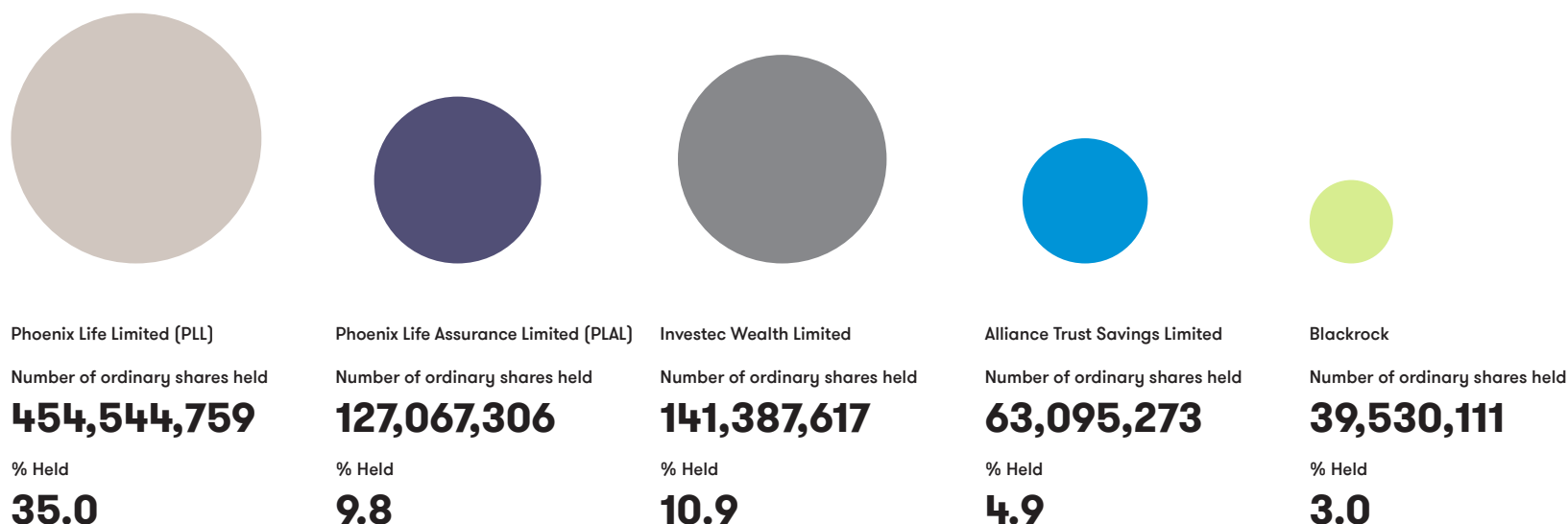
Depository

In accordance with the requirements of AIFMD, the Board appointed Citibank Europe Plc as Depository.

REPORT OF DIRECTORS

Continued

SHARE CAPITAL AT 31 DECEMBER 2018



Substantial Interests in Share Capital

At 31 December 2018 the above entities had a holding of 3% or more of the Company's share capital.

Phoenix Group is the largest specialist consolidator of heritage life assurance funds in Europe. On launch the Company was managed by Ignis Investment Services Limited ("Ignis"), a subsidiary of Phoenix. The Company's initial property portfolio was purchased from the Phoenix Group in exchange for shares in the Company resulting in the Phoenix Group holding approximately 71 per cent of the issued share capital of the Company through its subsidiaries. The Phoenix Group shareholding is held via a number of with profits funds which are closed to new investment and hence are in run-off over the medium to long term. Since launch the Phoenix Group has therefore been reducing its shareholding in the Company. On 24 February 2016 the Phoenix Group notified the Company that, following the sale by the Phoenix Group of interests in the Company, the Phoenix Concert Group's holding in the Company had fallen below 50 per cent.

The Phoenix Group shareholding in the Company is held through Phoenix Life Assurance Limited ("PLAL") and four special purpose vehicles all of which own under 10% and all of whom are subsidiaries of Phoenix Life Limited ("PLL"). The holding is managed on an arms-length basis and by a separate team within Aberdeen Standard Investments to the team who manage the Company. There is also a shareholder agreement between the Company and PLL and PLAL which provides that PLL and PLAL and their associates will not take any action which would be detrimental to the general body of shareholders.

No changes to any of the other above holdings had been notified to the Company as at 25 April 2019.

The Takeover Code

The Directors are aware that following the completion of the sale of Standard Life Aberdeen's insurance business to the Phoenix Group, the Investment Manager is part of the Phoenix concert party. Under Rule 37 of the Takeover Code, when a company purchases its own shares, any resulting increase in the percentage of shares carrying voting rights in which a person or group of persons acting in concert is interested will be treated as an acquisition

for the purposes of Rule 9. A shareholder who is neither a Director nor acting in concert with a Director will not normally incur an obligation to make an offer under Rule 9 of the Takeover Code. Under Rule 37, however, the holding of an Investment Manager of a company, together with the holdings of its concert parties, will be treated in the same way as a Director.

Accordingly, if the Company were to utilise its proposed share buy back authority and the Phoenix concert party's aggregate interest in the ordinary shares were to increase between 30% and 50%, an obligation for the Phoenix concert party to make a general offer to all shareholders in accordance with Rule 9 of the Takeover Code may be triggered. Therefore, a waiver from the Panel on Takeovers and Mergers is required to allow the Company to utilise the share buy back authority without triggering an offer under the takeover code.

On 18 April 2019, a General Meeting of the Company was held at which independent shareholders, excluding the Phoenix Group, approved a waiver of the obligation on the Phoenix concert party to make a general offer for the entire issued share capital of the Company if the Company undertook a buy back. This authority will need to be renewed on an annual basis as long as the concert party remains in place.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the Strategic Overview on [pages 28 to 41](#). In addition, [note 18](#) to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposure to credit risk and liquidity risk.

At both the Company and Group levels comprehensive going concern assessments have been performed. The Board has followed the Financial Reporting Council's "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting 2014" when performing their going concern assessments and also considered the UK Corporate Governance Code (July 2018).

The assessments performed include review of the valuation and liquidity of investments as at the balance sheet date and forecasts of NAV, cash resources and income under both normal and stressed conditions.

Having thoroughly considered the going concern assessment the Board has concluded that there are no material uncertainties that may cast significant doubt about the Company and Group's ability to continue as a going concern over the next twelve months from the date of the annual report. The Directors have a reasonable expectation that the Company and Group will be able to continue in operational existence and to have adequate resources to meet its liabilities as they fall due over the next twelve months. In addition the Directors also have a reasonable expectation that any continuation vote to be held in the next twelve months, whether it be a periodic continuation vote due in 2020 or an earlier one resulting from the Company's discount control policy as set out on [page 50](#), would be [expected to be passed](#). This is based on feedback from the regular shareholders meetings undertaken and a recent positive vote from shareholders on amending the Company's investment policy. Therefore, the Board continues to adopt the going concern basis of accounting in preparing the annual financial statements.

Non-Mainstream Pooled investments

The Company currently conducts its affairs so that the shares issued by the Company can be recommended by IFAs to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future.

The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because the Company has UK REIT status.

Annual General Meeting

Among the resolutions being put at the Annual General Meeting of the Company to be held on 17 June 2019, the following resolutions will be proposed.

Dividend policy

It is the Directors' intention in line with the Company's investment objective to pay an attractive level of dividend income to shareholders on a quarterly basis. The Directors intend to set the level of dividend after taking into account the long term income return of the Property Portfolio, the diversity and covenant strength of the tenants and the length of the leases of the Properties.

Dividends on the ordinary shares are expected to be paid in four instalments quarterly in respect of each financial year in February, May, August and November. All dividends will be in the form of property income distribution, ordinary dividends or a mixture of both and paid as interim dividends.

As a result of the timing of the payment of the Company's quarterly dividends, the Company's shareholders are unable to approve a final dividend each year. As an alternative the Board will put the Company's dividend policy to Shareholders for approval on an annual basis.

Resolution 2, which is an ordinary resolution, relates to the approval of the Company's dividend policy to continue to pay four interim dividends quarterly.

Directors Fees

At the December 2018 Board Meeting, the Board carried out a review of the level of directors' fees. The resulting increases, which took effect from 1 January 2019, are detailed in the Directors' Remuneration Report on [page 60](#).

As a result of these increases in fees, and in order to ensure that the Board has ongoing flexibility to be able to appoint additional directors, Resolution 5, an ordinary resolution, will be put to shareholders at the 2019 AGM seeking approval to increase, the maximum aggregate limit of remuneration of the directors each year in respect of their ordinary services as directors from £300,000 to £400,000. Since the maximum fee level was last increased in ~~XXX~~, since which the number of Directors has increased from 5 to 6.

REPORT OF DIRECTORS

Continued

Disapplication of Pre-emption Rights

Resolution 14 gives the Directors, for the period until the conclusion of the Annual General Meeting in 2020 or, if earlier, on the expiry of 15 months from the passing of resolution 14, the necessary authority either to allot securities or sell shares held in treasury, otherwise than to existing shareholders on a pro-rata basis, up to an aggregate nominal amount of £32,485,312. This is equivalent to approximately 10 per cent of the issued ordinary share capital of the Company as at 25 April 2019. There are no shares currently held in treasury. The Directors will allot new shares pursuant to this authority only if they believe it is advantageous to the Company's shareholders to do so and the issue price of new shares will be at a premium to the latest published net asset value per share.

Directors' Authority to Buy Back Shares

The current authority of the Board granted to it by shareholders at the 2018 AGM to buy back shares in the Company expires at the end of AGM to be held in 2019. The Board intends to renew such authority to buy back shares up to 14.99 per cent of the number of ordinary shares in issue. This special resolution (resolution 15), if approved, will enable the Company to buy back up to 194,781,928 shares based on the current number of shares in issue (excluding any treasury shares). Any buy back of ordinary shares will be made subject to Guernsey law and within guidelines established from time to time by the Board, which will take into account the income and cashflow requirements of the Company, and the making and timing of any buy backs will be at the absolute discretion of the Board.

Purchases of ordinary shares will only be made through the market for cash at prices below the prevailing published net asset value of an ordinary share (as last calculated, adjusted downwards for the amount of any dividend declared by the Company upon the shares going ex-dividend), where the Directors believe such purchases will enhance shareholder value. Such purchases will also only be made in accordance with the rules of the UK Listing Authority which provide that the price to be paid must not be more than the higher of (i) five per cent. above the average of the middle market quotations for the ordinary shares for the five business days before the purchase is made and (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange. The minimum price (exclusive of expenses) that may be paid is 25 pence a share.

The Company may retain any shares bought back as treasury shares for future re-issue, or transfer, or may cancel any such shares. During the period when the Company holds shares as treasury shares, the rights and obligations in respect of those shares may not be exercised or enforced by or against the Company. The maximum number of shares that can be held as treasury shares by the Company is 10 per cent of the aggregate nominal value of all issued ordinary shares. Ordinary shares held as treasury shares will only be re-issued, or transferred at prices which are not less than the published net asset value of an ordinary share.

Prior to the publication of this report, the share buyback policy included an intention by the Directors that they may buyback ordinary shares if the share price is more than 5 per cent below the published net asset value. However the Board are modifying this policy in the paragraph below to focus on long term risk adjusted returns for shareholders as it weighs up buybacks versus real estate opportunities, be it new assets or capital expenditure in the existing portfolio. The Directors believe that this policy is better suited to an illiquid asset class.

It is the intention of Directors that the share buy back authority may be used to purchase ordinary shares in the Company, (subject to the income and cash flow requirements of the Company) if the level of discount represents an opportunity that will generate risk adjusted returns in excess of that which could be achieved by investing in real estate opportunities at a particular time.

The discount control policy of the Company provides that in the event that the share price discount to prevailing published NAV (as last calculated, adjusted downwards for the amount of any dividend declared by the Company upon the shares going ex-dividend) is more than 5 per cent for 90 dealing days or more, following the second anniversary of the Company's most recent continuation vote, the Directors will convene an Extraordinary General Meeting ("EGM") to be held within three months to consider an ordinary resolution for the continuation of the Company. If this continuation resolution is not passed, the Directors will convene a further extraordinary general meeting to be held within six months of the first EGM to consider the winding up of the Company or a reconstruction of the Company which offers all shareholders the opportunity to realise their investment. If any such continuation resolution is passed, this discount policy, save in respect of share buy backs, would not apply for a period of two years thereafter. The last continuation vote was held on 9 November 2016. As at 15 April 2019, the discount, adjusted for the shares going ex-dividend, was 3.7%.

Auditors

Deloitte LLP has expressed its willingness to continue in office as the Company's auditor and a resolution proposing its re-appointment will be put to the AGM.

So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware, and each has taken all the steps he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Recommendations

The Directors believe that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole, and recommend that shareholders vote in favour of the resolutions, as the Directors intend to do in respect of all their own beneficial shareholdings.

Statement Regarding the Annual Report and Accounts

Following a detailed review of the Annual Report and Accounts by the Audit Committee, full details of which can be found in the Audit Committee Report, the Board consider that when taken as a whole, it is fair, balanced and understandable and provides the transparency necessary for shareholders to assess the Company's position, performance, business model and strategy.

The Board welcomes views from shareholders and company analysts on the Annual Report and Accounts and, where practical, will incorporate any suggestions that will improve the document.

Approved by the Board on 25 April 2019.

Andrew Wilson
Director

Ken McCullagh
Director



Maldron Hotel
Newcastle



**The Board considers
against the principle
recommendations of
and by reference to t
(which incorporates
Governance Code), w
appropriate and sati
of transparency to sh**

**that reporting
s and
the AIC Code,
he AIC Guide
the UK Corporate
ill provide an
sfactory level
areholders.**

Introduction

The Board has considered the principles and recommendations of the 2016 AIC Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for investment Companies (AIC Guide) both of which can be found at www.theaic.co.uk. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code which can be found at www.frc.org.uk, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The Board also notes the principles and recommendations of the 2018 UK Corporate Governance Code which applies to accounting periods beginning on or after 1 January 2019 and the AIC Code of Corporate Governance published in February 2019. The Company will report its compliance against the new AIC Code within its Annual Report to 31 December 2019.

The Board considers that reporting against the principles and recommendations of the 2016 AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide an appropriate and satisfactory level of transparency to shareholders.

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

The UK Corporate Governance Code includes provisions relating to:

- ▲ the role of the chief executive (A.1.2); and
- ▲ executive directors' remuneration (D.1.1 and D.1.2).

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers these provisions are 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.

The Board

The Board consists solely of non-executive Directors of which Mr Andrew Wilson is Chair and Mr Ken McCullagh is Senior Independent Director and Chair of the Audit Committee. All Directors are considered by the Board to be independent, with any potential conflicts considered at each Board meeting with reference to the AIC Code. The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as all Directors will be subject to re-election on an annual basis, it is not appropriate for the Board to have a limit on the overall length of service of any of the Company's Directors, including the Chair.

The Board also takes the view that independence is not compromised by length of tenure on the Board and Mr Wilson, who has been a Director since 2006, has not been compromised by length of service. In considering this, the Board considered a number of factors including experience, integrity and judgement of character. As referred to in the Chair's statement, Mr Wilson will be retiring on 31 December 2019 and will be replaced as Chair by Mr Ken McCullagh.

Mr Robert Fowlds was previously Head of Real Estate Investment Banking at JP Morgan Cazenove, the Company's broker, up until his retirement in November 2015. He also has a senior advisory role on a consultancy basis to CBRE who are also the Company's valuer. This role is in no way linked to the valuation service provided by CBRE. The Board believe neither his existing role with CBRE, given how independent this is of the Company's valuation process nor the previous role with JP Morgan Cazenove, where his involvement in the Company's affairs was limited, compromise his independence and hence the Board believe Mr Fowlds is independent.

The Board has a clear strategy in place to refresh the Board on an ongoing basis and also undertakes Directors' evaluations set out in the Report of the Directors.

During 2017, the Board engaged Spencer Stuart to carry out a search for two new Directors and Ms Littlejohns and Mr Fowlds were subsequently appointed to the Board on 1 January 2018 and 1 April 2018 respectively.

New Directors follow an induction process, including input from the Investment Manager, Company Secretary and Corporate Broker, on joining the Board and all Directors receive other relevant training as necessary.

A management agreement between the Company and its Investment Manager sets out the matters over which the Investment Manager has authority and the limits beyond which Board approval must be sought. All other matters, including strategy, investment and dividend policies, gearing, and corporate governance procedures, are reserved for the approval of the Board of Directors. The Board currently meets at least quarterly and receives full information on the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings. In addition the Board has many ad hoc meetings and an annual strategy day.

Board Committees

The Board has appointed five committees to cover specific operations: Audit Committee, Management Engagement Committee, Nominations Committee, Property Valuation Committee and Risk Committee. Copies of the terms of reference of each committee are available on the Company's website, or upon request from the Company. The Board performs a detailed analysis of the various parts of the business through the Committees and receives reports from the Committee Chair highlighting matters requiring the Board's further attention or noting.

Audit Committee

Information regarding the composition, responsibilities and activities of the Audit Committee is set out in the Audit Committee Report on [pages 58-59](#).

Management Engagement Committee

The Management Engagement Committee comprises all independent Directors of the Company and is chaired by Mrs Sandra Platts.

The Management Engagement Committee met once in 2018. The purpose of the Committee is to review the terms of the agreements with the Investment Manager including, but not limited to, the management fee and also to review the performance of the Investment Manager in relation to the achievement of the Company's objectives. These reviews have been conducted during the year and the outcomes are noted below. The Board appointed Standard Life Investments (Corporate Funds) Limited as AIFM on 29 December 2015. Following the merger of Standard Life plc and Aberdeen Asset Management PLC, the management contract was novated to Aberdeen Standard Fund Managers Limited on 10 December 2018. A summary of the current contract between the Company and Aberdeen Standard Fund Managers Limited in respect of management services provided is given in note 4 to the accounts.

The Management Engagement Committee has considered the investment performance of the Company and the capability and resources of the Investment Manager to deliver satisfactory investment performance. They also considered the length of the notice period of the investment management contract and the fees payable to the Investment Manager, comparing these points against a number of comparators, together with the standard of the other services provided.

Following this review, it is the Directors' opinion, taking into account the reduction in management fees from 1 January 2019, detailed in note 4 to the accounts, that the continuing appointment of the Investment Manager on the terms agreed is in the interests of shareholders as a whole due to the strength and quality of the management team, performance achieved and the Investment Manager's commitment to the sector.

The Management Engagement Committee has also conducted reviews of the Company's other service providers, rating each provider on their understanding of the Group's aims and strategy, market awareness, quality of staff, cost effectiveness, reporting and regulatory compliance. The evaluation is shared and discussed with the individual supplier and an overall rating applied to the service of the provider in the year. Where appropriate, the Investment Manager has provided input. The outcome of these reviews has been satisfactory.

Nominations Committee

The Nominations Committee comprises all Directors and is chaired by Mrs Sandra Platts.

The Nominations Committee considers appointments of new Directors, undertaking a thorough and open process involving, where appropriate, professional recruitment consultants and committee interviews with candidates whose skills have been identified as complementary to the existing Board. The Board and Committee are cognisant of the debate around the recommendations of the Davies Report on Women on Boards and the Hampton Alexander Review and recognises the benefits of diversity in its broadest sense and the value this brings to the Company in terms of skills, knowledge and experience with women now making up a third of the Company's Board composition. Consideration of Directors' fees and remuneration policy is also undertaken by the Nomination Committee where the fees are compared against a number of different comparators. The Nominations Committee met three times during the year to consider Board succession and to consider the level of Directors' fees.

