UK COMMERCIAL PROPERTY REIT
ANNUAL REPORT & ACCOUNTS
for the year ended 31 December 2019

Aberdeen Standard Investments

UK Commercial Property REIT

COMPANY SUMMARY
An overview

ABOUT US

Launched in **2006**

FTSE **350**

£1.2bn
Net Asset Value
as at 31 December 2019

UK Commercial Property REIT Limited ("UKCM") is a listed Real Estate Investment Trust (REIT) with a net asset value of £1.2 billion as at 31 December 2019.

UKCM is one of the largest diversified REITs in the UK and is a component of the FTSE 350 index made up of the largest 350 companies with a primary listing on the London Stock Exchange.

OBJECTIVE

The 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. This objective is achieved by:

- Constructing a portfolio that is diversified across the four main commercial property sectors – Industrial, Offices, Retail and Alternatives.
- Investing in assets with a strong earnings and income focus.
- Delivering value through a proactive approach to acquisitions, sales and asset management.
- Selectively developing or funding developments, mostly pre-let.
- Employing modest levels of gearing.
- Considering Environmental, Social and Governance factors as integral parts of the investment process.

Diversified portfolio

Industrial

Offices

Retail

Alternatives

BOARD & MANAGEMENT

ASI manage **1,600** Properties

in **20** Countries

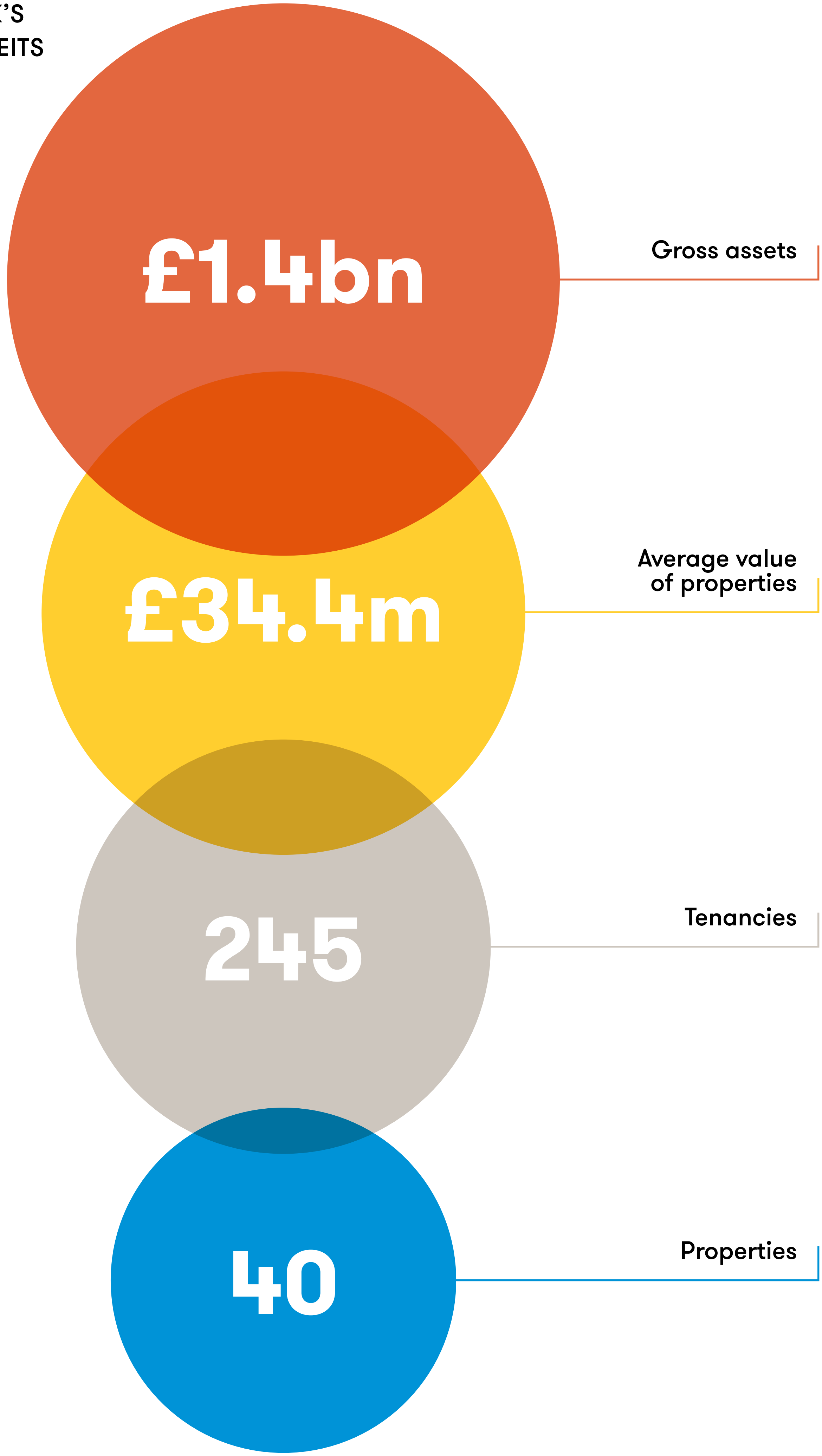
6
Board members

The Company has a Board of six experienced Non-Executive Directors who have significant expertise in property, accounting, risk and tax (see page 40 to 41 for further details). UKCM is managed by Aberdeen Standard Investments, a top 20 global real estate manager that manages over 1,600 properties in 20 countries.