CORPORATE GOVERNANCE REPORT

Continued

Property Valuation Committee

The Property Valuation Committee comprises all of the Directors and is chaired by Mr Michael Ayre. The Chair prepares a report to the Committee four times a year that ties in with the quarterly NAV announcements and members of the Committee meet CBRE, the independent valuer to the Company, and representatives of Aberdeen Standard Investments at least twice a year and report back to the Board on the process for arriving at independent valuations and on any issues that arise in relation to this process. The Committee also reviews various indicators of the ongoing performance of the commercial property market such as sector yield sheets and reviews the performance of the property portfolio against the IPD benchmark and other comparable companies. In addition a process has been put in place to ensure all the property assets will have been visited by a committee member over a four year period.

Risk Committee

The Risk Committee was established on 21 September 2016, comprises all of the Directors and was chaired by Mr John Robertson up to 31 March 2018 and Ms Littlejohns from 1 April 2018. The Board established the Risk Committee, which meets quarterly, to ensure that proper consideration of risk is undertaken in all aspects of the Company's business on a regular basis. The duties of the Risk Committee include the consideration of matters relating to the risk profile of the Company, including an assessment of risk appetite, risk tolerance and risk strategy, and the regular review of principal and emerging risks, seeking assurance that these risks are appropriately rated and ensuring that appropriate risk mitigation is in place. This is done via a risk matrix that the Committee reviews on a quarterly basis which identifies the gross risks relating to the Group, considers how the risk has been addressed and

mitigated and then considers what the net risk is post mitigation. Further details are shown on [pages 31–37](#) of the report. The Risk Committee also reviews the Investment Manager's risk processes related to health and safety, and ensures that health and safety risks applying to property acquisitions are fully considered.

Directors Meeting Attendance Summary

The table below sets out the number of Board and Committee meetings all held during the year and the number attended by each Director post their appointment date. In addition to the above, there were 47 ad hoc meetings held during the year. Pre REIT conversion (1 July 2018) all meetings were held outside the UK. Post REIT conversion all meetings were held in the UK.

	Board of Directors		Audit Committee		Management Engagement Committee		Nominations Committee		Property Valuation Committee		Risk Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Andrew Wilson	4	4	3	3	1	1	3	3	4	4	4	4
Michael Ayre	4	4	3	3	1	1	3	3	4	4	4	4
Ken McCullagh	4	4	3	3	1	1	3	3	4	4	4	4
Sandra Platts	4	3	3	2	1	1	3	3	4	3	4	3
Margaret Littlejohn appointed 1 January 2018	4	4	3	3	1	1	3	3	3	3	3	3
Robert Fowlds appointed 1 April 2018	3	3	2	2	1	0	3	2	3	3	3	3
John Robertson retired 31 March 2018	1	1	n/a	n/a	n/a	n/a	n/a	n/a	1	1	1	1

Internal Controls

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the guidance in the Financial Reporting Council publication 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

The process is based principally on the Investment Manager's existing risk-based approach to internal control whereby a risk matrix is created that identifies the key functions carried out by the Investment Manager and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The risk matrix is regularly updated and the Risk Committee is provided with regular reports highlighting all material changes to the risk ratings and confirmation of the action which has been, or is being, taken. Further detail on the Group's risk management processes are detailed on [pages 31–37](#). In addition consideration of ISAE 3402 and similar reports issued by the Investment Manager, and other service providers where applicable, is considered. In addition, the Board also receives quarterly updates from both the Compliance and Internal Audit departments of the Investment Manager on areas that specifically affect the Company.

Internal control procedures have been in place throughout the period and up to the date of approval of this Report, and the Board is satisfied with their effectiveness up to the date of approval of this Report. These procedures are designed to manage rather than eliminate risk and, by their nature, can only provide reasonable, but not absolute, assurance against material misstatement or loss. At each Board meeting the Board monitors the investment performance of the Company in comparison to its stated objective and against comparable companies. The Board also reviews the Company's activities since the previous Board meeting to ensure that the Investment Manager adheres to the agreed investment policy and approved investment guidelines and, if necessary, approves changes to such policy and guidelines. In addition, at each Board meeting, the Board receives reports from the Company Secretary in respect of compliance matters and duties performed on behalf of the Company including conflicts of interest.

The Company's AIFM is Aberdeen Standard Fund Managers Limited (previously Standard Life Investments (Corporate Funds) Limited) and its Depositary is Citibank Europe Plc. The Depositary's responsibilities include cash monitoring, safe keeping of the Company's financial instruments and monitoring the Company's compliance with investment limits and leverage requirements.

The AIFM has a permanent risk management function to ensure that effective risk management policies and procedures are in place to monitor compliance with risk limits. The AIFM has a risk policy which covers the risks associated with the management of the portfolio and the adequacy and appropriateness of this policy is reviewed at least annually.

The Board has reviewed the need for an internal audit function. The Board has decided that the systems and procedures employed by the Investment Manager and the Company Secretary, including both their internal audit functions and the work carried out by the Company's external auditors, provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investments and the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

Relations with Shareholders

Shareholders are key stakeholders in the business and hence the Company places great importance on communication with its shareholders and welcomes their views. The Investment Manager and Broker of the Company meet existing and potential shareholders on a regular basis and the Board receives regular reports on the views of shareholders from these meetings. In addition the Chair, where possible, meets larger shareholders annually and other Directors are available to meet shareholders if required. The AGM of the Company and also the annual and interim results presentations provide a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Investment Manager of the Company.

Approved by the Board on 25 April 2019.

Andrew Wilson
Director

Ken McCullagh
Director

AUDIT COMMITTEE REPORT

Composition

The Audit Committee comprises all Directors, including Mr Andrew Wilson, as permitted by the 2019 AIC Code of Corporate Governance, and is chaired by Mr Ken McCullagh. The committee operates within well defined terms of reference which are available on the Company's website. Within the membership of the Committee, Mr Ken McCullagh, the Chair, and Mr Michael Ayre are qualified accountants. Mr Ayre will become Chair of the Audit Committee when Mr McCullagh becomes Chair of the Company.

Responsibilities

The main responsibilities of the Audit Committee are as follows:

- ▲ review the Annual and Interim Accounts and challenge where necessary the actions and judgements of the Company's Investment Manager;
- ▲ review and monitor the internal controls and risk management systems on which the Company is reliant;
- ▲ determine the terms of appointment of the auditor, together with its remuneration; and
- ▲ to advise the Board on whether the Annual Report and Accounts, taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Audit Committee is also the channel through which the auditor reports to the Board of Directors. It meets at least three times a year to take account of the requirements placed on audit committees by the UK Corporate Governance Code and AIC Code. The Audit Committee considers any matters which the auditor wishes to communicate to the Audit Committee and, through them, to the Board of Directors. This provides a forum for the external auditor to give their views about significant qualitative aspects of the Company's accounting practices and to draw to the attention of the Audit Committee any significant differences that they encountered during the audit, any substantial uncorrected misstatements, any disagreements with management and any other matters which they felt it appropriate to raise. The auditor attends at least two Audit Committee Meetings per year in person.

Significant Issues

At a planning meeting of the audit held with the auditor, the scope and timing of the audit was agreed and it was confirmed that the Directors had no knowledge of any fraud within the Company. It was agreed that the significant issues in the audit should be the valuations of the properties and the accuracy of the Company's income recognition. Set out below is how the Committee considered these issues during its review of the financial statements.

Valuation of Properties: How was the issue addressed?

The valuation of properties is undertaken in accordance with the accounting policy disclosed in **note 1(h)** to the accounts. The process adopted in the valuation of the portfolio and the valuations themselves are considered by the Property Valuation Committee, representatives of which met the external valuer, along with the Investment Manager, as part of the year end valuation process. The Chair of the Property Valuation Committee reported to the Audit Committee in March 2019 and indicated that the following issues were discussed in the meeting with the external valuers:

- ▲ market review and outlook;
- ▲ the level of yields on properties within the portfolio;
- ▲ letting activity within the portfolio;
- ▲ rental value and void changes; and
- ▲ comparable evidence relating to the valuation of the properties.

Particular focus was given to the underlying yields applied to a number of the properties and whether they appropriately reflected the comparable evidence, letting activity and the property market as a whole. Following this meeting and subsequent discussions with the Investment Manager, a value of £1,445,170,000 was agreed as the valuation of the property portfolio as at 31 December 2018. The Audit Committee considered the report by the Chair of the Property Valuation Committee along with a summary of the valuation and its key movements by the Investment Manager and agreed that this valuation was appropriate for the financial

statements and that a robust process of analysis had been followed. In terms of existence of the properties, the Committee noted the procedures that the Investment Manager has in place to ensure correct approval and title to all properties held which include any property investment transaction documentation having to be approved and signed by the Board irrespective of its value and the obligations on the Company's solicitors to ensure good and marketable title. In addition, as part of the external audit, the Committee sought assurance from the auditor prior to sign off of the financial statements that the confirmation of all titles has been included as part of the audit work undertaken.

Recognition of Rental Income: How was the issue addressed?

The recognition of rental income is undertaken in accordance with the accounting policy disclosed in **note 1(e)** to the accounts. The Committee considered the processes and controls the Investment Manager has in place to ensure the completeness and accuracy of income. These include data input checks, rent demand reconciliations and rent arrear reconciliations. In addition the Committee also considered the various reports provided by the Investment Manager and reviewed on a quarterly basis during the year which included the following:

- ▲ portfolio yield summaries;
- ▲ movement in annualised contracted rent;
- ▲ quarterly income changes with details of lease activity in the quarter;
- ▲ rent collection percentages;
- ▲ rental arrears; and
- ▲ detailed quarterly financial reporting detailing the main reason for revenue movements in the quarter.

The Audit Committee concluded that, given the controls and reporting in place throughout the year, the rental income number included in the financial statements of £65,936,000 was appropriate.

Review of Auditor

The objectivity of the auditor is reviewed by the Audit Committee, which also considers the terms under which the external auditor is appointed to perform non-audit services. The objectivity and independence of the auditor is safeguarded by obtaining assurances from the auditor that adequate policies and procedures exist within its firm to ensure the firm and its staff are independent of the Company by reason of family, finance, employment, investment and business relationships (other than in the normal course of the business) and enforcing a policy concerning the provision of non-audit services by the auditor which governs the types of work which are excluded. The Audit Committee reviews the scope and results of the audit including the following areas:

- ▲ quality of audit work including ability to resolve issues in a timely manner;
- ▲ working relationship with the Committee and Investment Manager;
- ▲ suitably qualified personnel involved in the audit; and
- ▲ cost effectiveness and the independence and objectivity of the auditors, with particular regard to non-audit fees.

The performance and effectiveness of the auditors in relation to the above points were considered through a formal evaluation template completed by the Committee and the Investment Manager.

The Audit Committee considers that it received all necessary information from the Company's service providers as well as from the external auditor in order for it to compile the necessary disclosures. The Committee noted the full co-operation of all parties in producing the Annual Report and no difficulties or disagreements were observed. Following the completion of the audit, the Audit Committee and Board followed a systematic approach to evaluate the auditor and the effectiveness of the audit process and found this to be satisfactory.

The Audit Committee conducted an audit tender process during 2015 and recommended to the Board that Deloitte LLP be appointed as auditor for the Group for the year ended 31 December 2016. This appointment was approved by shareholders at the 2016 AGM. Prior to the appointment of Deloitte LLP, Ernst & Young LLP acted as auditor for the Group from 2006 to 2015. Details of the amounts paid to Deloitte LLP during the year for audit fees is set out in note 5 to the accounts. The Company has complied with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

In relation to non-audit fees, these amounted in aggregate to £Nil (2017: £3,950) for the year ended 31 December 2018. Where any non-audit fee is expected to exceed £25,000, the Company operates a policy under which specific prior approval must be given by the Committee. Notwithstanding the provision of such non-audit services, the Audit Committee considers Deloitte LLP to be independent, given the safeguards put in place by Deloitte LLP to ensure independence.

Other Matters

The Company's accounts were selected for review by the Financial Reporting Council ("FRC") in 2017. The FRC noted their review was limited in scope as they do not benefit from detailed knowledge of the Company's business or an understanding of the underlying transactions. The FRC asked for some further information on deferred tax asset disclosures and the strategic report. The Company provided this information to the satisfaction of the FRC. In addition the Company has received a Most Improved Award from EPRA for its enhanced sustainability reporting in the 2017 Annual Report.

Recommendation to the Board

Following its review of the Annual Report and Accounts for the year ended 31 December 2018, the Audit Committee has advised the Board that its considers that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders and other users to assess the Company's position, performance, business model and strategy.



Ken McCullagh: Chair of Audit Committee

The Audit Committee is able to give this advice on the basis that it has carefully scrutinised the Annual Report and Accounts document, which is prepared by the Investment Manager and subsequently subject to external audit, specifically focusing on the significant issues detailed in this Report. In its consideration of the document, the members of the Audit Committee put themselves in the position of a shareholder and considered carefully whether the comments made are consistent with their view of the overall performance of the Company during the period under consideration. Specifically, consideration has been given to the Financial and Property Highlights section to ensure that the points raised in this have been selected so as to give a fair picture of the Company's position and that the performance data in the document has not been selected so as to give a misleadingly optimistic view of the Company. The Audit Committee has also critically reviewed the Investment Manager's report to ensure that the comments made in this are consistent with their knowledge of the Company and with the figures in the accounts. As with any Company, there are some elements in the accounts that are inevitably more complex than others and the Audit Committee has been at pains to have these expressed in clear language so as to make them as understandable as possible.

Ken McCullagh
Chair of the Audit Committee
25 April 2019

DIRECTORS' REMUNERATION REPORT

This Remuneration Report comprises two parts:

- ▲ Remuneration Policy, which is subject to a binding shareholder vote every three years; and
- ▲ An annual report on the implementation of remuneration, which provides information on how the policy has been applied during the year and which will be subject to an advisory vote on the level of remuneration paid during the year as set out in the Implementation Report.

Remuneration Policy

This part of the Remuneration Report provides details of the Company's Remuneration Policy for Directors of the Company. This policy takes into consideration the principles of the UK Corporate Governance Code and the AIC's recommendations regarding the application of those principles to investment companies. As the Company has no employees and the Board is comprised wholly of non-executive Directors and given the size and nature of the Company, the Board has not established a separate Remuneration Committee. Consideration of Directors' fees and remuneration policy is undertaken by the Nominations Committee.

The Directors are non-executive and their fees are set within the limits of the Company's Articles of Association which limit the aggregate fees payable to the Board of Directors per annum. The level of cap may be increased by shareholder resolution from time to time. Subject to this overall limit, the Board's policy is that the remuneration of non-executive Directors should reflect the nature of their duties, responsibilities and the value of their time spent and be fair and comparable to that of other comparable vehicles that are similar in size, have a similar capital structure and have a similar investment objective.

Fees are annually reviewed against comparable vehicles and if considered appropriate, increased accordingly. The current fee levels are as follows:

	2018 £	2017 £
Chair	60,000	55,000
Chair of Audit Committee	48,750	44,500
Chair of Risk Committee	43,000	39,250
Chair of Management Engagement Committee	43,000	39,250
Chair of Property Valuation Committee	43,000	39,250
Director	41,000	37,500

Appointment

- ▲ The Company only intends to appoint non-executive Directors.
- ▲ All the Directors are non-executive appointed under the terms of Letters of Appointment.
- ▲ Directors must retire and be subject to election at the first AGM after their appointment, and annually thereafter.
- ▲ New appointments to the Board will be placed on the fee applicable to all Directors at the time of appointment (currently £44,500).
- ▲ No incentive or introductory fees will be paid to encourage a Directorship.
- ▲ The Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.
- ▲ The Company indemnifies its Directors for all costs, charges, losses, expenses and liabilities which may be incurred in the discharge of duties.

Performance, Service Contracts, Compensation and Loss of Office

- ▲ The Directors' remuneration is not subject to any performance related fee.
- ▲ No Director has a service contract.
- ▲ No Director was interested in contracts with the Company during the period or subsequently.
- ▲ The terms of appointment provide that a Director may be removed without notice.
- ▲ Compensation will not be due upon leaving office.
- ▲ No Director is entitled to any other monetary payment or any assets of the Company.

Directors' & Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

The Remuneration Policy stated [above](#) was approved by shareholders at the 2016 AGM. There have been no changes to the Policy since then. It is the Board's intention that the Policy be put to a shareholders' vote every three years and an ordinary resolution in this regard will be proposed at the AGM in 2019.

Implementation Report

Aggregate Fees

Article 79 of the Company's Articles of Association currently limits the aggregate fees payable to the Board of Directors to a total of £300,000 per annum. This limit has been in place for a number of years during which time the Board has increased from five to six members. Given this it is proposed to change this limit at the General Meeting to £400,000 per annum as explained further in the [Directors' Report](#) on [page 46](#).

Directors' Remuneration Rates

Following a review of the Board of Directors' remuneration which took into account the nature of their duties, responsibilities and the value of their time spent as well as a review of other comparable vehicles that are similar in size, Directors' fees for the forthcoming financial year will be as follows:

	2019 £	2018 £
Chair	65,000	60,000
Chair of Audit Committee	52,500	48,750
Chair of Risk Committee	46,000	43,000
Chair of Management Engagement Committee	46,000	43,000
Chair of Property Valuation Committee	46,000	43,000
Director	44,500	41,000

Rates for the entire Board will be reviewed again in 2019.

Company Performance

Although the Company has appointed Aberdeen Standard Fund Managers Limited as an external investment manager pursuant to the terms of the investment management agreement set out in note 4 to the accounts, the Board is responsible for the Company's investment strategy and performance. The following graph compares the total return (assuming all dividends are reinvested) to ordinary shareholders compared with the total return on the IPD benchmark over a five year period to 31 December 2018 (rebased to 100 at 31 December 2013).

DIRECTORS' REMUNERATION REPORT

Continued

Fees Payable (audited)

The total fee payable to each Director who served during the present and previous financial year of the Company is shown in the following table.

The fees of Sandra Platts were paid to Altair Guernsey Limited, a Director services business based in the Channel Islands of which she is a Director.