Visit our website at:
ukcpreit.com to learn more

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.

UKCM IS ONE OF THE UK'S LARGEST, DIVERSIFIED REITS
(all numbers as at 31 December 2019)



2019 FINANCIAL HIGHLIGHTS

Strong income generation with lower risk

POSITIVE NAV TOTAL RETURN*

Net Asset Value ("NAV") at year end of £1.2 billion represents a positive NAV total return of 0.1% in the year.

£1.2bn

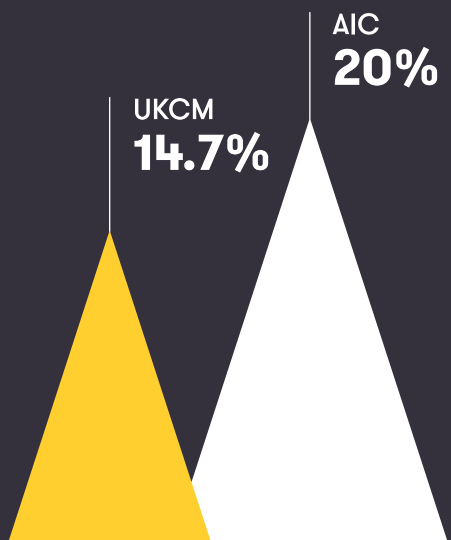
STRONG INCOME GROWTH

Dividend Cover of 95%* (2018: 82%) – resulting in EPRA earnings per share of 3.50p (2018: 3.03p), an increase of 15.5% as acquisitions in 2018 and successful asset management in 2019 boosted earnings.

11.3%

STRONG SHARE PRICE TOTAL RETURN

A total return of 11.3%* was delivered to shareholders in 2019 underlining continued attractiveness of a large diversified REIT with a low risk profile.



LOW GEARING

Net Gearing of 14.7%* (2018: 14.6%) remains one of the lowest in the Company's peer group (AIC Property UK Commercial sector weighted average gearing of 20%) and the wider REIT sector with successful debt refinancing in 2019 increasing flexibility and maturity of debt, while also reducing cost.

£130m

SIGNIFICANT FINANCIAL FIREPOWER

£130 million available as at 31 December 2019 for investment opportunities which, when utilised, will further boost earnings.

* Additional Performance Measures (see page 6 and glossary on pages 104 and 105 for further details)

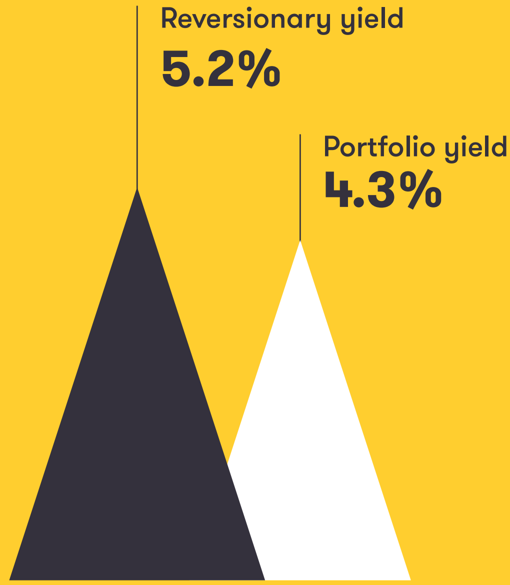
2019 PORTFOLIO HIGHLIGHTS

Portfolio strategically well aligned with potential for earnings growth

1.4%

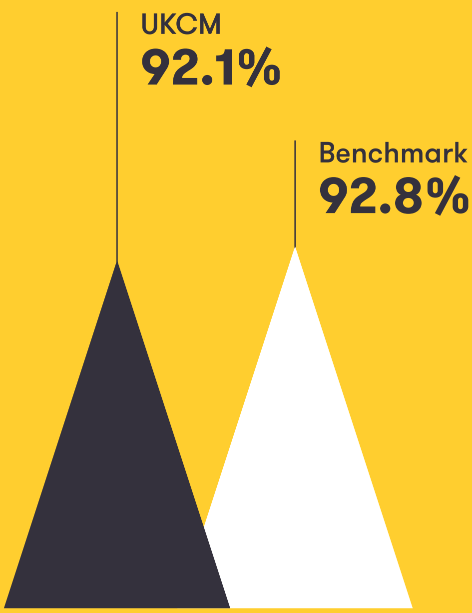
PORTFOLIO PERFORMANCE

Portfolio Total Return of 1.4% (2018: 5.9%) compared to MSCI benchmark return of 1.8% (2018: 6.7%) as real estate returns slowed against a background of continued political uncertainty. Over three years the portfolio has returned 6.4% against the benchmark return of 6.3%.



REVERSIONARY PORTFOLIO

Portfolio has strong reversionary potential highlighting potential for earnings growth over medium term. Portfolio has a reversionary yield of 5.2% (2018: 5.3%) compared to a current portfolio yield of 4.3% (2018: 4.5%).



STRONG OCCUPANCY RATE

Occupancy rate of 92.1% (2018: 93.1%) compares to benchmark of 92.8% (2018: 92.8%) with over half the remaining vacancy in the Industrial sector.

WELL-ALIGNED PORTFOLIO STRUCTURE

51% of the portfolio is now invested in the favoured Industrial sector compared to only 21% in the Retail sector following the sale of the Company's last remaining shopping centre.

9%

REDUCED ENVIRONMENTAL FOOTPRINT

9% reduction in like-for-like greenhouse gas emissions in 2019.

PERFORMANCE SUMMARY

CAPITAL VALUES AND GEARING	31 December 2019	31 December 2018	% Change
Total assets less current liabilities (excl. bank loan & swap) £'000	1,414,591	1,462,982	(3.3)
IFRS Net asset value £'000	1,167,144	1,212,169	(3.7)
Net asset value per share (p)	89.8	93.3	(3.7)
Ordinary share price (p)	88.8	83.2	6.7
Discount to net asset value (%)	(1.1)	(10.8)	n/a
Gearing (%) — Net*	14.7	14.6	n/a
Gearing (%) — Gross**	17.7	17.1	n/a

TOTAL RETURN	1 year % return	3 year % return	5 year % return
NAV†	0.1	17.5	33.0
Share price†	11.3	19.4	24.9
MSCI UK Balanced Portfolios Quarterly Property Index^	1.8	20.1	40.3
FTSE Real Estate Investment Trusts Index	30.8	28.5	32.2
FTSE All-Share Index	19.2	22.0	43.8

EARNINGS AND DIVIDENDS	31 December 2019	31 December 2018
Net profit for the year £'000	1,643	53,005
EPRA Earnings per share (p)	3.50	3.03
IFRS Earnings per share (p)	0.13	4.08
Dividends declared per ordinary share (p)	3.68	3.68
Dividend yield (%)‡	4.1	4.4
MSCI benchmark yield (%)	4.8	4.7
FTSE Real Estate Investment Trusts Index Yield (%)	3.9	4.7
FTSE All-Share Index yield (%)	4.1	4.5

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 excluding direct property costs	0.8	0.9
Vacancy rate (%)	7.9	6.9

* 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 page 104 and 105 for further details.
** Calculated as gross borrowings (excl. swap valuation) divided by total assets less current liabilities (excl. borrowing and swaps).
† Assumes re-investment of dividends excluding transaction costs.
‡ Based on a dividend of 3.68p paid in 2019 and the share price at 31 December 2019.
^ The Company's benchmark was the same in the year but changed its name from the MSCI IPD Balanced Monthly and Quarterly Funds Benchmark to the MSCI UK Balanced Portfolios Quarterly Index.

Alternative Performance Measures are defined in the glossary on pages 104 and 105, and include: Discount to net asset value, Net and Gross gearing, NAV and Share price total returns, EPRA Earnings per share, Dividend yield, Ongoing charges and Vacancy rate.

Sources: Aberdeen Standard Investments, MSCI

Chair's Statement

UK Commercial Property REIT

Ken McCullagh
Chair

PORTFOLIO WEIGHTING

51.3%
Industrial

21.0%
Retail

16.5%
Offices

11.2%
Alternatives

I am writing this statement, my first as Chair of the Board, against the background of an unprecedented global pandemic due to the spread of COVID-19. As well as the tragic human cost of this pandemic, the economic implications have been profound and will impact all sectors of the economy for the foreseeable future. With central banks and governments across the globe cutting interest rates, funding huge stimulus packages and underwriting the wages and salaries of workers, the outlook remains uncertain. This Annual Report & Accounts for 2019 reflects on the positive progress made over the twelve months to the 31 December 2019 by the Company and sets out the foundations for dealing with the current and future challenges in the market.

In 2019 UKCM continued to make good progress against its aim of being one of the most successful diversified, income focused REITs invested in the UK. The refinancing of our debt facilities at attractive rates, the expansion of our investment policy in the first half of the year as well as the sale of our last shopping centre in November 2019 were significant milestones that ensured the Company's risk profile remained low against a background of political and economic uncertainty. The effect of the current pandemic and the lack of clarity in the outcome of Brexit are challenges the Company will have to face during the year.

UKCM also delivered double digit percentage growth in its EPRA earnings, as the high quality acquisitions made in both the office and industrial sectors in 2018, and the continued successful asset management initiatives, boosted earnings and dividend cover. In addition, I am also pleased to note the passing, by an overwhelming margin, of the Company's seven yearly continuation vote held in March 2020.

> "The refinancing of our debt facilities at attractive rates, the expansion of our investment policy and the sale of our last shopping centre in November 2019 were significant milestones in the year."

2019 Portfolio Performance

Overall the portfolio delivered a total return of 1.4% in the year compared to the benchmark total return of 1.8%. Similar to the wider commercial property market, the Company's portfolio reflected the polarisation of returns between the strongly performing industrial sector and the structurally challenged retail sector. The Company's industrial portfolio, where the Company had a 51% weighting at year end, continued to produce a positive total return, delivering 7.4% over the year, boosted by the letting of an 180,000 square foot industrial unit in Wembley to Amazon on a 10 year index-linked lease. The Company's high quality office portfolio, which was 97% let at the year end, was also a positive contributor to performance as successful asset management at The White Building in Reading complemented strengthening yields in other areas of the office portfolio and resulted in a total return of 7.1%. As anticipated, this performance was offset by an 11.6% negative total return in the Company's retail portfolio, driven largely by the sale of the Company's last remaining shopping centre in Swindon, an asset we expected to continue to underperform in the future. It should be noted, however, that the Company's remaining retail portfolio, which was 98% let at year end and represents 21% of the portfolio, now comprises predominantly well located retail parks which still offered opportunities to implement successful asset management in the year. This is clearly demonstrated by a number of successful lease events at our retail holdings in Great Lodge Retail Park, Tunbridge Wells (letting to Aldi a unit that was formerly sub-let by B&Q to Toys R Us, which resulted in the Company receiving a surrender premium of £1.1 million), Junction 27, Leeds and St George's Retail Park in Leicester.