	2018	2017
Andrew Wilson	60,000	57,500
Michael Ayre	43,000	39,250
Ken McCullagh	48,750	44,500
Sandra Platts	43,000	39,250
John Robertson*	10,750	41,750
Margaret Littlejohns**	42,500	—
Robert Fowlds***	30,750	—
Directors National Insurance†	3,693	—
Total	282,443	222,250

* Retired 31 March 2018

** Appointed 1 Jan 2018

*** Appointed 1 Apr 2018

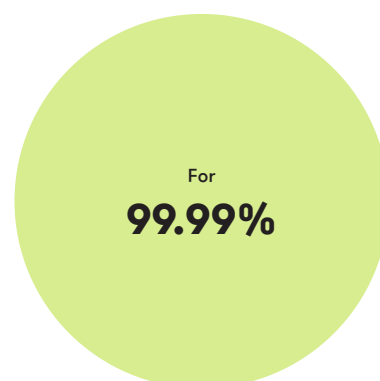
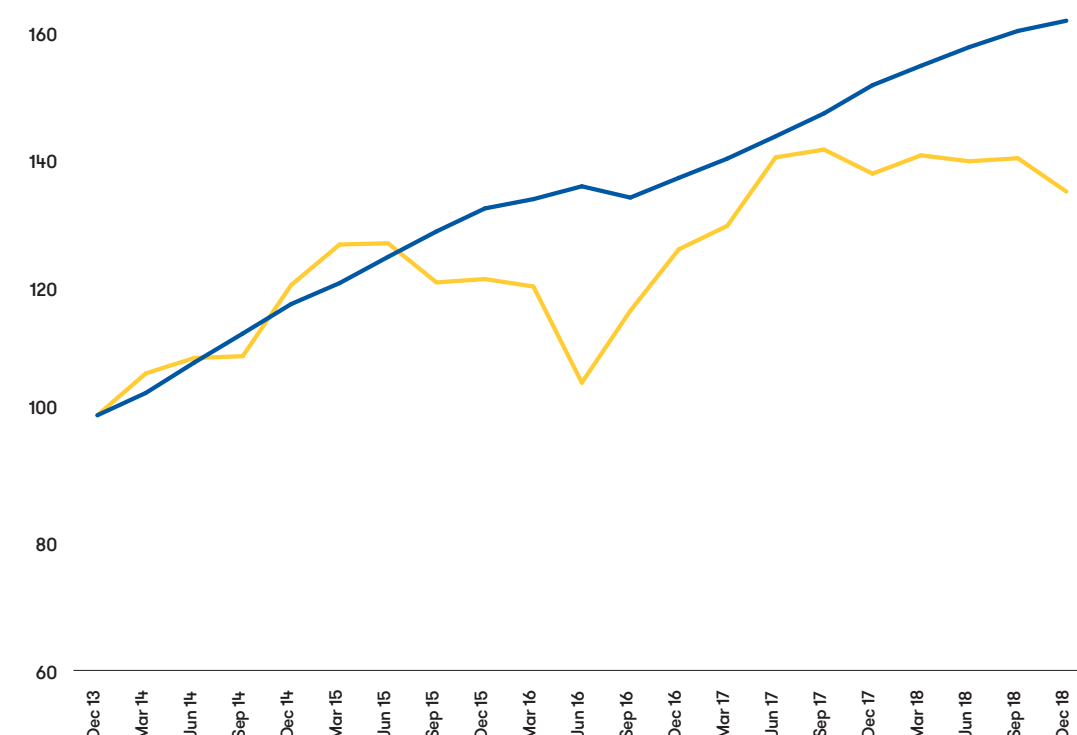
† Payable on fees from 1 July 2018

Fees are pro-rated where a change or appointment takes place during a financial year.

The table below shows the actual expenditure during the year in relation to Directors' remuneration and shareholder distributions.

	Year to 31 December 2018	Year to 31 December 2017
Aggregate Directors' Remuneration	£282,443	£222,250
Aggregate Shareholder Distributions	£47,818,378	£47,818,378

TOTAL RETURN %



▲ IPD benchmark

▲ UKCM share price total return

Source: IPD, Aberdeen Standard Investments

REMUNERATION REPORT 2017

The adjacent pie chart shows the results in respect of the resolution to approve the Directors' Remuneration Report at the AGM in June 2018.

Directors' Interests in the Company

The Directors are not required to have a shareholding in the Company. The Directors' interests in the share capital of the Company are shown in the Report of the Directors on [pages 46–50](#).

Approved by the Board on 25 April 2019.

Andrew Wilson
Director

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable Guernsey law and those International Financial Reporting Standards ("IFRS") as have been adopted by the European Union. They are also responsible for ensuring that the Annual Report includes information required by the Rules of the UK Listing Authority.

The Directors are required to prepare Group financial statements for each financial year which give a true and fair view of the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those Group financial statements the Directors are required to:

- ▲ select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- ▲ present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- ▲ provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- ▲ state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- ▲ prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies (Guernsey) Law 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for ensuring that the Group complies with the provisions of the Listing Rules and the Disclosure Rules and Transparency Rules of the UK Listing Authority which, with regard to corporate governance, require the Group to disclose how it has applied the principles, and complied with the provisions, of the UK Corporate Governance Code applicable to the Group.

We confirm that to the best of our knowledge:

- ▲ the Group financial statements, prepared in accordance with the IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and comply with the Companies Law;
- ▲ that in the opinion of the Board, the Annual Report and Accounts taken as a whole, is fair, balanced and understandable and it provides the information necessary to assess the Group's position, performance, business model and strategy; and
- ▲ the Strategic Report includes a fair review of the progression and performance of the business and the position of the Group together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

Andrew Wilson
Director
25 April 2019





Independent Auditor's Report and Financial Statements



UK
Commercial
Property
REIT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK COMMERCIAL PROPERTY REIT LIMITED

OPINION ON THE FINANCIAL STATEMENTS OF UK COMMERCIAL PROPERTY REIT LIMITED

In our opinion the financial statements of UK Commercial Property REIT Limited (the 'parent company') and its subsidiaries (the 'group'):

give a true and fair view of the state of the group's affairs as at 31 December 2018 and of the group's profit for the year then ended;

have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and

have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

We have audited the financial statements which comprise:

the Consolidated Statement of Comprehensive Income;

the Consolidated Balance Sheet;

the Consolidated Statement of Changes in Equity;

the Consolidated Cash Flow Statement;

the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

BASIS FOR OPINION

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

We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our

other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group and parent company

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

While the parent company is not a public interest entity subject to European Regulation 537/2014, the directors have decided that the parent company should follow the same requirements as if that Regulation applied to the parent company.

SUMMARY OF OUR AUDIT APPROACH

Key audit matters	The only audit matter we identified in the current year was investment property valuations. Within this report, any new key audit matters are identified with ↑ and any key audit matters which are the same as the prior year identified with →.
Materiality	The materiality that we used for the group financial statements was £12.1 million which was determined on the basis of 1% of Net Asset Value.
Scoping	All audit work for the group was performed directly by the group audit engagement team.
Significant changes in our approach	We no longer identify revenue recognition and taxation as key audit matters in the current year.

CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

Going concern

We have reviewed the directors' statement on [page 49](#) to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors'

assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

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

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

Principal risks and viability statement

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

- ▲ the disclosures on [pages 31–37](#) that describe the principal risks and explain how they are being managed or mitigated;
- ▲ the directors' confirmation on [page 31](#) that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- ▲ the directors' explanation on [page 39](#) as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK COMMERCIAL PROPERTY REIT LIMITED

Continued

Key audit matters

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

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

Following our risk assessment which is based on factors such as the level of judgement and complexity of a balance in addition to likelihood and / or history error, we did not identify revenue recognition or taxation as key audit matters in the current year, though these were key audit matters in the prior year. Revenue is derived from medium to long term contracts with little to no judgement in the complexity of accounting for these. The unutilised tax losses which had been accumulated in the prior year and available for offset against future profits were released following the conversion to the REIT regime.

Investment property valuations →

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
<p>Valuation of investment properties is the key driver of the Group's net asset value. Valuations are inherently complex and require significant judgement and estimation around the key inputs and assumptions. We have pinpointed that the main judgements are around equivalent yields and estimated market rent, thus this was the focus of our key audit matter.</p> <p>Valuation of the investment property is the most judgemental area of the financial statements and therefore the most susceptible to fraudulent manipulation. Given the high level of judgement involved, we have determined that there was a potential for fraud through possible manipulation of this balance.</p> <p>Management's valuation is based on the external valuation provided by CBRE Limited, chartered surveyors. The valuation of the investment property portfolio at 31 December 2018 amounted to £1,431 million (2017: £1,381 million).</p> <p>Refer to notes 1(b), 1(h) of Accounting policies on pages 76–79 and note 10 on page 85 of the notes to the Financial Statements. Also refer to the audit committee report pages 58–59.</p>	<p>We performed the following:</p> <ul style="list-style-type: none"> ▲ Assessed the external valuers independence, integrity and competency; ▲ Challenged the external valuers on their valuation process and assumptions; ▲ Assisted by our Real Estate specialists, we challenged the performance of the portfolio, significant assumptions and critical judgement areas; ▲ Benchmarked valuation assumptions to relevant market evidence including Brexit considerations; ▲ Performed audit procedures to assess the integrity of information provided to the external valuers, including testing on a sample basis back to underlying lease agreements; ▲ We evaluated the design and implementation of key controls in relation to the valuation process; ▲ Reviewed the financial statements disclosures and assessed whether the significant judgements and estimations are appropriately disclosed. 	<p>We concluded that the fair value of the Group's investment properties as determined by the Directors is appropriate.</p>

OUR APPLICATION OF MATERIALITY

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

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

Group materiality

£12.1 millon (2017: £12.1 million)

Basis for determining materiality

1% of the Net Asset Value, in line with prior year.

Other information

<p>The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor’s report thereon.</p> <p>Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.</p> <p>In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.</p>	<p>In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:</p> <ul style="list-style-type: none">▲ Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group’s position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or▲ Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or▲ Directors’ statement of compliance with the UK Corporate Governance Code – the parts of the directors’ statement required under the Listing Rules relating to the company’s compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.
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Rationale for the benchmark applied

Net Assets is the key balance considered by the users of the financial statements which is consistent with the market approach for such entities. Net Assets was selected as investors are seeking capital appreciation in addition to dividend streams and the net asset value per share is an important indicator of performance to investors.

In addition to net assets, we consider EPRA Adjusted Profit After Tax as a critical performance measure for the Group and a measure which is widely used within the Real Estate industry. We applied a lower threshold of £1.7 million (2017: £2.1 million), which equates to 5% (2017: 5%) of that measure for testing all balances impacting that measure.



- ▲ NAV £1,213 million
- ▲ Group materiality £12.1 million
- ▲ Audit Committee reporting threshold £0.6 million

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.6 million (2017: £0.6 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

The Group consists of the Company UK Commercial Property REIT Limited and its subsidiaries, which are all registered in Guernsey. Our Group audit was scoped by obtaining an understanding of the Group and its environment, including internal controls, and assessing the risks of material misstatement at the Group level. The Group is audited by one audit team, led by the Senior Statutory Auditor. The audit is performed centrally, as the books and records for each entity within the Group are maintained at head office. All of the Group’s subsidiaries that are registered as Guernsey Companies are subject to full scope audits. We also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK COMMERCIAL PROPERTY REIT LIMITED

Continued

RESPONSIBILITIES OF DIRECTORS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

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

Identifying and assessing potential risks related to irregularities

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

- ▲ enquiring of management and the audit committee, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- ▲ discussing among the engagement team and involving relevant internal specialists, including tax specialists, financial instruments specialists and Deloitte Real Estate valuations specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud within investment property valuations;
- ▲ obtaining an understanding of the legal and regulatory frameworks that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the Listing Rules, Companies (Guernsey) Law, 2008. In addition, compliance with terms of the REIT regime rules were fundamental to the group's ability to continue as a going concern.

Audit response to risks identified

As a result of performing the [above](#), we identified Investment Property Valuations as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINION ON OTHER MATTER PRESCRIBED BY OUR ENGAGEMENT LETTER

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the UK Companies Act 2006 as if that Act had applied to the company.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records

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

- ▲ we have not received all the information and explanations we require for our audit; or
- ▲ proper accounting records have not been kept by the parent company; or
- ▲ the financial statements are not in agreement with the accounting records.

We have nothing to report in respect of these matters.

OTHER MATTERS

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the board of directors on 16 August 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is three years, covering the years ending 31 December 2016 to 31 December 2018.

Consistency of the audit report with the additional report to the audit committee

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

USE OF OUR REPORT

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

John Clacy

Senior statutory auditor
For and on behalf of Deloitte LLP
Statutory Auditor, St Peter Port, Guernsey
25 April 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
REVENUE			
Rental income	2	65,936	69,826
Non-rental service charge income	3	5,950	5,896
Gains on investment properties and disposal of subsidiaries	10	18,947	90,416
Interest income		510	295
Total income		91,343	166,433
EXPENDITURE			
Investment management fee	4	(9,567)	(9,215)
Direct property expenses	5	(3,569)	(4,444)
Service charge expenses	5	(5,950)	(5,896)
Other expenses	5	(5,446)	(3,565)
Total expenditure		(24,532)	(23,120)
Net operating profit before finance costs		66,811	143,313
FINANCE COSTS			
Finance costs	6	(7,976)	(8,143)
		(7,976)	(8,143)
Net profit from ordinary activities before taxation		58,835	135,170
Taxation on profit on ordinary activities	7	(5,830)	(3,608)
Net profit for the year		53,005	131,562
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT OR LOSS			
Gain arising on effective portion of interest rate swap	14	1,388	1,664
Other comprehensive income		1,388	1,664
Total comprehensive income for the year		54,393	133,226
Basic and diluted earnings per share	9	4.08p	10.12p
EPRA earnings per share (excluding deferred tax)¹		3.03p	3.42p

¹ A breakdown of the calculation is detailed in the table A.
EPRA Earnings on [page 98](#).

All of the profit and total comprehensive income for the year is attributable to the owners of the Company. All items in the above statement derive from continuing operations. Additional EPRA performance measures are on [pages 97–101](#).

The accompanying notes are an integral part of this statement.

**CONSOLIDATED
BALANCE SHEET**
As at 31 December 2018

	Notes	2018 £'000	2017 £'000
NON-CURRENT ASSETS			
Investment properties	10	1,430,851	1,332,923
Deferred tax asset	7	—	3,271
Interest rate swap	14	166	—
		1,431,017	1,336,194
CURRENT ASSETS			
Investment properties held for sale	10	—	47,600
Trade and other receivables	12	23,765	23,433
Cash and cash equivalents		43,505	72,443
		67,270	143,476
Total assets		1,498,287	1,479,670
CURRENT LIABILITIES			
Trade and other payables	13	(35,139)	(22,408)
Interest rate swap	14	(868)	(1,130)
		(36,007)	(23,538)
NON-CURRENT LIABILITIES			
Bank loan	14	(249,661)	(249,126)
Interest rate swap	14	—	(960)
		(249,661)	(250,086)
Total liabilities		(285,668)	(273,624)
Net assets		1,212,619	1,206,046
REPRESENTED BY			
Share capital	15	539,872	539,872
Special distributable reserve		570,158	583,920
Capital reserve		103,291	84,344
Revenue reserve		—	—
Interest rate swap reserve		(702)	(2,090)
Equity shareholders' funds		1,212,619	1,206,046
Net asset value per share	16	93.3p	92.8p
EPRA Net asset value per share		93.4p	93.0p

The accounts on [pages 72–96](#) were approved and authorised for issue by the Board of Directors on 25 April 2019 and signed on its behalf by:

Andrew Wilson
Director

Ken McCullagh
Director

The accompanying notes are an integral part of this statement.
Company Registration Number: 45387

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *For the year ended 31 December 2018*

	Notes	Share Capital £'000	Special Distributable Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Interest Rate Swap Reserve £'000	Equity shareholders' funds £'000
At 1 January 2018		539,872	583,920	84,344	—	(2,090)	1,206,046
Net Profit for the year		—	—	—	53,005	—	53,005
Other comprehensive income		—	—	—	—	1,388	1,388
Total comprehensive income		—	—	—	53,005	1,388	54,393
Dividends declared	8	—	—	—	(47,820)	—	(47,820)
Transfer in respect of gains on investment property	10	—	—	18,947	(18,947)	—	—
Transfer from special distributable reserve		—	(13,762)	—	13,762	—	—
As 31 December 2018		539,872	570,158	103,291	—	(702)	1,212,619

For the year ended 31 December 2017

	Notes	Share Capital £'000	Special Distributable Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Interest Rate Swap Reserve £'000	Equity shareholders' funds £'000
At 1 January 2017		539,872	590,594	(6,072)	—	(3,754)	1,120,640
Net profit for the year		—	—	—	131,562	—	131,562
Other comprehensive income		—	—	—	—	1,664	1,664
Total comprehensive income		—	—	—	131,562	1,664	133,226
Dividends paid	8	—	—	—	(47,820)	—	(47,820)
Transfer in respect of gains on investment property	10	—	—	90,416	(90,416)	—	—
Transfer from special distributable reserve		—	(6,674)	—	6,674	—	—
At 31 December 2017		539,872	583,920	84,344	—	(2,090)	1,206,046

The accompanying notes are an integral part of this statement.

CONSOLIDATED
CASH FLOW STATEMENT
For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the year before taxation		58,835	135,170
Adjustments for:			
Gains on investment properties	10	(18,947)	(90,416)
Movement in lease incentives	10	2,408	(6,597)
Movement in provision for bad debts	12	71	(130)
Increase in operating trade and other receivables		(7,996)	(672)
Increase/(Decrease) in operating trade and other payables		4,571	(3,094)
Finance costs	6	7,976	8,131
Cash generated by operations		46,918	42,392
Tax paid		(1,010)	—
Net cash inflow from operating activities		45,908	42,392
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment properties	10	(156,030)	(52,016)
Sale of investment properties	10	171,928	41,513
Capital expenditure	10	(40,490)	(8,981)
Net cash outflow from investing activities		[24,592]	[19,484]
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(43,008)	(47,820)
Bank loan interest paid		(6,215)	(6,114)
Payments under interest rate swap arrangement		(1,031)	(1,424)
Net cash outflow from financing activities		[50,254]	[55,358]
Net decrease in cash and cash equivalents		[28,938]	[32,450]
Opening cash and cash equivalents		72,443	104,893
Closing cash and cash equivalents		43,505	72,443
REPRESENTED BY			
Cash at bank		16,363	27,735
Money market funds		27,142	44,708
		43,505	72,443

The accompanying notes are an integral part of this statement.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

(a) Basis of Accounting

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (the IASB), interpretations issued by the IFRS Interpretations Committee that remain in effect, and to the extent that they have been adopted by the European Union, applicable legal and regulatory requirements of Guernsey law and the Listing Rules of the UK Listing Authority. The audited Consolidated Financial Statements of the Group have been prepared under the historical cost convention as modified by the measurement of investment property and derivative financial instruments at fair value. The consolidated financial statements are presented in pound sterling.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year. There have been other new and amended standards issued or have come into effect in the European Union from 1 January 2018 but either these were not applicable or did not have a material impact on the annual consolidated financial statements of the Group and hence not discussed and are detailed below:

▲ Annual Improvements to IFRSs 2015–2017 Cycle

(b) Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the amounts recognised in the financial statements. However, uncertainty about these judgements, assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. In applying the Group's accounting policies, there were no critical accounting judgements.

Key estimation uncertainties

Fair value of investment properties: Investment property is stated at fair value as at the balance sheet date as set out in note 1(h) and note 10 to these accounts.

The determination of the fair value of investment properties requires the use of estimates such as future cash flows from the assets. The estimate of future cash flows includes consideration of the repair and condition of the property, lease terms, future lease events, as well as other relevant factors for the particular asset.

These estimates are based on local market conditions existing at the balance sheet date.

(c) Basis of Consolidation

The consolidated accounts comprise the accounts of the Company and its subsidiaries drawn up to 31 December each year. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The Jersey Property Unit Trusts ("JPUTS") are all controlled via voting rights and hence those entities are consolidated.

(d) Functional and Presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Company and its subsidiaries operate ("the functional currency") which is pounds sterling. The financial statements are also presented in Pounds Sterling. All figures in the financial statements are rounded to the nearest thousand unless otherwise stated.

(e) Revenue Recognition

Rental income, excluding VAT, arising from operating leases (including those containing stepped and fixed rent increases) is accounted for in the Consolidated Statement of Comprehensive Income on a straight line basis over the lease term. Lease premiums paid and rent free periods granted, are recognised as assets and are amortised over the non-cancellable lease term.

Non-rental service charge income is recognised in the period where the performance obligation is satisfied.

Interest income service charge is accounted on an accruals basis and included in operating profit.

(f) Expenses

Expenses are accounted for on an accruals basis. The Group's investment management and administration fees, finance costs and all other expenses are charged through the Consolidated Statement of Comprehensive Income.

(g) Taxation

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation are periodically evaluated and provisions established where appropriate.

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. In determining the expected manner of realisation of an asset the directors consider that the Group will recover the value of investment property through sale. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

(h) Investment Properties

Investment properties are initially recognised at cost, being the fair value of consideration given, including transaction costs associated with the investment property. Any subsequent capital expenditure incurred in improving investment properties is capitalised in the period during which the expenditure is incurred and included within the book cost of the property.