Corporate Performance

The Company delivered a 0.1% NAV total return over the year as the attractive income return the Company produced was offset by capital value declines, mainly in the retail sector, as explained earlier. The share price return to shareholders, taking into account dividends paid over the year, was significantly higher at 11.3% as the discount at which the Company's shares trade versus their net asset value narrowed from 10.8% at the end of December 2018 to 1.1% at 31 December 2019 as investors were attracted to a lower risk, closed ended vehicle such as UKCM given the market uncertainty caused by Brexit.

Over the longer term, the Company has performed well with a NAV total return of 33.0% and share price total return of 24.9% over five years, both ahead of the Investment Association Open Ended Funds UK Direct Property sector return of 22.0% for the same period.

As a Board we also take our environmental, social and governance responsibilities very seriously. The Company, through its Investment Manager, submits data to the Global Real Estate Sustainability Benchmark on an annual basis and in 2019, UKCM was on top of the UK Diversified (listed) peer group, getting a three star rating from GRESB. Linked to this, the portfolio has a number of ongoing portfolio initiatives relating to the use of solar photovoltaic cells at several industrial and retail assets.

Financial Resources

Importantly in the current environment, UKCM continues to be in a financially strong position with a NAV of £1.2 billion as at 31 December 2019 and net gearing of just 14.7% (gross gearing of 17.7%). It remains one of the lowest geared companies in the REIT sector, putting it in a healthy position at a time when capital values will undoubtedly come under pressure. The Company's debt profile was also enhanced by the debt refinancing in February 2019 which achieved the following:

- Increased the debt maturity profile which now stands at 8.2 years;
- Increased the revolving credit facility ("RCF") by £100 million to £150 million, which also improved flexibility;
- Added to available resources by securing £50 million of new debt, resulting in total facilities available of £350 million of which £250 million were drawn at the year end;
- Decreased the cost of the Company's drawn debt from 2.89% to 2.78% as at 31 December;
- Enabled earnings growth as cash from asset sales can be used to repay the RCF facility, thereby reducing the overall interest cost.

As at 31 March 2020, following the post year end sales of a car showroom in Portsmouth and a retail park in Horsham, UKCM had £154 million of capital available comprising £54 million of uncommitted cash and £100 million able to be drawn from the low cost RCF. This robust balance sheet provides the Company with a strong buffer to weather the storm that will inevitably be caused by COVID-19.

2019 Earnings and Dividends

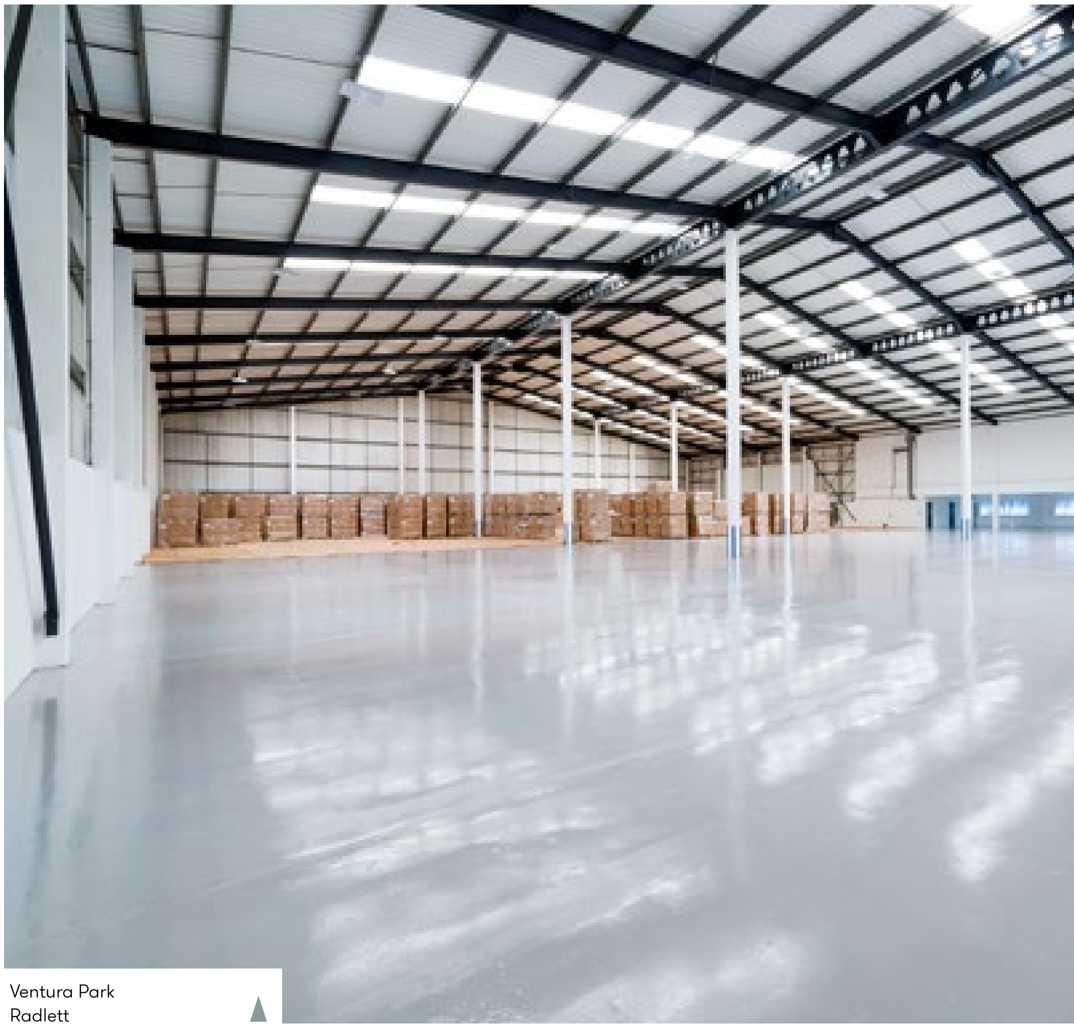
EPRA earnings per share in the year grew by 15.5% to 3.50 pence which equates to dividend cover of 95% in the year (2018: 82%). Earnings rose primarily as a result of the acquisitions made throughout 2018 delivering a full year of income, in particular the £85.4 million Midlands industrial portfolio which was acquired in December 2018. In addition, there were a number of successful asset management initiatives completed in the year, across all the main sectors, which helped secure income and drive earnings growth.

A key focus of the Board is to achieve sustainable earnings growth and hence this increase in earnings is to be welcomed. While there will undoubtedly be fluctuations in earnings, particularly due to COVID-19 and also due to the timing of investment activity and lease expiries, as highlighted earlier, the Company has significant resources at its disposal which will increase earnings when utilised. UKCM still has material asset management opportunities within its portfolio, particularly in the industrial sector, and a strong track record in creating value from these types of initiatives.

The Company paid and declared dividends totalling 3.68 pence per share in 2019. This equated to an annual dividend yield of 4.1% based on the year end share price of 88.8 pence. It should be highlighted that the tenant base now includes leading global businesses such as Amazon and Warner Bros. In addition, 22% of rents are now fixed or inflation-linked.

Board Changes

I would like to take this opportunity to thank my predecessor, Andrew Wilson. He was a founding director of the Company in 2006, becoming Chair in June 2016 and helped to steer the Company successfully through various capital transactions and the conversion to a REIT, leaving the Company with strong foundations to meet the current challenges. As announced in October, I am delighted to welcome Christopher Fry to the Board. Chris has over 20 years of experience in real estate investment management and has already proven to be a valuable addition to the Board.



Ventura Park
Radlett

The Rotunda
Kingston upon Thames

Annual General Meeting

This year's Annual General Meeting will be held on 27 August 2020 at 11:30am at the offices of Aberdeen Standard Investments, Bow Bells House, 1 Bread Street, London.

In light of the current UK Government Guidelines surrounding the COVID-19 pandemic, and expected future social distancing requirements, only the formal business set out in the Notice of the Meeting will be considered, with no presentation by the Investment Manager and no refreshments. At the time of writing, it is likely that Members will be restricted from attending the AGM in person or by attorney or by corporate representative. Therefore, the Board encourages all shareholders to exercise their votes in respect of the meeting in advance to ensure that your votes are registered and counted at the meeting.

The Board welcomes questions from our shareholders and, given the format and prevailing circumstances, I would ask shareholders to submit questions to the Board prior to the AGM, and in any event before 24 August 2020. The Board or the Investment Manager will respond to all questions received. You may submit questions to the Board by email to Commercial.Property@aberdeenstandard.com. As soon as practicable, the Board and Investment Manager intend to host a "Meet the Board and Investment Manager" session to allow shareholders to speak directly with the Board and Investment Manager in person.

The Board will continue to monitor the UK Government Guidelines around social distancing in

Dolphin Estate
Sunbury-on-Thames

relation to COVID-19 and will update shareholders on any changes to the arrangements for the AGM. However, should social distancing measures be relaxed, we would urge all shareholders to take the health and well-being of their fellow investors into account when deciding whether or not to attend the AGM. I trust that shareholders will be understanding and supportive of this approach. In future, the Board expects to revert back to its normal AGM proceedings and looks forward to welcoming shareholders in person.

Outlook

The outlook for the UK economy and the UK real estate market is fluid at the time of writing but there is no doubt both will suffer substantially due to the impact of COVID-19. The duration and extent of this downturn depends on how quickly the pandemic is brought under control and both the global and UK economy return to some sort of normality, supported by the mass stimulus and wage underwriting mentioned earlier. A further consideration is the approach to Brexit and whether the UK government continue to insist this will need to be finalised by the end of 2020.

Looking at the UK real estate market, there will undoubtedly be larger impacts on capital values than previously forecast pre COVID-19, with material uncertainty clauses now applied to all valuations. However, the main focus is on income and fundamentally how many tenants will still be able to pay rent both during the pandemic and after lockdown restrictions are lifted, and when the economy returns to some sort of normality. At a sector level the retail sector, excluding supermarkets, is particularly vulnerable and the decline in this sector may accelerate, with the structural shift in demand away from physical retailers towards online purchasing expected to persist. The leisure sector will also be materially impacted as the lockdown cuts off all income flows. Industrials, especially urban logistics, and offices are expected to be less affected in the short term but will inevitably suffer if the downturn is longer and more severe than anticipated.
On the positive side, prior to COVID-19, the property market was supported by stronger fundamentals than in previous downturns: relatively high yields compared to other asset classes, limited development, historically high occupancy rates and, in most cases, controlled leverage.