After initial recognition, investment properties are measured at fair value, with the movement in fair value recognised in the Consolidated Statement of Comprehensive Income and transferred to the Capital Reserve. Fair value is based on the external valuation provided by CBRE Limited, chartered surveyors, at the Balance Sheet date. The assessed fair value is reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or minimum lease payments.

On derecognition, gains and losses on disposals of investment properties are recognised in the Statement of Comprehensive Income and transferred to the Capital Reserve.

Recognition and derecognition occurs when the significant risks and rewards of ownership of the properties have transferred between a willing buyer and a willing seller.

Investment property is transferred to current assets held for sale when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case, the property must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such property and its sale must be highly probable.

The Group has entered into forward funding agreements with third party developers in respect of certain properties. Under these agreements the Group will make payments to the developer as construction progresses. The value of these payments is assessed and certified by an expert.

Investment properties are recognised for accounting purposes upon completion of contract. Properties purchased under forward funding contracts are recognised at certified value to date.

(i) Operating Lease Contracts — the Group as Lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements that it retains all the significant risks and rewards of ownership of these properties and so accounts for leases as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

(j) Share Issue Expenses

Incremental external costs directly attributable to the issue of shares that would otherwise have been avoided are written off to capital reserves.

(k) Segmental Reporting

The Directors are of the opinion that the Group is engaged in a single segment of business being property investment in the United Kingdom. The Directors are of the opinion that the four property sectors analysed throughout the financial statements constitute this single segment, and are not separate operating segments as defined by IFRS 8 Operating Segments.

(l) Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits, and other short-term highly liquid investments readily convertible within three months or less to known amounts of cash and subject to insignificant risk of changes in value.

(m) Trade and Other Receivables

Trade receivables are recognised initially at their transaction price unless they contain a significant financing component, when they are recognised at fair value. Trade receivables are subsequently measured at amortised cost using the effective interest method.

Other receivables are initially recognised at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

(n) Trade and Other Payables

Rental income received in advance represents the pro-rated rental income invoiced before the year end that relates to the period post the year end. VAT payable is the difference between output and input VAT at the year end. Other payables are accounted for on an accruals basis and include amounts which are due for settlement by the Group as at the year end and are generally carried at the original invoice amount. An estimate is made for any services incurred at the year end but for which no invoice has been received.

(o) Reserves

Share Capital

This represents the proceeds from issuing ordinary shares.

Special Distributable Reserve

The special reserve is a distributable reserve to be used for all purposes permitted under Guernsey law, including the buyback of shares and the payment of dividends. Dividends can be paid from all of the below listed reserves.

Capital Reserve

The following are accounted for in this reserve:

- ▲ gains and losses on the disposal of investment properties;
- ▲ increases and decreases in the fair value of investment properties held at the year end.

Revenue Reserve

Any surplus arising from the net profit on ordinary activities after taxation and payment of dividends is taken to this reserve, with any deficit charged to the special distributable reserve.

Interest Rate Swap Reserve

Any surplus/deficit arising from the marked to market valuation of the swap instrument is credited/charged to this account.

Treasury Share Reserve

This represents the cost of shares bought back by the Company and held in Treasury. The balance within this reserve is currently nil.

(p) Interest-bearing borrowings

All bank loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of arrangement costs associated with the borrowing. After initial recognition, all interest bearing loans and borrowings are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any loan arrangement costs and any discount or premium on settlement.

On maturity, bank loans are recognised at par, which is equivalent to amortised cost. Bank loans redeemed before maturity are recognised at amortised cost with any charges associated with early redemptions being taken to the Statement of Comprehensive Income.

NOTES TO THE ACCOUNTS

Continued

(q) Derivative financial instruments

The Group uses derivative financial instruments to hedge its risk associated with interest rate fluctuations.

Derivative instruments are initially recognised in the Balance Sheet at their fair value split between current and non-current. Fair value is determined by reference to market values for similar instruments. Transaction costs are expensed immediately.

Gains or losses arising on the fair value of cash flow hedges in the form of derivative instruments are taken directly to Other Comprehensive Income. Such gains and losses are taken to a reserve created specifically for that purpose, described as the Interest Rate Swap Reserve in the Balance Sheet.

On termination the unrealised gains or losses arising from cash flow hedges in the form of derivative instruments, initially recognised in Other Comprehensive Income, are transferred to profit or loss.

The Group considers its interest rate swap qualifies for hedge accounting when the following criteria are satisfied:

- ▲ The instrument must be related to an asset or liability;
- ▲ It must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa;
- ▲ It must match the principal amounts and maturity date of the hedged item; and
- ▲ As a cash flow hedge the forecast transaction (incurring interest payable on the bank loan) that is subject to the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the profit or loss. The effectiveness of the hedge must be capable of reliable measurement and must be assessed as highly effective on an ongoing basis throughout the financial reporting periods for which the hedge was designated.

If a derivative instrument does not satisfy the Group's criteria to qualify for hedge accounting that instrument will be deemed as an ineffective hedge.

Should any portion of an ineffective hedge be directly related to an underlying asset or liability, that portion of the derivative instrument should be assessed against the Group's effective hedge criteria to establish if that portion qualifies to be recognised as an effective hedge.

Where a portion of an ineffective hedge qualifies against the Group's criteria to be classified as an effective hedge that portion of the derivative instrument shall be accounted for as a separate and effective hedge instrument and treated as other comprehensive income.

Gains or losses arising on any derivative instrument or portion of a derivative instrument which is deemed to be ineffective will be recognised in profit or loss. Gains and losses, regardless of whether related to effective or ineffective hedges, are taken to a reserve created specifically for that purpose described in the balance sheet as the Interest Rate Swap Reserve.

(r) New standards, amendments and interpretation

There are a number of new standards, amendments and interpretations that have been issued for this accounting year. The standards, amendments and interpretations which have been adopted by the Group on 1 January 2018 are listed below.

IFRS 9 — Financial Instruments

The final version of IFRS 9 Financial Instruments ("IFRS 9") was published in July 2014 by the IASB. IFRS 9 replaces IAS 39 Financial Instruments and is effective for annual periods beginning on or after 1 January 2018.

The IASB split the changes into 3 main phases; classification and measurement of financial assets and financial liabilities, hedge accounting and impairment requirements relating to the expected credit losses. The Group elected not to restate comparative on adoption of IFRS 9.

Classification and measurement

The Group has assessed the changes of the classification of financial assets and financial liabilities under IFRS 9 and concludes that there are no changes to the classification of the Group's financial assets and financial liabilities on adoption of IFRS 9.

The Group has assessed the changes of measurement of financial assets and financial liabilities under IFRS 9 and the Group will continue to initially recognise financial assets and financial liabilities at fair value plus, any directly attributable transactions costs, with subsequent measurement at amortised cost using the effective interest method, with exception to trade receivables. Trade receivables will now be measured in accordance with IFRS 15. The Group has updated the accounting policy for trade receivables, 1 (m), but has made no adjustments to the Group's financial statements following the adoption of IFRS 9.

Hedge accounting

The Group concludes that there are no changes on adoption of IFRS 9 on accounting for the Group's interest rate swap. The Group has updated the hedge documentation, so that it is compliant under IFRS 9.

Impairment

The Group has identified trade receivables being subject to the new expected credit loss model on adoption to IFRS 9. The Group shall apply the simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, as outlined in the updated accounting policy, 1 (m). The Group applies a loss rate to trade receivables of more than 90 days past due where, the full net amount is charged as a provision for bad debt to the profit and loss account. The Group continues to monitor the loss rate and adjusts for any forward-looking estimates. There is no material impact on the Group's bad debt provision on adoption to IFRS 9, when compared to the bad debt provision under IAS 39.

Refinance

IFRS 9 brings changes to the accounting for modified debt terms, in which a 10% test is applied to assess if the modifications of debt terms are substantial. This will have no impact to the Group's refinance, in 2019 detailed in note 21, as the changes to the Groups' modified debt terms are considered substantial.

IFRS 15 — Revenue from Contracts

IFRS 15 Revenue from Contractors with Customers ("IFRS 15") was issued in 2014 by the IASB. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and is effective for annual periods beginning on or after 1 January 2018. The Group has assessed its revenue streams on adoption of IFRS 15 and has identified the following:

Rental Income

The Group's rental income, which is derived from operating leases, is out with the scope of IFRS 15, as the Group's leases contracts are within scope of IAS 17.

Non-rental Income

The Group has identified a non-rental revenue stream of service charge income, which is within scope of the standard. The new financial statement line "Non-rental service charge income" and accompanying note have been included as a result of implementing the standard. Comparative figures have been included accordingly. There has been no financial impact of the new standard to the Group.

IAS 7 – Statement of Cash Flows

In January 2016, the IASB amended IAS 7 Statement of Cash Flows ("IAS 7") to require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The new movements table in note 14 is included as a result of implementing the amended standard.

(s) New standards, amendments and interpretation not yet effective

IFRS 16 — Leases

IFRS 16 Leases ("IFRS 16") replaces IAS 17 Leases ("IAS 17") and is effective for annual periods beginning on or after 1 January 2019. The key changes are the lessee and lessor accounting models are no longer symmetrical.

For lessees, the accounting for leases will change to a new single lessee accounting model, requiring recognition of a right-of-use asset (right to use underlying leased asset) and a lease liability (obligation to make lease payments) for a lease with a term greater than 12 months, exclusion to recognition is if the underlying asset is of a low value when new.

For lessors, this remains relatively unchanged – IFRS 16 retains IAS 17's distinction of finance and operating lease however, IFRS 16 has introduced changes for the lessor where the lessor acts as an intermediate lessor in the lease contract.

The Group has made an assessment of the leases, where the Group acts as intermediate lessor in the lease agreement, and has identified that the Group has five investment properties held on leased land. The rent per annum ranges from one peppercorn to £5 per annum. The classification of the headleases will change from operating lease to financial lease on transition to IFRS 16. The change in classification will not result in the Group accounting for a new finance lease, as the valuation of the investment properties already includes the right of use asset (the land) and a lease liability (annual rent of leased land).

The Group currently does not anticipate that the standard will have any material impact on the Group's financial statements as presented for the current year.

Annual Improvements to IFRS

In addition to the above, Annual Improvements to IFRS 2015–2017 Cycle (effective 1 January 2019) have not been adopted early.

NOTES TO THE ACCOUNTS

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2. RENTAL INCOME

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Rental income	65,936	69,826

3. NON-RENTAL SERVICE CHARGE INCOME

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Non-rental service charge income	5,950	5,896

The Group's managing agents Jones Lang LaSalle manage service charge accounts for all the Group's properties. Service charges on rented properties, detailed in note 5 Service charge expenses, are recharged to tenants.

The service charge paid by the Group in respect of void units was £0.6 million (2017: £1.4 million) and is included within note 5 Direct Property Expenses.

4. INVESTMENT MANAGEMENT FEES

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Investment management fee	9,567	9,215

The Group's Investment Manager up to 10 December 2018 was Standard Life Investments (Corporate Funds) Limited and after this was Aberdeen Standard Fund Managers Limited. The Investment Manager received an aggregate annual fee from the Group at an annual rate of 0.65 per cent of the Total Assets. The Investment Manager is also entitled to an administration fee of

£100,000 per annum. The total paid in relation to this fee in the year was £100,000 (2017: £100,000). The Investment Management agreement is terminable by either of the parties to it on 12 months' notice. From 1 January 2019, the fee will be 0.60% on total assets up to £1.75 billion and 0.475% on total assets over £1.75 billion. There will be no administration fee.

5. EXPENSES

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Direct Property Expenses	3,569	4,444
Service charge expenses	5,950	5,896
OTHER EXPENSES		
Professional fees (including valuation fees)	4,739	2,744
Movement in bad debt provision	(71)	130
Directors' fees	282	222
Administration fee	100	100
Administration and company secretarial fees	85	85
Regulatory fees	230	212
Auditor's remuneration for:		
Statutory audit	81	68
Non audit services	—	4
	5,446	3,565

6. FINANCE COSTS

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Interest on principal loan amount	6,352	5,794
Amounts payable in respect of interest rate swap arrangement	894	1,435
Facility fees	332	321
Amortisation of loan set up fees	398	593
	7,976	8,143

NOTES TO THE ACCOUNTS

Continued

7. DEFERRED AND CURRENT TAXATION

The Company owns five Guernsey tax exempt subsidiaries, UK Finance Holdings Limited (UKFH), UK Commercial Property GP Limited (GP), UK Commercial Property Holdings Limited (UKCPH), UK Commercial Property Estates Limited (UKCPEL) and UK Commercial Property Estates Holdings Limited (UKCPEH). GP and UKCPH are partners in a Guernsey Limited Partnership ("the Partnership"). UKFH and UKCPH own two JPUTS. UKCPEL and UKCPEH also own two JPUTS. Up to REIT conversion on 1 July, The Partnership, UKCPH and UKCPEL owned a portfolio of UK properties and derived rental income from those properties. As the Partnership and the unit trusts are income transparent for UK tax purposes, the partners and unit holders were liable to UK income tax on their share of the net rental profits of the Partnership and unit trusts respectively. The entities directly owning UK property were also liable to UK income tax on their own net UK rental profits. All entities subject to UK income tax have elected to receive rental income gross under HMRC's non-resident landlord scheme.


UK REIT Status

The Group migrated tax residence to the UK and elected to be treated as a UK REIT with effect from 1 July 2018. As a UK REIT, the income profits of the Group's UK property rental business are exempt from corporation tax as are any gains it makes from the disposal of its properties, provided they are not held for trading or sold within three years of completion of development. The Group is otherwise subject to UK corporation tax at the prevailing rate.

As the principal company of the REIT, the Company is required to distribute at least 90% of the income profits of the Group's UK property rental business. There are a number of other conditions that also are required to be met by the Company and the Group to maintain REIT tax status. These conditions were met in the period and the Board intends to conduct the Group's affairs such that these conditions continue to be met for the foreseeable future. Accordingly, deferred tax is no longer recognised on temporary differences relating to the property rental business or income tax losses previously built up.

The Company and its Guernsey subsidiaries have obtained exempt company status in Guernsey so that they are exempt from Guernsey taxation on income arising outside Guernsey and bank interest receivable in Guernsey.

A reconciliation between the tax charge and the product of accounting profit multiplied by the applicable tax rate for the year ended 31 December 2018 and 2017 is prepared below.

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
 Net profit from ordinary activities before tax	58,835	135,170
UK corporation tax at a rate of 19 per cent (2017: Income tax — 20%)	11,178	27,034
Effect of:		
Capital gains on Investment properties not taxable	(3,600)	(18,084)
UK REIT exemption on net income	(3,963)	—
Income not taxable	(50)	(59)
Intercompany loan interest	(3,478)	(7,099)
Expenditure not allowed for tax purposes	415	(1,428)
Total current tax charge	502	364
Net Movement in deferred tax asset	3,271	3,244
Corporation tax charge on acquisition of White Building, Reading	2,057	—
Total tax charge	5,830	3,608

The components of the tax charge in the consolidated income statement are as follows:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
RECONCILIATION OF CURRENT CORPORATION AND INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT		
Income Tax charge in the year	502	481
Adjustment in respect of prior year over provision	—	(117)
Corporation tax charge in the year	2,057	—
At 31 December 2018	2,559	364

The Company owns two UK Limited Companies, Brixton Radlett Property Limited (“BRPL”) and UK Commercial Property Estates (Reading) Limited. In terms of BRPL, prior to REIT conversion, the losses of the Group could not be used to offset the profits of BRPL, hence the profits of BRPL were subject to corporation tax in the UK, at a rate of 19%. As the inter-company debt in BRPL was payable to a Guernsey entity, withholding tax was suffered on payment of this interest. During 2016, this debt was listed as a eurobond on the Guernsey Stock Exchange, resulting in withholding tax no longer

being payable. This listing was cancelled post REIT conversion. For the year ended 31 December 2018 & 2017 the total amount payable in corporation tax was nil and withholding tax was nil.

The White Building, Reading was acquired in June 2018 via the purchase of the share capital of UK Commercial Property Estates (Reading) Limited. The purchase, and subsequent allocation of the property as an investment property, triggered a corporation tax charge of £2,057,000 which was deducted from the purchase price.

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
RECONCILIATION OF DEFERRED TAX IN THE CONSOLIDATED INCOME STATEMENT		
Movement in deferred tax asset on tax losses	5,635	2,793
Movement in deferred tax asset in respect of capital allowance timing differences	481	(144)
Movement in deferred tax liability in respect of capital allowance timing differences	(2,845)	595
At 31 December 2018	3,271	3,244

The Components of the deferred tax asset in the consolidated balance sheet are as follows:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
RECONCILIATION OF DEFERRED TAX IN THE CONSOLIDATED BALANCE SHEET		
Movement in deferred tax asset on tax losses	—	5,635
Movement in deferred tax asset in respect of capital allowance timing differences	—	481
Movement in deferred tax liability in respect of capital allowance timing differences	—	(2,845)
At 31 December 2018	—	3,271

Deferred tax asset

Pre REIT conversion the Group has unused income tax losses carried forward of £40,186,000 (2016/2017: £49,537,000) based on the 2017/2018 tax returns to 5 April 2018.

Post REIT conversion the Group is now part of the UK corporation tax regime and hence it is not anticipated that these losses will be utilised. As a result both the deferred tax asset and liability balance, which netted off to £3,271,000 has been written off in 2018.

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8. DIVIDENDS

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
DIVIDENDS ON ORDINARY SHARES		
2017 Fourth interim of 0.92p per share paid 28 February 2018 (2016 Fourth interim: 0.92p)	11,955	11,955
2018 First interim of 0.92p per share paid 31 May 2018 (2017 First interim: 0.92p)	11,955	11,955
2018 Second interim of 0.92p per share paid 31 August 2018 (2017 Second interim: 0.92p)	11,955	11,955
2018 Third interim of 0.92p per share (split between property income distribution of 0.643p per ordinary share and ordinary dividend of 0.277p per ordinary share) paid 30 November 2018 (2017 Third interim: 0.92p)	11,955	11,955
	47,820	47,820

A fourth interim dividend of 0.92p was paid on 28 February 2019 to shareholders on the register on 15 February 2019. This dividend was split between a property income distribution of 0.775p per ordinary share and an ordinary dividend of 0.145p per ordinary share. Although this payment relates to the year ended 31 December 2018, under International Financial Reporting Standards it will be accounted for in the year ending 31 December 2019.

9. BASIC AND DILUTED EARNINGS PER SHARE

	2018	2017
No. of Shares	1,299,412,465	1,299,412,465
Net Profit	53,005,000	131,562,000
	4.08	10.12

As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

10. INVESTMENT PROPERTIES

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
FREEHOLD AND LEASEHOLD PROPERTIES		
Opening valuation	1,380,523	1,270,624
Purchases at cost	156,030	52,016
Capital expenditure	40,490	8,981
Gain on revaluation to market value	14,650	94,994
Disposals at prior year valuation	(163,250)	(39,495)
Lease incentive movement	2,408	(6,597)
Total fair value at 31 December 2018	1,430,851	1,380,523
Less: reclassified as held for sale	—	(47,600)
Fair value as at 31 December	1,430,851	1,332,923
GAINS ON INVESTMENT PROPERTIES AT FAIR VALUE COMPRISE		
Valuation gains	14,649	94,994
Movement in provision for lease incentives	2,408	(6,597)
Gain on disposal	1,890	2,019
	18,947	90,416
GAIN ON INVESTMENT PROPERTIES SOLD		
Original cost of investment properties	(168,188)	(28,293)
Sale proceeds less sales costs	171,928	41,513
Profit on investment properties sold	3,740	13,220
Recognised in previous periods	(4,938)	11,201
Recognised in current period	8,678	2,019
	3,740	13,220

Given the objectives of the Group and the nature of its investments, the Directors believe that the Group has only one asset class, that of Commercial Property.