In terms of UKCM, like the wider real estate sector, values have been impacted in the first quarter of 2020 declining by 3.1% on a like-for-like basis and rent collections for the second quarter standing at 68% as at 24 April 2020. However, UKCM also has strong fundamentals both at a property and corporate level that will help the Company withstand the current emergency. The portfolio is strategically overweight towards industrials which our Investment Manager continues to forecast to be the strongest performing sector over the next three years. It is also significantly underweight to retail, following the sale of the Company's last shopping centre in Swindon. Combined with an office portfolio that is currently almost 100% let, the portfolio structure should provide a tailwind to relative performance. On the occupational side, over half of the Company's voids are in well-located industrial units that before COVID-19 saw increased letting interest after the general election. Finally, the portfolio has a well-diversified tenant base which should help with income retention, a fact that is crucially important in the current environment.

At a corporate level, the Company has low gearing which is well suited to the current market environment. In addition, the Company also has significant resources and a strong balance sheet which will allow the Board to direct capital and support the portfolio and tenants where it believes this is in the best interests of shareholders. However, it cannot be ignored that the current crisis has resulted in significant pressure on the Company's revenue account and to this end the Company recently announced a 50% reduction in the dividend for the first quarter of 2020, that is payable at the end of May. It should be highlighted that there is a clear aspiration to use the strength of the Company's balance sheet and financial resources to ensure a dividend payment continues to be made throughout this period of uncertainty. The Board of Directors have also taken a 20% fee cut for 9 months to the end of the year.

Overall, I believe that UKCM, with its strong foundations is well positioned to address this crisis and build on what has been achieved in 2019.

Ken McCullagh
Chair of UKCM
1 June 2020

Market Review

UK GDP growth slowed materially in 2019 as Brexit-related uncertainty, the general election and slower global growth weighed on the UK economy. Despite an upward revision to third quarter GDP growth to 0.5%, UK GDP was flat in the final quarter of the year resulting in an annual growth rate of 1.1% in 2019.

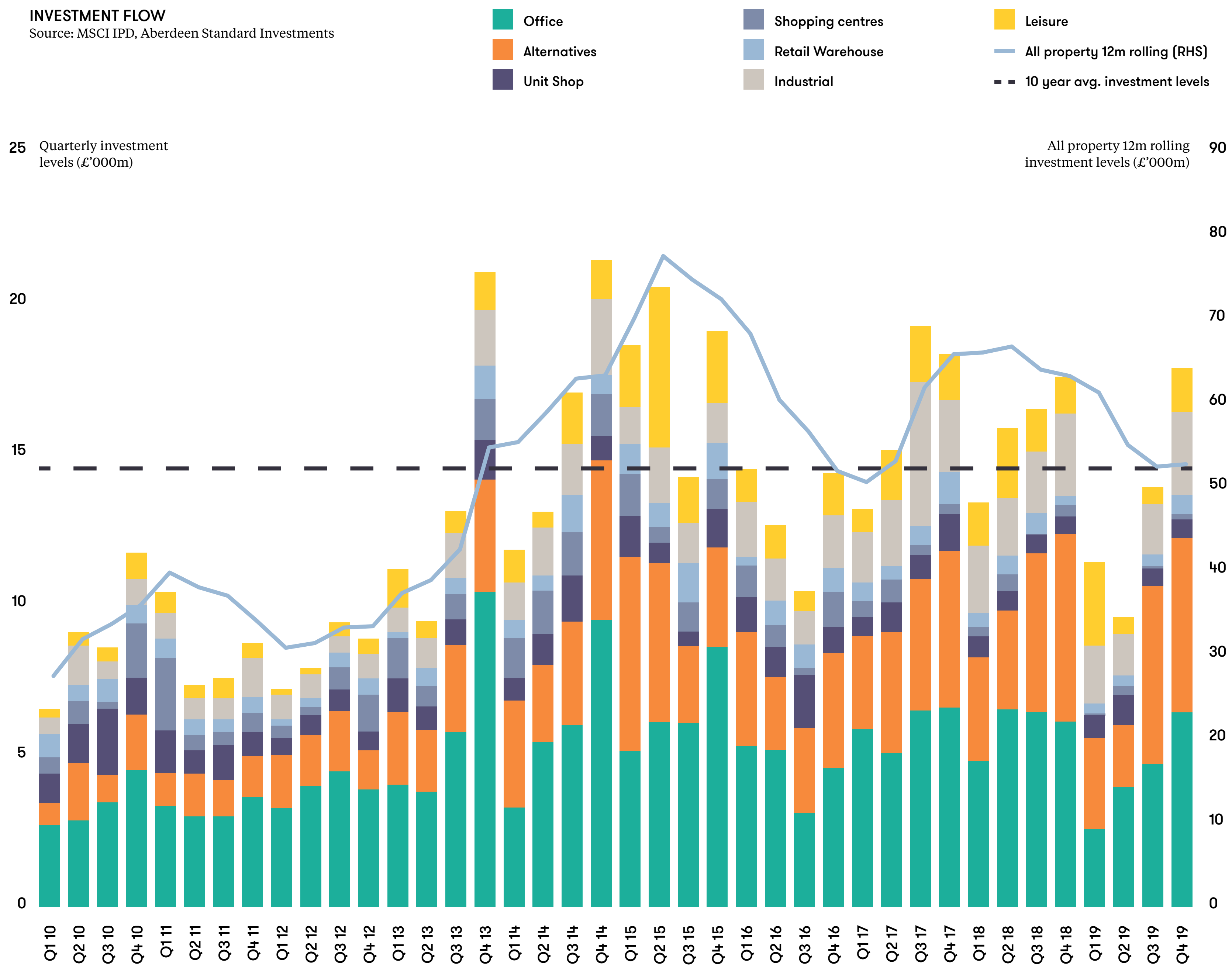
The UK labour market ended the year at historically tight levels and recorded the strongest jobs growth in nearly a year in the three months to November. The general election outcome removed one layer of uncertainty for the UK, resulting in a recovery in business and household sentiment towards the end of 2019 but the COVID-19 pandemic put an abrupt end to that recovery. The UK economy now faces an unprecedented contraction in GDP in 2020.

Returns in the real estate market moderated in 2019, with a total return of 1.2% for the industry as capital growth turned negative over the year. However, returns were markedly different at the sector level, with industrial real estate recording another strong year, delivering total returns of 6.9%, whilst offices returned 4.4%. Retail on the other hand continues to weigh on the All Commercial property returns, with capital values declining by 11.6% over the course of the year and delivering a negative total return of 6.8% according to the MSCI Quarterly Index.

The FTSE UK REIT index experienced a late relief rally towards the end of 2019 resulting in a total return of 30.8% in 2019 as the December election result was viewed positively by the market. This was markedly ahead of the wider stock market, where the FTSE 100 and FTSE All-Share indices returned 17.3% and 19.2% respectively. Again, the COVID-19 pandemic has reversed those gains and the listed sector reflects significant discounts due to more uncertain NAVs. The hierarchy remains broadly the same, however, with industrial names holding up better and the pricing of retail REITs declining very steeply. London office developers started the year strongly but are now trading below where they ended 2019.

Prior to the COVID-19 crisis, occupational markets were largely unfazed by prevailing uncertainty and a lack of clarity on the UK's future trading relationships. Take-up in the office sector was strong, with Central London leasing volumes falling only marginally short of the 10 year annual average level. However activity has fallen significantly in the face of the pandemic and office