CBRE Limited, (the “Property Valuer”) completed a valuation of Group investment properties as at 31 December 2018 on the basis of fair value in accordance with the requirements of the Royal Institution of Chartered Surveyors (RICS) ‘RICS Valuation — Global Standards 2017 (the ‘Red Book’). For most practical purposes there would be no difference between Fair Value (as defined in IFRS 13) and Market Value. The Property Valuer, in valuing the portfolio, is acting as an ‘External Valuer’, as defined in the Red Book, exercising independence and objectivity. The Property Valuer’s opinion of Fair Value has been primarily derived using comparable recent market transactions in order to determine the price that would be received to sell an asset in an orderly transaction between market participants at the valuation date. The fair value of these investment properties amounted to £1,445,170,000 (2017: £1,397,250,000). The difference between the fair value and the value per the consolidated balance sheet

at 31 December 2018 consists of accrued income relating to the pre-payment for rent-free periods recognised over the life of the lease totalling £14,319,000 (2017: £16,727,000) which is separately recorded in the accounts as a current asset.

The Group has entered into leases on its property portfolio as lessor (See note 19 for further information).

- ▲ No one property accounts for more than 15 per cent of the gross assets of the Group.
- ▲ All leasehold properties have more than 60 years remaining on the lease term.
- ▲ There are no restrictions on the realisability of the Group’s investment properties or on the remittance of income or proceeds of disposal.

However, the Group’s investments comprise UK commercial property, which may be difficult to realise.

NOTES TO THE ACCOUNTS

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The property portfolio's fair value as at 31 December 2018 has been prepared adopting the following assumptions:

- ▲ That, where let, the Estimated Net Annual Rent (after void and rent free period assumptions) for each property, or part of a property, reflects the terms of the leases as at the date of valuation. If the property, or parts thereof, are vacant at the date of valuation, the rental value reflects the rent the Property Valuer considers would be obtainable on an open market letting as at the date of valuation.
- ▲ The Property Valuer has assumed that, where let, all rent reviews are to be assessed by reference to the estimated rental value calculated in accordance with the terms of the lease. Also there is the assumption that all tenants will meet their obligations under their leases and are responsible for insurance, payment of business rates, and all repairs, whether directly or by means of a service charge.
- ▲ The Property Valuer has not made any adjustments to reflect any liability to taxation that may arise on disposal, nor any costs associated with disposals incurred by the owner.
- ▲ The Property Valuer assumes an initial yield in the region of 3 to 7.25 per cent, based on market evidence. For the majority of properties, the Property Valuer assumes a reversionary yield in the region of 3.25 to 9 per cent.
- ▲ The Property Valuer takes account of deleterious materials included in the construction of the investment properties in arriving at its estimate of Fair Value when the Investment Manager advises of the presence of such materials.

The majority of the leases are on a full repairing basis and as such the Group is not liable for costs in respect of repairs or maintenance to its investment properties.

The following disclosure is provided in relation to the adoption of IFRS 13 Fair Value Measurement. All properties are deemed Level 3 for the purposes of fair value measurement and the current use of each property is considered the highest and best use. There have been no transfers from Level 3 in the year. The fair value of completed investment property is determined using a yield methodology. Under this method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. As an accepted method within the income approach to valuation, this method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market derived discount rate (capitalisation rate) is applied to establish the present value of the cash inflows associated with the real property.

The duration of the cash flow and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related void or rent free periods, re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of property. In the case of investment properties, periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net cash inflows, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted. Set out below are the valuation techniques used for each property sector plus a description and quantification of the key unobservable inputs relating to each sector. There has been no change in valuation technique in the year.

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of investment property.

Sector	Fair Value at 31 December 2018 (£m)	Valuation techniques	Unobservable inputs	Range (weighted average)
▲ Industrial	670.5	Yield methodology	Annual rent per sq ft Capitalisation rate	£0–£17 (£7) 4.1%–6.8% (4.8%)
▲ Office	231.9	Yield methodology	Annual rent per sq ft Capitalisation rate	£15–£57 (£27) 3.3%–7.2% (5.4%)
▲ Retail	384.9	Yield methodology	Annual rent per sq ft Capitalisation rate	£18–£305 (£60) 3.3%–8.7% (5.5%)
▲ Alternatives	157.9	Yield methodology	Annual rent per sq ft Capitalisation rate	£0–£21 (£14) 5.1%–6.1% (5.6%)

Sensitivity analysis

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of investment property, which could be caused by a number of factors, including Brexit.

Sector	Assumption	Movement	Effect on valuation
▲ Industrial	Capitalisation rate	+ 50 basis points – 50 basis points	Decrease £69.3 million Increase £86.0 million
▲ Office	Capitalisation rate	+ 50 basis points – 50 basis points	Decrease £22.3 million Increase £27.4 million
▲ Retail	Capitalisation rate	+ 50 basis points – 50 basis points	Decrease £35.0 million Increase £42.9 million
▲ Alternatives	Capitalisation rate	+ 50 basis points – 50 basis points	Decrease £13.9 million Increase £16.5 million

Investment property valuation process

The valuations of investment properties are performed quarterly on the basis of valuation reports prepared by independent and qualified valuers and reviewed by the Property Valuation Committee of the Company.

These reports are based on both:

- ▲ Information provided by the Investment Manager such as current rents, terms and conditions of lease agreements, service charges and capital expenditure. This information is derived from the Investment Manager's financial and property management systems and is subject to the Investment Manager's overall control environment.
- ▲ Assumptions and valuation models used by the valuers — the assumptions are typically market related, such as yields. These are based on their professional judgment and market observation.

The information provided to the valuers and the assumptions and valuation models used by the valuers are reviewed by the Investment Manager. This includes a review of fair value movements over the period.

Asset held for sale

There are no assets held for sale as at 31 December 2018. At the prior year end the assets held for sale were the three Shrewsbury shopping centres, Charles Darwin, Pride Hill and Riverside. The assets were shown at fair value in the Balance Sheet as a held for sale asset and included within the investment property table shown in this note. The assets were sold by the Group on 24 January 2018 for approximately £51 million and the losses on these assets are shown in investment property table and included within the consolidated statement of comprehensive income as losses on investment properties.

11. SUBSIDIARY UNDERTAKINGS

The Company owns 100 per cent of the issued ordinary share capital of UK Commercial Property Finance Holdings Limited (UKCFH), a company incorporated in Guernsey whose principal business pre REIT conversion was that of a holding company.

The Company owns 100 per cent of the issued share capital of UK Commercial Property Estates Holdings Limited (UKCPEH), a company incorporated in Guernsey whose principal business pre REIT conversion was that of a holding company. UKCPEH Limited owns 100 per cent of the issued share capital of UK Commercial Property Estates Limited, a company incorporated in Guernsey whose principal business is that of an investment and property company. UKCPEH also owns 100% of Brixton Radlett Property Limited, a UK company, whose principal business is that of an investment and property company.

UKCFH owns 100 per cent of the issued ordinary share capital of UK Commercial Property Holdings Limited (UKCPH), a company incorporated in Guernsey whose principal business is that of an investment and property company.

UKCFH owns 100 per cent of the issued share capital of UK Commercial Property GP Limited, (GP), a company incorporated in Guernsey whose principal business is that of an investment and property company.

UKCPT Limited Partnership, (GLP), is a Guernsey limited partnership, and it holds a portfolio of properties. UKCPH and GP, have a partnership interest of 99 and 1 per cent respectively in the GLP. The GP is the general partner and UKCPH is a limited partner of the GLP.

UKCFH owns 100 per cent of the issued share capital of UK Commercial Property Nominee Limited, a company incorporated in Guernsey whose principal business is that of a nominee company.

In addition the Group controls four JPUTS namely Junction 27 Retail Unit Trust, St George's Leicester Unit Trust, Kew Retail Park Unit Trust and Rotunda Kingston Property Unit Trust. The principal business of the Unit Trusts is that of investment in property.

Following REIT conversion all direct properties held by UKCPH, UKCPEL and the Limited Partnership were transferred to UKCPFH and UKCPEH.

NOTES TO THE ACCOUNTS

Continued

12. TRADE AND OTHER RECEIVABLES

	2018 £'000	2017 £'000
Rents receivable	4,067	2,995
Lease incentives	14,319	16,727
Other debtors and prepayments	5,379	3,711
	23,765	23,433
Provision for bad debts as at 31 December 2017/2016	790	660
Movement in the year	(71)	130
Provision for bad debts as at 31 December 2018/2017	719	790

The ageing of these receivables is as follows:

	2018 £'000	2017 £'000
Less than 6 months	566	374
Between 6 and 12 months	124	290
Over 12 months	29	126
	719	790

Other debtors include tenant deposits of £2,618,000 (2017: £3,070,000)
All other debtors are due within one year. No other debts past due are impaired in either year.

13. TRADE AND OTHER PAYABLES

	2018 £'000	2017 £'000
Rental income received in advance	13,308	14,334
Investment Manager fee payable	2,381	2,370
VAT payable	—	641
Income tax payable	2,030	481
Withholding tax payable ¹	608	—
Other payables	16,812	4,582
	35,139	22,408

¹ Tax withheld on PIDs at the basic rate of income tax, currently 20%.

Other payables include tenant deposits of £2,618,000 (2017: £3,070,000), bank loan and interest rate swap payments of £1,429,000 (2017: £1,430,000), dilapidation settlement of £3,500,000 (2017: £0), acquisition costs of £830,000 (2017: £0) and dividend payable of £4,182,000 (2017: £0). As at the payment date of the third interim dividend (30 November 2018), Phoenix Life Limited were deemed to be a substantial shareholder under the REIT regulations. PLL notified the Company they were no longer a substantial shareholder in January 2019 and the dividend was subsequently paid. The Group's payment policy is to ensure settlement of supplier invoices in accordance with stated terms.

14. BANK LOAN AND INTEREST RATE SWAPS

	2018 £'000	2017 £'000
Total facilities available	300,000	300,000
Drawn down:		
Barclays facility	150,000	150,000
Barings facility	100,000	100,000
Set up costs incurred	(4,536)	(4,536)
Accumulated amortisation of set up costs	3,465	3,067
Accrued variable interest rate on bank loan	732	595
Total due	249,661	249,126

Movements in bank loan and interest rates swaps arising from financing activities	At 1 Jan 2019 £'000	Cash flows £'000	Changes in fair value £'000	Other changes £'000	At 31 Dec 2018 £'000
Bank Loan	249,126	—	—	535	249,661
Interest Rate Swaps	(2,090)	—	1,388	—	(702)

(i) Barclays Facility

The Group has a five year £150 million facility, maturing in April 2020, with Barclays Bank plc initially taken out in May 2011 and extended in April 2015. As at 31 December 2018 this entire loan was drawn down. The bank loan is secured on the property portfolio held by UKCPEL. Under bank covenants related to the loan UKCPEL is to ensure that at all times:

- ▲ The loan to value percentage does not exceed 60 per cent.
- ▲ Interest cover at the relevant payment date is not less than 160 per cent.

UKCPEL met all covenant tests during the year.

Interest rate exposure is hedged by the purchase of an interest rate swap contract. The notional amount of the swap and the swap term matches the loan principal and the loan term. As at 31 December 2018 the Group had in place one interest rate swap totalling £150 million with Barclays Bank plc (2017: £150 million). The interest rate swap effectively hedges the current drawn down loan with Barclays Bank plc.

Interest on the swap is receivable at a variable rate calculated on the same LIBOR basis as for the bank loan (as detailed below but excluding margins) and payable at a fixed rate of 1.30 per cent per annum on the £150 million swap. The fair value of the liability in respect of the interest rate swap contract at 31 December 2018 is £702,000 (2017: liability of £2,090,000) which is based on the marked to market value.

Interest is payable by UKCPEL at a rate equal to the aggregate of LIBOR, mandatory costs of the Bank and a margin. The applicable margin is fixed at 1.50 per cent per annum and this was the applicable margin as at 31 December 2018 (2017: 1.50 per cent).

In addition to the above UKCPEL has a £50 million revolving credit facility ("RCF") with Barclays Bank plc at a margin of 1.50 per cent above LIBOR available for four years but cancellable at any time. The RCF has a non-utilisation fee of 0.6 per cent per annum charged on the proportion of the RCF not utilised on a pro-rata basis. At 31 December 2018 the RCF remained unutilised.

(ii) Barings Facility

The Group has a twelve year £100 million loan which is due to mature in April 2027 with Barings Real Estate Advisers (previously Cornerstone Real Estate Advisers LLP), a member of the MassMutual Financial Services Group. The loan was taken out by UK Commercial Property Finance Holdings Limited (UKCFH). As at 31 December 2018 this entire loan was drawn down. The bank loan is secured on the portfolio of eight properties held within the wider Group. Under bank covenants related to the loan UKCFH is to ensure that at all times:

- ▲ The loan to value percentage does not exceed 75 per cent.
- ▲ Interest cover at the relevant payment date and also projected over the course of the proceeding 12 months is not less than 200 per cent.

UKCFH met all covenant tests during the year.

Interest is payable by UKCFH at a fixed rate equal to the aggregate of the equivalent 12 year gilt yield, fixed at the time of drawdown and a margin. This resulted in a fixed rate of interest payable of 3.03 per cent per annum. There are no interest rate swaps in place relating to this facility.

NOTES TO THE ACCOUNTS

Continued

Swap Instruments

As at 31 December 2018 the Group had in place an interest rate swap instrument totalling £150 million which was deemed to be an effective hedge as per note 1(q).

The revaluation of this swap at the year end resulted in a gain on interest rate swaps of £1.4 million (2017: gain of £1.7 million). Of the total gain arising on interest rate swaps, £1.4 million related to effective hedge instruments (2017: gain £1.7 million) which is credited through Other Comprehensive Income in the Statement of Comprehensive Income.

The valuation techniques applied to fair value the derivatives include the swap models including the CVA/DVA swap models, using present value calculations. The model incorporates various inputs including the credit quality of counterparties and forward rates.

The fair value of the interest rate swaps as at 31 December 2018 amounted to a liability of £702,000 (2017: Liability of £2,090,000). Based on current yield curves and non-performance risk, £868,000 (2017: £1.1 million) of this value is a liability which relates to the next 12 months and is therefore classified as a current liability. The remainder is classified as a Non-Current asset.

Post the year end the Group refinanced its debt facilities. Further details are shown in note 21 — Post Balance Sheet Events.

15. SHARE CAPITAL ACCOUNTS

	2018 £'000	2017 £'000
SHARE CAPITAL		
Opening balance	539,872	539,872
Share capital as at 31 December 2018	539,872	539,872

Number of shares in issue and fully paid at the year end being 1,299,412,465 (2017: 1,299,412,465) of 25p each.

Ordinary shareholders participate in all general meetings of the Company on the basis of one vote for each share held. The Articles of Association of the Company allow for an unlimited number of shares to be issued, subject to restrictions placed by AGM resolutions. There are no restrictions on the shares in issue.

16. NET ASSET VALUE PER SHARE

The net asset value per ordinary share is based on net assets of £1,212,619,000 (2017: £1,206,046,000) and 1,299,412,465 (2017: 1,299,412,465) ordinary shares, being the number of ordinary shares in issue at the year end.

17. RELATED PARTY TRANSACTIONS

No Director has an interest in any transactions which are or were unusual in their nature or significant to the nature of the Group.

Standard Life Investments (Corporate Funds) Limited, as the Manager of the Group up until 10 December 2018 and Aberdeen Standard Fund Managers Limited after this date, received fees for their services as investment managers. Further details are provided in note 3. The total management fee charged to the Statement of Comprehensive Income during the year was £9,567,000 (2017: £9,215,000) of which £2,381,000 (2017: £2,370,000) remained payable at the year end. The Investment Manager also received an administration fee of £100,000 (2017: £100,000), of which £25,000 (2017: £25,000) remained payable at the year end.

The Directors of the Company are deemed as key management personnel and received fees for their services. Further details are provided in the Directors' Remuneration Report (unaudited) on pages 60–61. Total fees for the year were £282,443 (2017: £222,000) none of which remained payable at the year end (2017: nil).

The Group invests in the Aberdeen Standard Investments Liquidity Fund which is managed by Aberdeen Standard Investments Limited. As at 31 December 2018 the Group had invested £27.1 million in the Fund (2017: £44.7 million). No additional fees are payable to Aberdeen Standard Investments as a result of this investment.

18. FINANCIAL INSTRUMENTS AND INVESTMENT PROPERTIES

The Group's investment objective is to provide ordinary shareholders with an attractive level of income together with the potential for income and capital growth from investing in a diversified UK commercial property portfolio.

Consistent with that objective, the Group holds UK commercial property investments. The Group's financial instruments consist of cash, receivables and payables that arise directly from its operations and loan facilities and swap instruments.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, market risk and interest rate risk. The Board reviews and agrees policies for managing its risk exposure. These policies are summarised below and remained unchanged during the year.

Fair value hierarchy

The following table shows an analysis of the fair values of investment properties recognised in the balance sheet by level of the fair value hierarchy:

Explanation of the fair value hierarchy:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Use of a model with inputs (other than quoted prices included in level 1) that are directly or indirectly observable market data.
Level 3	Use of a model with inputs that are not based on observable market data.

31 December 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
Investment properties	—	—	1,445,170	1,445,170

31 December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
Investment properties	—	—	1,397,250	1,397,250

The lowest level of input is the underlying yield on each property which is an input not based on observable market data.

The following table shows an analysis of the fair value of bank loans recognised in the balance sheet by level of the fair value hierarchy:

31 December 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
Bank loans	—	253,950	—	253,950

31 December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
Bank loans	—	264,720	—	264,720

The lowest level of input is the interest rate applicable to each borrowing as at the balance sheet date which is a directly observable input.

NOTES TO THE ACCOUNTS

Continued

The following table shows an analysis of the fair values of financial instruments and trade receivables and payables recognised in the balance sheet by level of the fair value hierarchy:

31 December 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
Interest rate swap	—	(702)	—	(702)
Trade and other receivables	—	23,765	—	23,765
Trade and other payables	—	35,139	—	35,139

31 December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
Interest rate swap	—	(2,090)	—	(2,090)
Trade and other receivables	—	23,433	—	23,433
Trade and other payables	—	22,408	—	22,408

The lowest level of input is the three month LIBOR yield curve which is a directly observable input.

The carrying amount of trade and other receivables and payables is equal to their fair value, due to the short-term maturities of these instruments. Expected maturities are estimated to be the same as contractual maturities.

The fair value of investment properties is calculated using unobservable inputs as described in note 9.

The fair value of the derivative interest rate swap contract is estimated by discounting expected future cash flows using current market interest rates and yield curves over the remaining term of the instrument.

The fair value of the bank loans are estimated by discounting expected future cash flows using the current interest rates applicable to each loan.

There have been no transfers between levels in the year for items held at fair value.

Real Estate Risk

The Group has identified the following risks associated with the real estate portfolio:

- ▲ The cost of any development schemes may increase if there are delays in the planning process. The Group uses advisers who are experts in the specific planning requirements in the scheme's location in order to reduce the risks that may arise in the planning process;
- ▲ A major tenant may become insolvent causing a significant loss of rental income and a reduction in the value of the associated property (see also credit risk overleaf). To reduce this risk, the Group reviews the financial status of all prospective tenants and decides on the appropriate level of security required via rental deposits or guarantees;
- ▲ The exposure of the fair values of the portfolio to market and occupier fundamentals such as tenants' financial position.

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group.

At the reporting date, the maturity of the Group's financial assets was:

Financial Assets 2018	3 months or less £'000	More than 3 months but less than one year £'000	More than one year £'000	Total £'000
Cash	43,505	—	—	43,505
Rent receivable	4,067	—	—	4,067
Other debtors	5,379	—	—	5,379
	52,951	—	—	52,951

Financial Assets 2017	3 months or less £'000	More than 3 months but less than one year £'000	More than one year £'000	Total £'000
Cash	72,443	—	—	72,443
Rent receivable	2,995	—	—	2,995
Other debtors	3,711	—	—	3,711
	79,149	—	—	79,149

In the event of default by a tenant, the Group will suffer a rental shortfall and incur additional costs, including legal expenses, in maintaining, insuring and re-letting the property until it is re-let. The Board receives regular reports on concentrations of risk and any tenants in arrears. The Investment Manager monitors such reports in order to anticipate and minimise the impact of defaults by tenants.

The Company has a diversified tenant portfolio. The maximum credit risk from the rent receivables of the Group at 31 December 2018 is £6,710,000 (2017: £6,065,000). The Group holds rental deposits of £2,618,000 (2017: £3,070,000) as collateral against tenant arrears/defaults. All tenant deposits are in line with market practice. There is no residual credit risk associated with the financial assets of the Group. Other than those included in the provision for bad debts, no financial assets past due are impaired.

All of the cash is placed with financial institutions with a credit rating of A or above. £27.1 million (2017: £44.7 million) of the year end cash balance is held in the Aberdeen Standard Investments Liquidity Fund, which is a money market fund and has a triple A rating. Bankruptcy or insolvency of a financial institution may cause the Group's ability to access cash placed on deposit to be delayed or limited. Should the credit quality or the financial position of the banks currently employed significantly deteriorate, the Investment Manager would move the cash holdings to another financial institution subject to restrictions under the loan facilities.

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in realising assets or otherwise raising funds to meet financial commitments. While commercial properties are not immediately realisable, the Group has sufficient cash resources to meet liabilities.

The Group's liquidity risk is managed on an ongoing basis by the Investment Manager investing in a diversified portfolio of prime real estate and placing cash in liquid deposits and accounts. This is monitored on a quarterly basis by the Board. In certain circumstances, the terms of the Group's bank loan entitles the lender to require early repayment, and in such circumstances the Group's ability to maintain dividend levels and the net asset value attributable to the ordinary shares could be adversely affected.

As at 31 December 2018 the cash balance was £43,505,000 (2017: £72,443,000).

NOTES TO THE ACCOUNTS

Continued

At the reporting date, the contractual maturity of the Group's liabilities, which are considered to be the same as expected maturities, was:

Financial Liabilities 2018	3 months or less £'000	More than 3 months but less than one year £'000	More than one year £'000	Total £'000
Bank loans	1,783	5,447	272,167	279,397
Other creditors	33,800	—	—	33,800
	35,583	5,447	272,167	313,197

Financial Liabilities 2017	3 months or less £'000	More than 3 months but less than one year £'000	More than one year £'000	Total £'000
Bank loans	1,783	5,447	279,028	286,258
Other creditors	21,207	—	—	21,207
	22,990	5,447	279,028	307,465

The amounts in the table are based on contractual undiscounted payments.

Interest rate risk

The cash balance as shown in the Balance Sheet, is its carrying amount and has a maturity of less than one year.

Interest is receivable on cash at a variable rate ranging from 0.2 per cent to 0.6 per cent at the year end and deposits are re-priced at intervals of less than one year.

An increase of 1 per cent in interest rates as at the reporting date would have increased the reported profit by £435,000 (2017: increased the reported profit by £774,000). A decrease of 1 per cent would have reduced the reported profit £435,000 (2017: decreased the reported profit by £774,000). The effect on equity is nil (excluding the impact of a change in retained earnings as a result of a change in net profit).

As the Group's bank loans have been hedged by interest rate swaps or are at fixed rates, these loans are not subject to interest rate risk.

As at 31 December 2018 the Group had in place a total of £150 million of interest rate swap instruments (2017: £150 million). The values of these instruments are marked to market and will change if interest rates change. It is estimated that an increase of 1 per cent in interest rates would result in the swap liability decreasing by £1.8 million (2017: £3.3 million) which would increase the reported other comprehensive income by the same amount. A decrease of 1 per cent in interest rates would result in the swap liability increasing by £1.8 million (2017: £3.3 million) which would decrease the reported other comprehensive income by the same amount. The other financial assets and liabilities of Group are non-interest bearing and are therefore not subject to interest rate risk.

Foreign Currency Risk

There was no foreign currency risk as at 31 December 2018 or 31 December 2017 as assets and liabilities of the Group are maintained in pounds Sterling.

Capital Management Policies

The Group considers that capital comprises issued ordinary shares, net of shares held in treasury, and long-term borrowings. The Group's capital is deployed in the acquisition and management of property assets meeting the Group's investment criteria with a view to earning returns for shareholders which are typically made by way of payment of regular dividends. The Group also has a policy on the buyback of shares which it sets out in the Directors' Authority to Buy Back Shares section of the Directors' Report.

The Group's capital is managed in accordance with its investment policy which is to hold a diversified property portfolio of freehold and long leasehold UK commercial properties. The Group invests in income producing properties. The Group will principally invest

in four commercial property sectors: office, retail, industrial and alternatives. The Group is permitted to invest up to 15 per cent of its Total Assets in indirect property funds and other listed investment companies. The Group is permitted to invest cash, held by it for working capital purposes and awaiting investments, in cash deposits, gilts and money market funds.

The Group monitors capital primarily through regular financial reporting and also through a gearing policy. Gearing is defined as gross borrowings divided by total assets less current liabilities. The Group's gearing policy is set out in the Investment Policy section of the Report of the Directors. The Group is not subject to externally imposed regulatory capital requirements but does have banking covenants on which it monitors and reports on a quarterly basis. Included in these covenants are requirements to monitor loan to value ratios which is calculated as the amount of outstanding debt divided by the market value of the properties secured. The Group's Loan to value ratio is shown below.

The Group did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan arrangements in the year to 31 December 2018.

	2018 £'000	2017 £'000
Carrying amount of interest-bearing loans and borrowings	249,661	249,126
External valuation of completed investment property and assets held for sale (excluding lease incentive adjustment)	1,445,170	1,397,250
Loan to value ratio	17.3%	17.8%

The Group's capital balances are set out on [page 74](#) and are regarded as the Group's equity and net debt.

19. CAPITAL COMMITMENTS

The Group had contracted capital commitments as at 31 December 2018 of £11.5 million (31 December 2017 – £44.4 million), which included:

- ▲ £1 million capital works refurbishment of Magna Park, Lutterworth.
- ▲ £2.5 million capital works building pre-let additional units at St George's Retail Park, Leicester.
- ▲ £2.3 million for capital works across Cineworld Complex Glasgow, Motor Park Portsmouth, Ventura Park Radlett and M8 Interlink.
- ▲ £5.7 million forward funding of the pre-let Maldron Hotel, Newcastle.

NOTES TO THE ACCOUNTS

Continued

20. LEASE ANALYSIS

The Group leases out its investment properties under operating leases.

The future income under non-cancellable operating leases, based on the unexpired lease length at the year end was as follows (based on total rentals):

	2018 £'000	2017 £'000
Less than one year	65,487	65,675
Between one and five years	218,547	200,249
Over five years	355,523	307,618
Total	639,557	573,542

The largest single tenant at the year end accounted for 5.9 per cent (2017: 5.8) of the current annual rental income.

The unoccupied property expressed as a percentage of annualised total rental value was 6.9 per cent (2017: 7.6 per cent) at the year end.

The Group has entered into commercial property leases on its investment property portfolio. These properties, held under operating leases, are measured under the fair value model as the properties are held to earn rentals. The majority of these non-cancellable leases have remaining non-cancellable lease terms of between 5 and 15 years.

Analysis of the nature of investment properties and leases are provided in the 'UKCM Portfolio in Numbers' pages.

21. EVENTS AFTER THE BALANCE SHEET DATE

On 21 February 2019 the Company announced it had refinanced its debt facilities as follows:

Barclays Facility

▲ The £150 million Barclays term loan facility due to expire in April 2020 has been repaid along with the associated interest rate swap. The cost of closing out the swap was £703,000. There were no repayment fees on the term loan facility.

▲ The current £50 million Barclays RCF has been increased to £150 million and extended to February 2024. £55 million of this RCF has been utilised to repay the term loan.

Barings Real Estate ("Barings") Facility

▲ A new £100 million 2.72% fixed rate facility has been taken out with Barings Real Estate, part of Barings LLC, one of the world's largest diversified real estate investment managers, maturing in February 2031, which has been used to repay the balance of the Barclays term loan facility. The Group now has £200 million of debt in two equal tranches with Barings with £100 million expiring in April 2027 and £100 million in February 2031.

EPRA Financial and Sustainability Reporting (Unaudited)

NOTES TO THE ACCOUNTS

EPRA Performance Measure

	31 December 2018 Total £'000	31 December 2017 Total £'000
EPRA earnings	34,058	41,146
EPRA earnings per share (pence per share)	2.62	3.17
EPRA earnings per share (pence per share – excluding non recurring tax items)	3.03	3.42
EPRA NAV	1,213,321	1,208,136
EPRA NAV per share	93.4	93.0
EPRA NNNAV	1,208,330	1,190,452
EPRA NNNAV per share	93.0	91.6
EPRA Net Initial Yield	4.3%	4.3%
EPRA topped-up Net Initial Yield	4.4%	4.5%
EPRA Vacancy Rate	6.9%	7.6%
EPRA Cost Ratios – including direct vacancy costs	28.2%	24.7%
EPRA Cost Ratios – excluding direct vacancy costs	23.5%	18.6%

	31 December 2018 £'000	31 December 2017 £'000
A. EPRA EARNINGS		
Earnings per IFRS income statement	53,005	131,562
Adjustments to calculate EPRA Earnings, exclude:		
Net changes in value of investment properties	(17,057)	(88,398)
Gain on disposal of investment properties	(1,890)	(2,018)
Close-out costs of interest rate SWAP	—	—
EPRA Earnings	34,058	41,146
Basic number of shares	1,299,412	1,299,412
EPRA Earnings per share (pence per share)	2.62	3.17
EPRA Earnings per above	34,058	41,146
Adjustment for non recurring tax items	5,328	3,244
	39,386	44,390
EPRA Earnings per share excluding non-recurring tax items	3.03	3.42

	31 December 2018 £'000	31 December 2017 £'000
B. EPRA NET ASSET VALUE		
IFRS NAV	1,212,619	1,206,046
Exclude		
Fair value of financial instruments	702	2,090
	1,213,321	1,208,136
EPRA NAV per share	93.4	93.0

	31 December 2018 £'000	31 December 2017 £'000
C. EPRA TRIPLE NET ASSET VALUE (NNNAV)		
EPRA NAV	1,213,321	1,208,136
Fair value of financial instruments	(702)	(2,090)
Fair value of debt	(4,289)	(15,594)
EPRA NNNAV	1,208,330	1,190,452
EPRA NNNAV per share	93.0	91.6
Fair value of debt per financial statements	253,950	264,720
Carrying value	249,661	249,126
Fair value of debt adjustment	4,289	15,594

	31 December 2018 £'000	31 December 2017 £'000
D. NET INITIAL AND TOPPED UP YIELD		
Investment property — wholly owned	1,445,170	1,397,250
Completed property portfolio	1,445,170	1,397,250
Allowance for estimated purchasers' costs	98,272	95,897
Gross up completed property portfolio valuation	1,543,442	1,493,147
Annualised cash passing rental income	69,013	68,545
Property outgoings	(3,408)	(4,354)
Annualised net rents	65,605	64,191
Add: notional rent expiration of rent free periods or other lease incentives	2,894	3,443
Topped-up net annualised rent	68,499	67,634
EPRA NIY	4.3%	4.3%
EPRA "topped-up" NIY	4.4%	4.5%

	31 December 2018 £'000	31 December 2017 £'000
E. EPRA COST RATIOS		
Administrative/Property operating expense line per IFRS income statement	18,582	17,224
EPRA costs (including direct vacancy costs)	18,582	17,224
Direct vacancy costs	(3,101)	(4,244)
EPRA costs (excluding direct vacancy costs)	15,481	12,980
Gross rental income less ground rent costs	65,936	69,826
EPRA cost ratio (including direct vacancy costs)	28.2%	24.7%
EPRA cost ratio (excluding direct vacancy costs)	23.5%	18.6%

NOTES TO THE ACCOUNTS

ESG Performance

Approach to ESG

UK Commercial Property REIT aims to invest responsibly, to achieve environmental and social benefits alongside returns. The Company adopts Aberdeen Standard Investment's approach to ESG which sets commitments to:

- ▲ Identify, assess, monitor and control environmental, societal and regulatory risks at key stages of the investment, development and asset management operations.
- ▲ Ensure effective governance and responding to and complying with all regulatory requirements.
- ▲ Share its knowledge and engage with central government, with local government and with other bodies in order to encourage best practice in the market and to steer government policy.
- ▲ Work in partnership with its key stakeholder groups – our investors, tenants, employees, suppliers and the communities we serve.

EPRA Sustainability Best Practice Recommendations Guidelines

We have adopted the 2017 EPRA Sustainability Best Practice Recommendations Guidelines (sBPR) to inform the scope of indicators we report against. We have reported against all EPRA sBPR indicators that are material to the Company. We also report additional data not required by the EPRA sBPR where we believe it to be relevant (e.g. like-for-like greenhouse gas emissions).

A full outline of the scope of reporting and materiality review in relation to EPRA sBPR indicators is included in this section.

Operational Performance Summary

We have processes in place to ensure operational sustainability performance is monitored and actions are implemented to drive continual improvement. Overall, like-for-like electricity consumption reduced by 1% year-on-year although there was an increase at office assets driven by changes in occupancy and operational issues with plant at the 9 Colmore Row, Birmingham asset. Like-for-like gas consumption increased by 14%, driven by changes in occupancy and the effect of colder winter months in 2018. Overall, like-for-like greenhouse gas emissions reduced, with a 12% reduction in the emissions intensity of the portfolio. Water consumption also reduced year-on-year and 99% of waste was diverted from landfill.

Full details of performance against material EPRA sBPR indicators are included in this section.

2018 GRESB Assessment



The GRESB Assessment is the leading global sustainability benchmark for real estate vehicles. The Company has been submitted to GRESB since 2015. In the 2018 assessment, its score improved by 9% compared with 2017 with improvements in the Monitoring & EMS and Performance Indicator categories in particular. The Company achieved a Green Star rating and a Four Star ranking and was awarded a European Sector Leader Award as the best performing entity in its peer group.

Sustainability Performance

This section details the Company's sustainability performance using the EPRA Sustainability Best Practice Recommendations Guidelines (sBPR).

Explanatory notes on methodology

Reporting period

Sustainability data in this report covers the calendar years of 2017 and 2018. We have previously used the fiscal year for sustainability reporting but have changed to calendar year to align with financial reporting.

Organisational boundary and data coverage

For the purposes of sustainability reporting, we have included single-let assets within the organisational boundary even though operational control is limited and we do not generally have sight of tenant utility data. It was judged that these should be included to enable the reporting of consumption data associated with any void units at these assets. The coverage numbers in the tables below therefore appear low due to the inclusion of all of the Trust's assets in the totals. Where there is no data coverage for a sector (for example, water consumption for unit shops where there was no landlord consumption during the period), the sector is excluded from the table but the number of relevant assets is included in the total possible coverage number.

The like-for-like portfolio is determined on the basis of assets that were held for two full reporting years and, in line with EPRA guidance, no exclusions are made on the basis of changes in occupancy.

Note that the Company does not employ any staff and does not have its own premises; these corporate aspects fall within the scope of the Investment Manager.

Normalisation

Net lettable area (NLA) is used as the denominator for all intensities reported in this section. This is the most appropriate choice for the Company's portfolio as it is the most widely available metric. It enables year-on-year comparisons within the portfolio to be made.

Renewable energy

There is no landlord self-generated renewable electricity across the portfolio although we are currently assessing the feasibility of installations on a number of multi-let and industrial assets. In the reporting period, landlord-procured electricity reflected the fuel mix of the relevant suppliers which was approximately 98% renewable. From 1 April 2019, the Company moved to fully renewable tariffs with its electricity suppliers.

Auditing and assurance

Our utilities data which feeds into our sustainability reporting is validated by our Utilities Bureau Consultant and checked by our Sustainability Consultant. We have not sought third party assurance for the sustainability data included in this report although this is something we are looking at introducing in future years.

Materiality

We have undertaken a review of materiality against each of the EPRA sBPR indicators. The table opposite indicates the outcome of the review.

Code	Performance measures	Review outcome
ENVIRONMENTAL		
Elec-Abs	Total electricity consumption	Material
Elec-LfL	Like-for-like total electricity consumption	Material
DH&C-Abs	Total district heating & cooling consumption	Not material — none of the Company's assets are connected to district energy supplies
DH&C-LfL	Like-for-like total district heating & cooling consumption	
Fuels-Abs	Total fuel consumption	Material
Fuels-LfL	Like-for-like total fuel consumption	Material
Energy-Int	Building energy intensity	Material
GHG-Dir-Abs	Total direct greenhouse gas (GHG) emissions	Material
GHG-Indir-Abs	Total indirect greenhouse gas (GHG) emissions	Material
GHG-Int	Greenhouse gas (GHG) emissions intensity from building energy consumption	Material
Water-Abs	Total water consumption	Material
Water-LfL	Like-for-like total water consumption	Material
Water-Int	Building water intensity	Material
Waste-Abs	Total weight of waste by disposal route	Material
Waste-LfL	Like-for-like total weight of waste by disposal route	Material
Cert-Tot	Type and number of sustainably certified assets	Material
SOCIAL		
Diversity-Emp	Employee gender diversity	Not material — The Company does not have any employees
Diversity-Pay	Gender pay ratio	
Emp-Training	Employee training and development	
Emp-Dev	Employee performance appraisals	
Emp-Turnover	New hires and turnover	
H&S-Emp	Employee health and safety	Material
H&S-Asset	Asset health and safety assessments	
H&S-Comp	Asset health and safety compliance	
Comty-Eng	Community engagement, impact assessments and development programs	Material
GOVERNANCE		
Gov-Board	Composition of the highest governance body	Material – see main body of report (page 43 for content related to Governance)
Gov-Selec	Process for nominating and selecting the highest governance body	
Gov-CoI	Process for managing conflicts of interest	

NOTES TO THE ACCOUNTS

Environmental Indicators

Like-for-like energy consumption

Landlord electricity consumption across like-for-like assets decreased by 1% year-on-year. An increase in consumption at office assets was offset by decreases at other asset types. The increase in office electricity and gas consumption was driven by changes in occupancy and operational issues with heating, ventilation and cooling plant that resulted in longer running hours in 2018. These issues have now been resolved and should result in a reduction in future years. Gas consumption

also increased at office assets. The increase in gas consumption at industrial assets is due to energy procured by the landlord for vacant space.

Our Property Manager and Sustainability Consultant closely monitor consumption trends. We are continuing to roll out initiatives, focussing on lighting upgrades and building management systems optimisation.

		Landlord Electricity (kWh)			Occupier Electricity i.e. sub-metered to occupiers (kWh)			Total landlord-obtained Electricity (kWh)			Landlord-obtained Gas (kWh)			Energy Intensity (kWh/m ²)		
Indicator references		Elec-LfL			Elec-LfL			Elec-LfL			Fuels-LfL			Energy-Int		
Sector	Coverage (assets)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)
Industrial, Business Parks	2 of 4	286,212	255,917	-11%	No sub-metered consumption		N/A	286,212	255,917	-11%	12,163	62,118	411%	4.0	4.3	7%
Alternatives	3 of 3	632,365	483,501	-24%	3,029	2,729	-10%	635,394	486,530	-23%	No Landlord meters		N/A	17.1	13.1	-23%
Offices	3 of 8	1,902,603	2,068,367	9%	845,593	814,253	-4%	2,748,196	2,882,620	5%	2,737,730	3,078,863	12%	240.5	261.3	9%
Retail, Shopping Centre	1 of 1	54,739	49,554	-9%	No sub-metered consumption		N/A	54,739	49,554	-9%	No Landlord meters		N/A	1.7	1.5	-9%
Retail, Warehouses	4 of 6	207,911	207,516	-0.2%	No sub-metered consumption		N/A	207,911	207,516	0%	No Landlord meters		N/A	3.8	3.8	0%
Totals	13 of 29	3,083,830	3,064,855	-1%	848,622	816,982	-4%	3,932,452	3,882,137	-1%	2,749,893	3,140,981	14%	30.1	31.6	5.1%

Note: Hotel, Unit Shop and Distribution Warehouse assets are excluded from the table as there is no like-for-like consumption but are included in the total possible coverage number.

Sustainability certifications

Energy Performance Certificate (EPC) ratings for assets in England owned by the Company are shown adjacent. A comprehensive review of EPC ratings has been undertaken in light of the Minimum Energy Performance Standard (MEES). For the few remaining units that remain F or G rated, plans are in place to improve ratings well in advance of lease events.

There are currently three BREEAM-rated assets in the portfolio. The White Building in Reading and Central Square in Newcastle have a BREEAM Excellent rating and the Palletforce logistics unit in Burton upon Trent has a Very Good rating. These assets account for 7% of the Company by net lettable area.

EPC RATING	% NET LETTABLE AREA
A	8.0%
B	16.0%
C	31.9%
D	36.8%
E	5.3%
F	0.5%
G	1.5%

Like-for-like greenhouse gas emissions

The like-for-like gas consumption figures above translate into a 14% increase in Scope 1 greenhouse gas (GHG) emissions which is out-weighted by 20% and 24% reductions in Scope 2 and 3 emissions respectively. The reduction in Scope 2 emissions is driven by the reduction in landlord electricity consumption and also an improvement in the carbon intensity of the UK electricity grid between 2017 and 2018.

		Scope 1 Emissions (tCO ₂)			Scope 2 Emissions (tCO ₂)			Scope 3 Emissions (tCO ₂)			Emissions Intensity Scopes 1, 2 & 3 (kgCO ₂ /m ²)		
Indicator references		No relevant EPRA indicator											
Sector	Coverage (assets)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)
Industrial, Business Parks	2 of 4	2	11	410%	101	72	-28%	9	6	-34%	1.5	1.2	-20%
Alternatives	3 of 3	No Landlord meters		N/A	222	137	-38%	22	13	-43%	7	4	-39%
Offices	3 of 8	504	567	13%	669	585	-12%	388	300	-23%	68	64	-7%
Retail, Shopping Centre	1 of 1	No Landlord meters		N/A	19	14	-27%	2	1	-34%	0.7	0.5	-28%
Retail, Warehouses	4 of 6	No Landlord meters		N/A	73	59	-20%	7	5	-27%	1.4	1.2	-20%
Totals	13 of 29	506	578	14%	1,084	868	-20%	428	325	-24%	9	8	-12%

Social Indicators

Health & Safety

Every asset in the portfolio (i.e. 100% coverage) was subject to a health and safety inspection during the reporting year, with no incidents of non-compliance with regulations identified.

Community Engagement

A variety of community engagement activities were undertaken at shopping centre assets, accounting for 6% of the portfolio by floor area. This has included partnerships with local charities on fundraising activities and provision of space for health awareness campaigns and health check programmes. More broadly, community impacts are assessed as part of any major development or construction projects the Company undertakes.

NOTES TO THE ACCOUNTS

Environmental Indicators

Absolute energy consumption

Absolute landlord electricity decreased by 17% year-on-year, driven by the disposal of shopping centre assets in January 2018. Electricity and gas consumption at industrial assets was affected by changes in occupancy and in particular, an increase

in landlord consumption associated with a small number of vacant units. The increase in office consumption is driven by the same factors as the like-for-like portfolio above with the additional effect of the acquisition of the White Building in June 2018.

			Landlord Electricity (kWh)			Occupier Electricity i.e. sub-metered to occupiers (kWh)			Total landlord-obtained Electricity (kWh)			Landlord-obtained Gas (kWh)			Energy Intensity (kWh/m²)		
Indicator references			Elec-Abs			Elec-Abs			Elec-Abs			Fuels-Abs			Energy-Int		
Sector	Coverage 2017 (assets)	Coverage 2018 (assets)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)
Industrial, Business Parks	4 of 8	4 of 8	318,486	314,345	-1%	310,546	306,499	-1%	629,032	620,844	-1%	0	78,041	N/A	4.9	5.5	11%
Industrial, Distribution Warehouses	1 of 5	2 of 5	46,593	390,687	739%	No sub-metered consumption		N/A	46,593	390,687	739%	179,834	864,595	381%	6.4	22.6	254%
Alternatives	3 of 3	3 of 3	442,912	483,501	9%	3,029	2,729	-10%	445,941	486,230	9%	No Landlord meters		N/A	12.0	13.1	9%
Offices	4 of 12	5 of 11	1,902,603	2,142,454	13%	843,143	1,366,792	62%	2,745,746	3,509,246	28%	2,737,730	3,078,863	12%	240.4	207.7	-14%
Retail, Unit Shops	1 of 5	0 of 5	1,292	0	N/A	No sub-metered consumption		N/A	1,292	0	N/A	No Landlord meters		N/A	0.2	N/A	N/A
Retail, Shopping Centre	4 of 4	4 of 4	1,569,581	181,190	-88%	No sub-metered consumption		N/A	1,569,581	181,190	-88%	144,495	4,948	-97%	25.7	5.8	-77%
Retail, Warehouses	4 of 6	5 of 6	208,369	207,516	0%	No sub-metered consumption		N/A	208,369	207,516	0%	No Landlord meters		N/A	3.8	3.8	0%
Totals	21 of 43	23 of 42	4,489,836	3,719,693	-17%	1,156,718	1,676,020	45%	5,646,554	5,395,713	-4%	3,062,059	4,026,447	31%	24.7	27.8	12%

Water Consumption

Water consumption at like-for-like assets decreased by 2% year-on-year. There was a significant reduction at The Rotunda, Kingston which offset an increase at the Parade Shopping Centre in Swindon. The increase at industrial assets relates to an

increase in tenant consumption at Ventura Park, Radlett where the Landlord procures water for a small number of units. All water for the Company is sourced from mains supply.

			Absolute Water Consumption (m³)					Lfl Water Consumption (m³)					
Indicator references			Water-Abs; Water-Int					Water-Lfl; Water-Int					
Sector	Coverage 2017 (assets)	Coverage 2018 (assets)	2017 (m³)	2017 Intensity (litres/m²)	2018 (m³)	2018 Intensity (litres/m²)	Change (%)	Coverage (assets)	2017 (m³)	2017 Intensity (litres/m²)	2018 (m³)	2018 Intensity (litres/m²)	Change (%)
Industrial, Business Parks	2 of 8	2 of 8	6,348	75	7,140	84	12%	1 of 4	441	8	605	11	37%
Industrial, Distribution Warehouses	1 of 5	1 of 5	123	3	3,150	89	2467%	0 of 3	0	N/A	0	N/A	N/A
Alternatives	2 of 3	2 of 3	1,013	41	715	29	-29%	2 of 3	1,013	41	715	29	-29%
Offices	4 of 12	5 of 11	18,135	795	18,538	584	2%	3 of 8	17,558	1,014	17,266	997	-2%
Retail, Shopping Centre	3 of 4	3 of 4	7,236	130	663	12	-91%	1 of 1	113	4	232	7	106%
Totals	12 of 43	13 of 42	32,856	147	30,207	130	-8%	7 of 29	19,125	150	18,818	147	-2%

Absolute greenhouse gas emissions

Absolute Scope 1 GHG emissions increased by 31%, in line with the increase in absolute gas consumption noted previously. Scope 2 emissions from the consumption of electricity reduced by 33% due to a combination of energy reduction and

an improvement in the carbon intensity of the UK electricity grid. As noted above for the like-for-like portfolio, the reduction in Scope 2 emissions is aided by a reduction in the emissions intensity of UK grid electricity.

			Scope 1 Emissions (tCO ₂)			Scope 2 Emissions (tCO ₂)			Scope 3 Emissions (tCO ₂)			Emissions Intensity Scopes 1, 2 & 3 (kgCO ₂ /m ²)		
Indicator references			GHG-Indir-Abs			GHG-Indir-Abs			GHG-Dir-Abs			GHG-Int		
Sector	Coverage 2017 (assets)	Coverage 2018 (assets)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)
Industrial, Business Parks	4 of 8	4 of 8	0	14	N/A	112	89	-21%	130	128	-1%	1.9	1.8	-4%
Industrial, Distribution Warehouses	1 of 5	2 of 5	33	159	380%	16	111	575%	1.5	9.4	516%	1.4	5.0	250%
Alternatives	3 of 3	3 of 3	No Landlord meters		N/A	156	137	-12%	16	13	-20%	4.6	4.0	-13%
Offices	4 of 12	5 of 11	504	566	12%	669	606	-9%	387	472	22%	68.4	51.8	-24%
Retail, Unit Shops	1 of 5	0 of 5	No Landlord meters		N/A	0	0	-100%	0.04	0	-100%	0.1	0.0	N/A
Retail, Shopping Centre	4 of 4	4 of 4	27	1	-97%	552	51	-91%	52	4	-92%	9.4	1.8	-81%
Retail, Warehouses	4 of 6	5 of 6	No Landlord meters		N/A	73	59	-20%	7	5	-27%	1.5	1.2	-20%
Totals	21 of 43	23 of 42	564	741	31%	1,578	1,053	-33%	592	631	7%	7.8	7.1	-8%

Waste generation and treatment

The Investment Manager is responsible for waste management at a number of multi-let assets across the Company. The Investment Manager's waste management consultants undertake regular waste audits and work closely with managing agents to implement interventions to improve segregation of materials and ultimately increase recycling rates.

In total across the eight assets for which the Investment Manager manages waste, 789 tonnes of non-hazardous waste was generated in 2018 with 80% recycled, 19% recovered via energy from waste and 1% landfilled.

Note that there is no difference between the like-for-like and absolute data for waste management for 2017 and 2018.

		Total Waste (tonnes)		Waste to Landfill (tonnes)		Waste Recovered (tonnes)		Waste Recycled (tonnes)	
Indicator references		Waste-Abs, Waste LfL							
Sector	Coverage (assets)	2017	2018	2018		2018		2018	
Alternatives	2 of 3	457	449	1%	4	18%	82	81%	363
Offices	3 of 11	168	164	0%	0	25%	42	75%	123
Retail, Shopping Centre	1 of 4	125	155	4%	6	5%	8	91%	142
Retail, Warehouse	1 of 6	20	20	0%	0	100%	20	0%	0
Totals	7 of 42	769	789	1%	10	19%	151	80%	627





Additional Information

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the twelfth Annual General Meeting of UK Commercial Property REIT Limited will be convened at the offices of Aberdeen Standard Investments, Bow Bells House, 1 Bread Street, London EC4M 9HH on 17 June 2019 at 11.00 a.m. for the following purposes.

Ordinary Resolutions

To consider and, if thought fit, pass the following resolutions as Ordinary Resolutions:

1. To approve and adopt the Report of the Directors and auditor and the financial statements for the year ended 31 December 2018.
2. To approve the dividend policy of the Company as set out in the Annual Report.
3. To receive and approve the Directors' Remuneration Policy.
4. To receive and adopt the Directors' Remuneration Report for the year to 31 December 2018.
5. That, with effect from 1 January 2019, the aggregate fees paid to the directors for their services as directors of the Company shall not exceed £400,000 per annum.
6. To re-appoint Deloitte LLP as Auditor to the Company until the conclusion of the next Annual General Meeting.
7. To authorise the Directors to determine the Auditor's remuneration.
8. To re-elect Mr Ayre as a Director of the Company.
9. To re-elect Mr McCullagh as a Director of the Company.
10. To re-elect Mrs Platts as a Director of the Company.
11. To re-elect Mr Wilson as a Director of the Company.
12. To elect Ms Littlejohns as a Director of the Company.
13. To elect Mr Fowlds as a Director of the Company

Special Resolutions

To consider and, if thought fit, pass the following resolutions as Special Resolutions:

14. That the Directors of the Company be and they are hereby generally empowered, to allot ordinary shares in the Company or grant rights to subscribe for, or to convert securities into, ordinary shares in the Company ("equity securities"), for cash including by way of a sale of ordinary shares held by the Company as treasury shares, as if any pre-emption rights in relation to the issue of shares as set out in the listing rules made by the Financial Conduct Authority under Part VI of the Financial Services and Markets Act 2000 (as amended) did not apply to any such allotment of equity securities, provided that this power:

- (a) expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and
 - (b) shall be limited to the allotment of equity securities up to an aggregate nominal value of £32,485,312 being approximately 10 per cent. of the nominal value of the issued share capital of the Company (including treasury shares), as at 25 April 2019.
15. That the Company, be authorised in accordance with section 315 of The Companies (Guernsey) Law, 2008, as amended, (the 'Law') to make market acquisitions within the meaning of section 316(I) of the law of its own ordinary shares of 25p each ("shares") (either for retention as treasury shares for future resale or transfer or cancellation), provided that:
- (a) the maximum number of shares hereby authorised to be acquired shall be equal to 14.99 per cent of the Company's issued share capital on the date on which this resolution is passed;
 - (b) the minimum price (exclusive of expenses) which may be paid for a share is 25p, being the nominal value per share;
 - (c) the maximum price (exclusive of expenses) which may be paid for a share shall not be more than the higher of (i) an amount equal to 105 per cent. of the average of the middle market quotations for a share taken from the London Stock Exchange's Daily Official List for the five business days immediately preceding the day on which the share is purchased and (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange;
 - (d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2020 or, if earlier, on 17 December 2020, unless such authority is renewed prior to such time; and
 - (e) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.

By order of the Board
Northern Trust International Fund Administration Services
(Guernsey) Limited
Company Secretary
Trafalgar Court
Les Banques
St Peter Port
Guernsey GY1 3QL

Date: 25 April 2019

Notes

1. A member who is entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend, speak and vote instead of him or her. A proxy need not be a member of the Company.
2. More than one proxy may be appointed provided each proxy is appointed to exercise the rights attached to different shares held by him or her.
3. A form of proxy is enclosed for use at the Meeting. The form of proxy should be completed and sent, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, so as to reach Computershare Investor Services (Guernsey) Limited, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, not later than 11.00 am on 13 June 2019.
4. Completing and returning a form of proxy will not prevent a member from attending in person at the Meeting. If you have appointed a proxy and attend the meeting in person your proxy appointment will remain valid and you may not vote at the meeting unless you have provided a hard copy notice to revoke the proxy to Computershare Investor Services (Guernsey) Limited, The Pavilions, Bridgwater Road, Bristol BS99 6ZY no less than 48 hours (excluding any part of a day that is not a working day) prior to the commencement of the meeting as set out above.
5. To have the right to attend and vote at the Meeting (and also for the purposes of calculating how many votes a member may cast on a poll) a member must first have his or her name entered on the register of members at the close of business on the day which is two days before the date of the meeting. Changes to entries in the register after that time shall be disregarded in determining the rights of any member to attend and vote at such Meeting.
6. The Directors' letters of appointment will be available for inspection for fifteen minutes prior to the Annual General Meeting and during the meeting itself.
7. As at 25 April 2019, the latest practicable date prior to publication of this document, the Company had 1,299,412,465 ordinary shares in issue with a total of 1,299,412,465 voting rights.
8. Any person holding 3 per cent of the total voting rights in the Company who appoints a person other than the Chair as his proxy will need to ensure that both he/she and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.

SHAREHOLDER INFORMATION

AIFMD / PRE-INVESTMENT DISCLOSURE DOCUMENT (“PIDD”)

The Company has appointed Aberdeen Standard Fund Managers Limited as its alternative investment fund manager and Citibank Europe Plc as its depositary under the AIFMD. AIFMD requires Aberdeen Standard Fund Managers Limited, as the alternative investment fund manager (“AIFM”) of UK Commercial Property REIT Limited, to make available to investors certain information prior to such investors’ investment in the Company. Details of the leverage and risk policies which the Company is required to have in place under AIFMD are published in the Company’s PIDD, which can be found on its website. The periodic disclosures required to be made by the AIFM under AIFMD are set out on [page 112](#).

INVESTOR WARNING: BE ALERT TO SHARE FRAUD AND BOILER ROOM SCAMS

Aberdeen Standard Investments has been contacted by investors informing them that they have received telephone calls and emails from people who have offered to buy their investment trust shares, purporting to work for Aberdeen Standard Investments.

Aberdeen Standard Investments has also been notified of emails claiming that certain investment companies under its management have issued claims in the courts against individuals. These may be scams which attempt to gain your personal information with which to commit identify fraud or could be “boiler room” scams where a payment from you is required to release the supposed payment for your shares. These callers/email senders do not work for Aberdeen Standard Investments and any third party making such offers/claims has no link with Aberdeen Standard Investments.

Aberdeen Standard Investments does not “cold-call” investors in this way. If you have any doubt over whether a caller is genuine, do not offer any personal information, end the call and contact our Customer Services Department (see [page 114](#) for the contact details).

The Financial Conduct Authority provides advice with respect to share fraud and boiler room scams: fca.org.uk/consumers/scams.

KEEPING YOU INFORMED

The Company’s shares are listed on the London Stock Exchange and the share price is quoted daily in the Financial Times.

Details of the Company may also be found on the Company’s own dedicated website at: www.ukcpreit.com. This provides information on the Company’s share price performance, capital structure, stock exchange announcement and an Investment Manager’s monthly factsheet. Alternatively you can call 0808 500 0040 (free when dialing from a UK landline) for Company information.

If you have any questions about your Company, the Investment Manager or performance, please telephone the Customer Services Department (direct private investors) on 0808 500 0040. Alternatively, please send an email to inv.trusts@aberdeenstandard.com or write to Aberdeen Standard Investments, PO Box 11020, Chelmsford, Essex CM99 2DB.

In the event of queries regarding holding of shares, lost certificates, dividend payments, or registered details, shareholders holding their shares in the Company directly should contact the registrars, Computershare Investor Services (Guernsey) Limited on 0370 707 4040 or by writing to the address on [page 114](#). Calls may be recorded and monitored randomly for security and training purposes. Changes of address must be notified to the registrars in writing.

HOW TO INVEST IN THE COMPANY

Individual investors can buy and sell shares in the Company directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. Alternatively, for retail clients, shares can be bought directly through Aberdeen Standard Investments’ Plan for Children, Investment Trust Share Plan or Investment Trust ISA.

ABERDEEN STANDARD INVESTMENT PLAN FOR CHILDREN

Aberdeen Standard Investments runs an Investment Plan for Children (the “Children’s Plan”) which covers a number of investment companies under its management including the Company. Anyone can invest in the Children’s Plan, including parents, grandparents and family friends (subject to the eligibility criteria as stated within the terms and conditions). All investments are free of dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £150 per trust, while regular savers may invest from £30 per month. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in the Children’s Plan, and regular savers can stop or suspend participation by instructing Aberdeen Standard Investments in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts. Investors have full voting and other rights of share ownership.

ABERDEEN STANDARD INVESTMENT TRUST SHARE PLAN

Aberdeen Standard Investments runs a Share Plan (the “Plan”) through which shares in the Company can be purchased. There are no dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £250, while regular savers may invest from £100 per month. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in a Plan, and regular savers can stop or suspend participation by instructing Aberdeen Standard Investments in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts. Investors have full voting and other rights of share ownership.

ABERDEEN STANDARD INVESTMENT TRUST ISA

Aberdeen Standard Investments operates an Investment Trust ISA (“ISA”) through which an investment may be made of up to £20,000 in the tax year 2018/2019.

There are no brokerage or initial charges for the ISA, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Selling costs are £15 + VAT. The annual ISA administration charge is £24 + VAT, calculated annually and applied on 31 March (or the last business day in March) and collected soon thereafter either by direct debit or, if there is no valid direct debit mandate in place, from the available cash in the Plan prior to the distribution or reinvestment of any income, or, where there is insufficient cash in the Plan, from the sale of investments held in the Plan. Investors have full voting and other rights of share ownership. Under current legislation, investments in ISAs can grow free of capital gains tax.

ISA TRANSFER

You can choose to transfer previous tax year investments to the Aberdeen Standard Investments Investment Trust ISA which can be invested in the Company while retaining your ISA wrapper. The minimum lump sum for an ISA transfer is £1,000 and is subject to a minimum per trust of £250.

LITERATURE REQUEST SERVICE

For literature and information on the Investment Plan for Children, Share Plan, ISA or ISA Transfer including application forms for the Company and the Manager’s investment trust products, please contact:

Aberdeen Standard Investment Trust
Administration
PO Box 11020
Chelmsford
Essex, CM99 2DB
Telephone: 0808 500 00 40
(free when dialling from a UK landline)

Terms and conditions for the Aberdeen Standard Investments managed savings products can also be found under the literature section of invtrusts.co.uk.

ONLINE DEALING DETAILS

Investor information

There are a number of other ways in which you can buy and hold shares in this investment company.

Online dealing

There are a number of online dealing platforms for private investors that offer share dealing, ISAs and other means to invest in the company. Real-time execution-only stockbroking services allow you to trade online, manage your portfolio and buy UK listed shares. These sites do not give advice. Some comparison websites also look at dealing rates and terms. Some well-known online providers, which can be found through internet search engines, include:

AJ Bell Youinvest; Alliance Trust Savings; Barclays Stockbrokers / Smart Investor; Charles Stanley Direct; Equiniti / Shareview; Halifax Share Dealing; Hargreave Hale; Hargreaves Lansdown; iDealing; Interactive Investor / TD Direct; Selftrade; The Share Centre; Stocktrade.

Discretionary private client stockbrokers

If you have a large sum to invest, you may wish to contact a discretionary private client stockbroker. They can manage your entire portfolio of shares and will advise you on your investments. To find a private client stockbroker visit the Wealth Management Association at thewma.co.uk.

Independent Financial Advisers

To find an adviser who recommends on investment trusts, visit unbiased.co.uk.

Regulation of Stockbrokers

Before approaching a stockbroker, always check that they are regulated by the Financial Conduct Authority:

Tel: 0800 111 6768 or at www.fca.org.uk/firms/systems-reporting/register/search
Email: register@fca.org.uk

EFFECT OF REIT STATUS ON PAYMENT OF DIVIDENDS

REITs do not pay UK corporation tax in respect of rental profits and chargeable gains relating to property rental business. However, REITs are required to distribute at least 90% of their qualifying income (broadly calculated using the UK tax rules) as a Property Income Distribution (“PID”).

Certain categories of shareholder may be able to receive the PID element of their dividends gross, without deduction of withholding tax. Categories which may claim this exemption include: UK companies, charities, local authorities, UK pension schemes and managers of PEPs, ISAs and Child Trust Funds.

Further information and the forms for completion to apply for PIDs to be paid gross are available from the Registrar.

Where the Group pays an ordinary dividend, in addition to the PID, this will be treated in the same way as dividends from non-REIT companies.

RETAIL DISTRIBUTION

On 1 January 2014, the FCA introduced rules relating to the restrictions on the retail distribution of unregulated collective investment schemes and close substitutes (non-mainstream investment products). UK REITs are excluded from these restrictions therefore, the FCA’s restrictions on retail distribution do not apply.

Note

Please remember that past performance is not a guide to the future. Stock market and currency movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount they originally invested.

As with all equity investments, the value of investment trusts purchased will immediately be reduced by the difference between the buying and selling prices of the shares, the market maker’s spread.

Investors should further bear in mind that the value of any tax relief will depend on the individual circumstances of the investor and that tax rates and reliefs, as well as the tax treatment of ISAs may be changed by future legislation.

SHAREHOLDER INFORMATION

AIFMD Disclosures (unaudited)

The Company has appointed Aberdeen Standard Fund Managers Limited as its alternative investment fund manager with effect from 10 December 2018 and Citibank Europe Plc as its depositary under the AIFMD. Prior to 10 December 2018, the Company's AIFM was Standard Life Investments (Corporate Funds) Limited. The AIFM and the Company are required to make certain disclosures available to investors in accordance with the Alternative Investment Fund Managers Directive ("AIFMD"). Those disclosures that are required to be made pre-investment are included within a pre-investment disclosure document ("PIDD") which can be found on the Company's website www.ukcpreit.co.uk. There have been no material changes to the disclosures contained within the PIDD since its last publication in December 2018.

The periodic disclosures as required under the AIFMD to investors are made below:

- ▲ Information on the investment strategy, geographic and sector investment focus and principal exposures are included in the Strategic Report.
- ▲ None of the Company's assets are subject to special arrangements arising from their illiquid nature.
- ▲ The Strategic Report, note 18 to the Financial Statements and the PIDD together set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected.
- ▲ There are no new arrangements for managing the liquidity of the Company or any material changes to the liquidity management systems and procedures employed by ASFML.
- ▲ All authorised Alternative Investment Fund Managers are required to comply with the AIFMD Remuneration Code. In accordance with the Remuneration Code, the AIFM's remuneration policy is available from Aberdeen Standard Fund Managers Limited on request (see contact details on [page 114](#)) and the remuneration disclosures in respect of the AIFM's reporting period for the period ended 31 December 2018 are available on the Company's website.

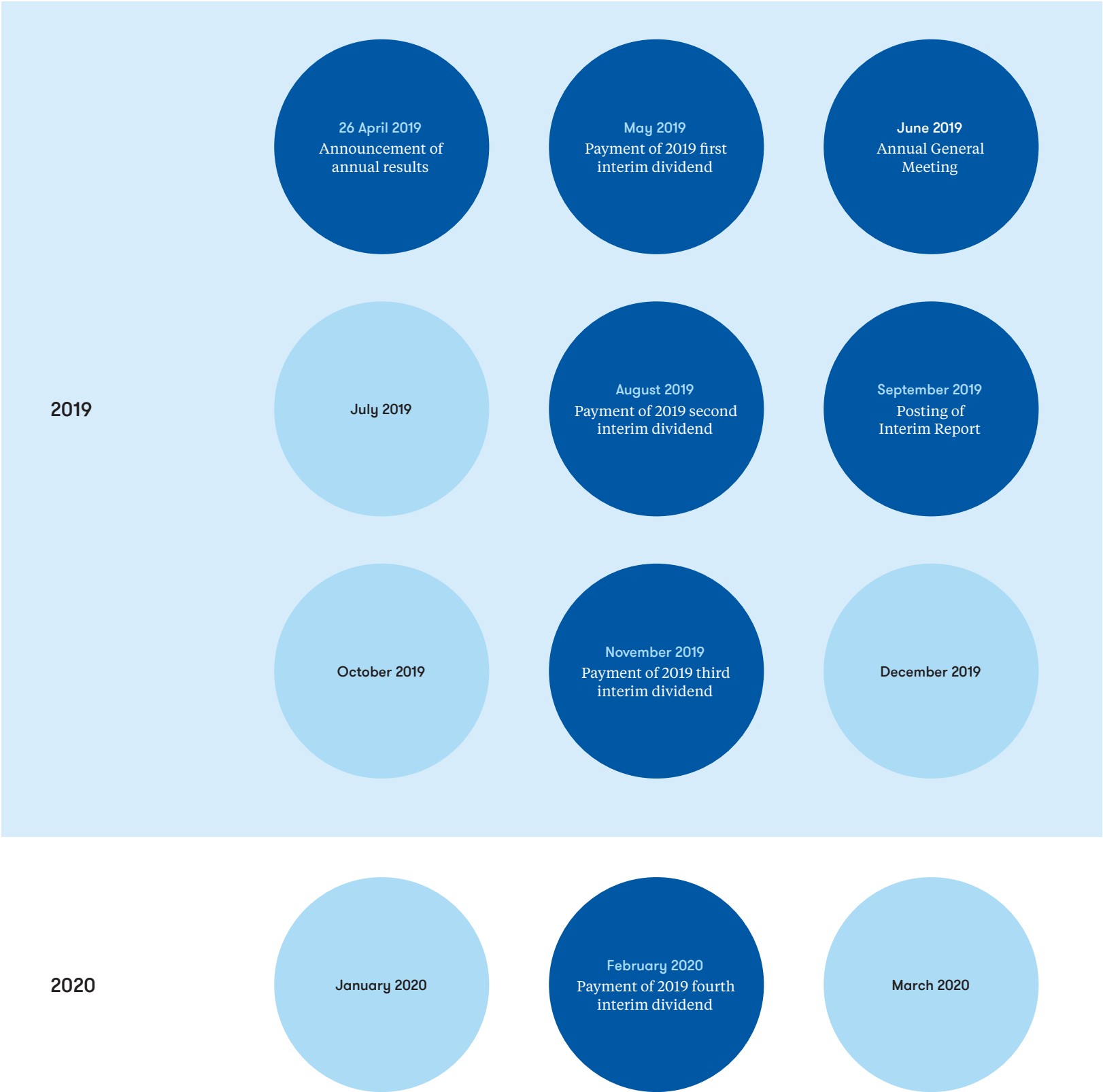
Leverage

The table below sets out the current maximum permitted limit and actual level of leverage for the Company:

	Gross Method	Commitment Method
Maximum level of leverage	250%	250%
Actual level at 31 December 2018	134%	122%

There have been no breaches of the maximum level during the period and no changes to the maximum level of leverage employed by the Company. There is no right of re-use of collateral or any guarantees granted under the leveraging arrangement. Changes to the information contained either within this Annual Report or the PIDD in relation to any special arrangements in place, the maximum level of leverage which ASFML may employ on behalf of the Company; the right of use of collateral or any guarantee granted under any leveraging arrangement; or any change to the position in relation to any discharge of liability by the Depositary will be notified via a regulatory news service without undue delay in accordance with the AIFMD.

The information on [pages 110 to 111](#) has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) by Aberdeen Standard Fund Managers Limited which is authorised and regulated by the Financial Conduct Authority.



CORPORATE INFORMATION

Directors (all non-executive)

Andrew Wilson
Chair

Ken McCullagh
Chair of Audit Committee
and Senior Independent Director

Michael Ayre
Chair of the Property
Valuation Committee

Sandra Platts
Chair of the Management
Engagement Committee and
Nomination Committee

John Robertson
Chair of the Risk Committee
retired 31 March 2018

Margaret Littlejohns
Chair of the Risk Committee
from 1 April 2018
appointed 1 January 2018

Robert Fowlds
Non-Executive Director
appointed 1 April 2018

Registered Office

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

Registered Number

45387

Administrator and Company Secretary

Northern Trust International Fund
Administration Services
(Guernsey) Limited
PO Box 255
Trafalgar Court
Les Banques
St Peter Port
Guernsey
Channel Islands
GY1 3QL

Investment Manager and Alternative Investment Fund Manager

Aberdeen Standard
Fund Managers Limited,
Bow Bells House
1 Bread Street
London
EC4M 9HH

Property Valuer

CBRE Limited
St Martin's Court
10 Paternoster Row
London
EC4M 7HP

Independent Auditors

Deloitte LLP
PO Box 137
Regency Court
Glatigny Esplanade
St Peter Port
Guernsey
Channel Islands
GY1 3HW

Guernsey Legal Advisors

Mourant Ozannes
Royal Chambers
St Julian's Avenue
St Peter Port
Guernsey
Channel Islands
GY1 4HP

UK Legal Advisors and Sponsor

Dickson Minto W.S.
16 Charlotte Square
Edinburgh
EH2 4DF

Maples Teesdale LLP

30 King Street
London
EC2V 8EE

Registrar

Computershare Investor Services
(Guernsey) Limited
1st floor
Tudor House
Le Bordage
St Peter Port
Guernsey
Channel Islands
GY1 1DB

Principal Bankers and Lenders

Barclays Bank plc
Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Barings (previously Cornerstone)
Real Estate Advisors Europe LLP
Southwest House
11a Regent Street
London
SW1Y 4LR

Corporate P.R. Advisor

FTI Consulting Limited
200 Aldersgate
Aldersgate Street
London
EC1A 4HD

Corporate Broker

JP Morgan Cazenove
25 Bank Street
Canary Wharf
London
E14 5JP

Depository

Citibank Europe Plc
Citigroup Centre
Canada Square
Canary Wharf
London
E14 5LB

Glossary and Alternative Performance Measures

GLOSSARY AND ALTERNATIVE PERFORMANCE MEASURES

AIC	Association of Investment Companies. The trade body representing closed-ended investment companies.
Annual rental income	Cash rents passing at the Balance Sheet date.
Average debt maturity	The weighted average amount of time until the maturity of the Group's debt facilities.
Break option	A break option (alternatively called a 'break clause' or 'option to determine') is a clause in a lease which provides the landlord or tenant with a right to terminate the lease before its contractual expiry date, if certain criteria are met.
Contracted rent	The contracted gross rent receivable which becomes payable after all the occupier incentives in the letting have expired.
Covenant strength	This refers to the quality of a tenant's financial status and its ability to perform the covenants in a Lease.
Dividend	A sum of money paid regularly by the company to its shareholders. The Company currently pays dividends to shareholders quarterly.
Dividend cover	The ratio of the company's net profit after tax (excluding capital items) to the dividends paid.

	2018 £'000	2017 £'000
Total comprehensive income for the year	54,393	133,225
Add back:		
(Gains)/Losses on investment properties	(18,947)	(90,416)
(Gain)/Loss arising on effective portion of interest rate swap	(1,388)	(1,664)
Non-recurring tax movement	5,328	3,244
Profit for dividend cover	39,386	44,389
Annual dividend	47,820	47,820
Dividend cover	82%	93%

Dividend yield	Annual dividend expressed as a percentage of share price.
Earnings per share (EPS)	Profit for the period attributable to shareholders divided by the average number of shares in issue during the period.
EPRA	European Public Real Estate Association. The industry body representing listed companies in the real estate sector.
EPRA Earnings per share	Profit for the period, as defined within EPRA Best Practices Recommendation Guidelines November 2016, divided by the average number of shares in issue during the period.
ERV	The estimated rental value of a property, provided by the property valuers.
Fair value	Fair value is defined by IFRS 13 as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'.
Fair value movement	Fair value movement is the accounting adjustment to change the book value of an asset or liability to its market value, and subsequent changes in market value.
Gross gearing	Calculated as gross borrowings (excluding swap valuation) divided by total assets less current liabilities (excluding borrowings and swaps). SWAP valuations at fair value are not considered relevant in gearing calculations.

	2018 £'000	2017 £'000
Gross borrowings	250,000	250,000
Total assets	1,498,287	1,479,670
Less current liabilities	(36,007)	(23,538)
	1,462,280	1,456,132
Gross gearing	17.1%	17.2%

Group	UK Commercial Property REIT and its subsidiaries.
IFRS	International Financial Reporting Standards.
Index linked	The practice of linking the review of a tenant's payments under a lease to a published index, most commonly the Retail Price Index (RPI) but also the Consumer Price Index (CPI).
IPD	Investment Property Databank. An independent organisation supplying an expansive range of regional and global indexes, research, performance modelling, data metrics and risk analytics across direct property, listed and unlisted vehicles, joint ventures, separate accounts and debt.
IPD benchmark	The MSCI IPD Balanced Monthly and Quarterly Funds Benchmark

Lease incentive	A payment used to encourage a tenant to take on a new Lease, for example by a landlord paying a tenant a sum of money to contribute to the cost of a tenant’s fit-out of a property or by allowing a rent free period.	
NAV	Net Asset Value is the equity attributable to shareholders calculated under IFRS.	
NAV total return	The return to shareholders, expressed as a percentage of opening NAV, calculated on a per share basis by adding dividends paid in the period to the increase or decrease in NAV. Dividends are assumed to have been reinvested in the quarter they are paid, excluding transaction costs.	
Net gearing	Calculated as net borrowings (gross borrowings less cash excluding swap valuation) divided by total assets less current liabilities (excluding cash, borrowings and swaps). SWAP valuations at fair value are not considered relevant in gearing calculations.	
	2018 £’000	2017 £’000
Gross borrowings	250,000	250,000
Less cash	(43,505)	(72,443)
	206,495	177,557
Total assets	1,498,287	1,479,670
Less cash	(43,505)	(72,443)
Less current liabilities	(36,007)	(23,538)
	(1,418,775)	1,383,689
Net gearing	14.6%	12.8%

Net initial yield (NIY)	The net initial yield of a property is the initial net income at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase.
Ongoing charges	A measure, expressed as a percentage of NAV, of the regular, recurring costs of running an investment company, calculated in line with AIC ongoing charge methodology.
Over-rented	Space where the passing rent is above the ERV.
Passing rent	The rent payable at a particular point in time.
Portfolio fair value	The market value of the company’s property portfolio, which is based on the external valuation provided by CBRE Limited.
Portfolio total return	Combining the Portfolio Capital Return (the change in property value after taking account of property sales, purchases and capital expenditure in the period) and Portfolio Income Return (net property income after deducting direct property expenditure), assuming portfolio income is re-invested.
Portfolio yield	Passing rent as a percentage of gross property value.
Premium/Discount to NAV	The difference between the share price and NAV per share, expressed as a percentage of NAV. Premium representing a higher share price compared to NAV per share, discount the opposite.
Property Income Distribution	UK REITs are required to distribute a minimum of 90% of the income from their qualifying property rental business. This distribution is known as a Property Income Distribution (“PID”). PIDs are taxable as UK property income in the hands of tax-paying shareholders.
Rack-rented	Space where the passing rent is the same as the ERV.
REIT	A Real Estate Investment Trust (REIT) is a single company REIT or a group REIT that owns and manages property on behalf of shareholders. In the UK, a company or group of companies can apply for ‘UK-REIT’ status, which exempts the company from corporation tax on profits and gains from their UK qualifying property rental businesses.
Rent free	A period within a lease (usually from the lease start date on new leases) where the tenant has been granted that they do not have to pay any rent.
Rent review	A rent review is a periodic review (usually five yearly) of rent during the term of a lease. The vast majority of rent review clauses require the assessment of the open market, or rack rental value, at the review date, in accordance with specified terms, but some are geared to other factors, such as the movement an Index.
Reversionary yield	Estimated rental value as a percentage of the gross property value.
Revolving Credit Facility (“RCF”)	A bank loan facility from which funds can be withdrawn, repaid and redrawn again any number of times until the facility expires. As at date of this report UKCM had a RCF of £55 million.
RICS	The Royal Institution of Chartered Surveyors, the global professional body promoting and enforcing the highest international standards in the valuation, management and development of land, real estate, construction and infrastructure.
Share price	The value of each of the company’s shares at a point in time as quoted on the Main Market of the London Stock Exchange.
Share price total return	The return to shareholders, expressed as a percentage of opening share price, calculated on a per share basis by adding dividends paid in the period to the increase or decrease in share price. Dividends are assumed to have been reinvested in the quarter they are paid, excluding transaction costs.
Void rate/vacancy rate	The quantum of rent relating to properties which are unlet and generating no rental income. Stated as a percentage of Estimated Rental Value.

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