INVESTMENT FLOW
Source: MSCI IPD, Aberdeen Standard Investments

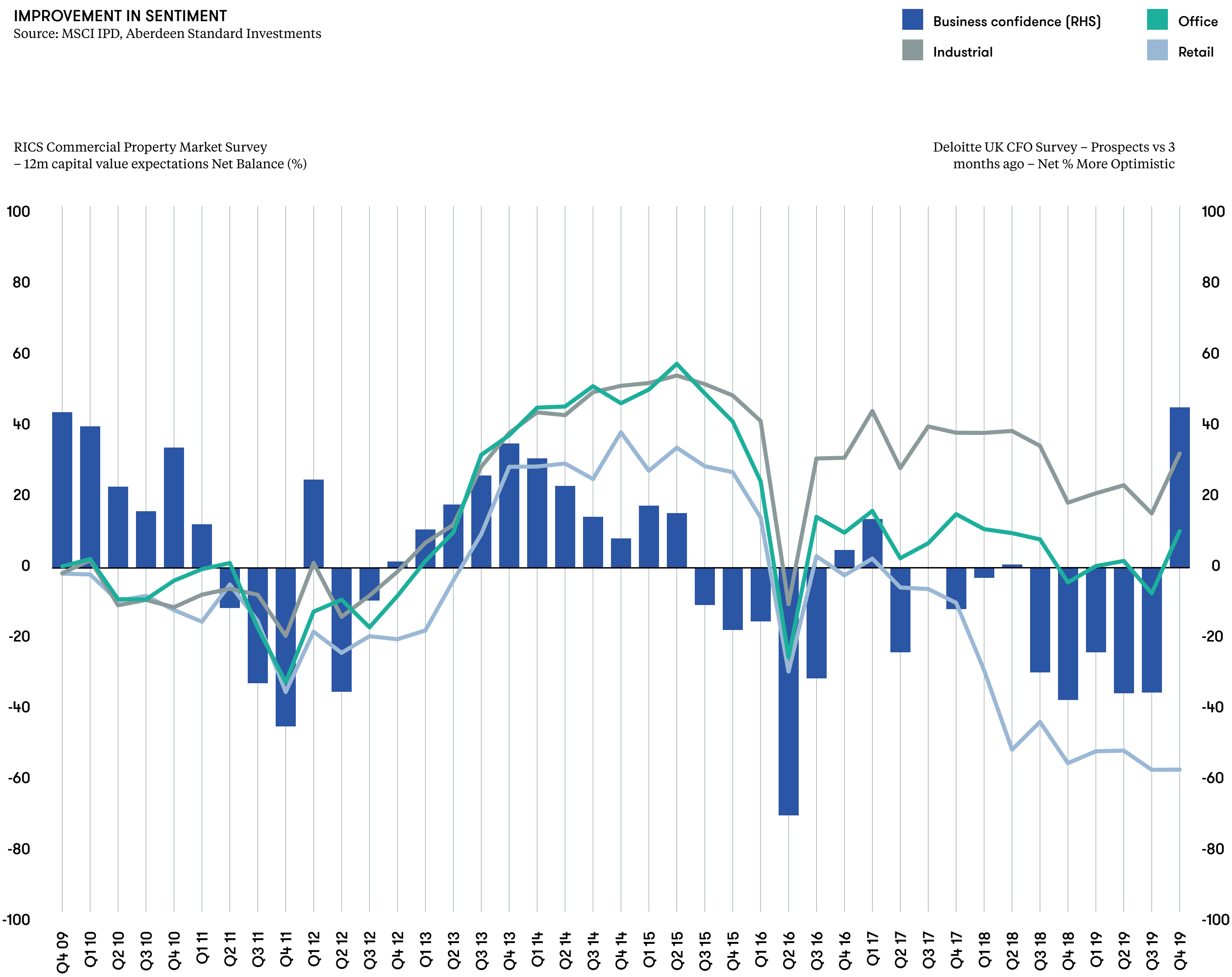


Will Fulton UKCM Fund Manager

take-up is expected to be severely affected, with a large decline in leasing reported for April 2020. Regionally, headline rents have been steadily rising and vacancy rates falling across the "Big Six" office markets but the regions now also face a dramatic slowdown in activity. As in 2018, the retail sector has struggled as structural changes continue to hamper the outlook for the sector. The new crisis clearly adds a cyclical challenge of unprecedented proportions to those structural headwinds. Industrial property, now driven by logistics rather than manufacturing, continues to be a key beneficiary of the structural changes playing out in the UK real estate sector and can be considered a key part of the national infrastructure during the COVID-19 crisis.

The uncertainty created by ongoing Brexit negotiations and the UK general election was felt most acutely through the investment market in 2019. UK real estate investment volumes reached £52 billion in 2019 according to property data, down on the £63 billion recorded in 2018, but in line with the 10 year average for UK real estate investment volumes. Once again, the alternative space gained investment market share on the previous year, accounting for one-third of all investment activity by value in 2019. Meanwhile, the office sector recorded investment volumes of £17.4 billion as a number of large deals in Central London bolstered the overall number. COVID-19 and the containment measures in place will result in a dramatic reduction in transactions this year. It remains too early to say precisely when – and how robustly – activity will return to the market.

IMPROVEMENT IN SENTIMENT
Source: MSCI IPD, Aberdeen Standard Investments



XDock 377, Magna Park Lutterworth

4.7%

London's Mid-Town and West End offices

4.3%

The City of London offices

3.8%

South East offices

Review by Sector

Offices — Performing well in the Regions

Geographically, regional offices were the best performing part of the office sector in 2019, delivering a total return of 5.2% according to the MSCI Quarterly Real Estate Index. This was followed by returns from London's Mid-Town and West End markets, the City of London and South East offices of 4.7%, 4.3% and 3.8% respectively. Occupational demand for London offices remained resilient in spite of the political uncertainty created by the general election and ongoing Brexit negotiations. Leasing activity was strong in the final quarter of the year which helped bring the full-year take-up total to 12.8 million square feet, marginally below the 10 year annual average of 13.1 million square feet according to CBRE. Availability for second hand and Grade A space both fell over the course of the year, with the squeeze being felt most acutely in newly constructed Grade A space where new lettings have been focussed, leasing secondary space has proved more challenging. Strong take-up, declining levels of availability and a limited forward supply pipeline supported rental value growth of 1.3% for Central London offices in 2019. In the regional office markets, the 'Big Six' cities in particular, corporate and public sector consolidation has been driving demand for the best quality space. In a similar vein to Central London offices, supply and pipeline of Grade A office buildings in the 'Big Six' remains well balanced. As the year drew to a close, the political clarity derived from the election result prompted a noticeable increase in the level of optimism from agents in the market, particularly towards Central London offices. Early indications suggested that the subsequent improvement in sentiment would result in a pick-up in real estate investment activity in 2020 but conditions are clearly now very different.

Retail — A difficult year

MSCI calculate a retail sector drop in values of 11.6% for the year which fed into a total negative return of 6.8%. Shopping centres were in the eye of this retail storm with values across the MSCI Quarterly Index down 17.7% in 2019 bringing the cumulative fall to 27% over the last two years. Retail warehouses lost 14.5% of their value in 2019 and are now 21% below their last peak at the beginning of 2018. Regional shops fell by a similar amount over the year. Supermarkets, protected by long index linked leases and relatively strong covenants, and Central London shops were the only retail segments to show any stability. In line with the weak performance of large-format retail, liquidity was highly constrained in 2019. Less than £700 million of shopping centres transacted – comfortably the lowest volume on record – and retail warehouse activity only picked up with greater price discovery towards the end of the year. Sentiment is weak and rents, in aggregate, are under intense downward pressure as retailers seek to rationalise portfolios through lease events, direct negotiations with landlords or the more severe option of company voluntary arrangements. Further falls in value were anticipated in 2020, even before COVID-19. In the short term the pandemic is hitting the ability of physical retailers to trade equally, regardless of location, except for those currently deemed essential; even the strongest locations will be impacted by retailer distress. Longer term, proactive asset management across assets that appeal to consumers will remain the key to generating robust income and protecting value. Selectively, mainly in suburban London, some assets may offer the potential for higher values through conversion to alternative uses.

Industrial — Continued rental value growth supporting strong pricing

The industrial sector maintained its position as the best performing UK commercial real estate sector in 2019, outperforming the wider market by over 500bps with a total return of 6.9%. This is the eighth consecutive year that the sector has outperformed the wider market. Despite moderating from the levels witnessed in 2018, rents grew by a robust 2.9% at the headline level in 2019, continuing to provide support for pricing in the sector. In a similar vein to last year, the more space constrained South East industrial market recorded the strongest rental value growth with rents growing by 3.8%, whilst rental growth in the regions grew by a more modest 1.6%. The structural transition to online retailing continues unabated, resulting in another strong year of take-up by third-party logistics providers and retailers. In fact, with more than 35 million square feet of positive net absorption, 2019 was the strongest year since 2015 according to CoStar. As a result, vacancy rates trended lower over the course of the year and ended 2019 at approximately 3%. Market fundamentals remain supportive for continued rental value growth in the sector, driven by strong demand particularly in London, which has cumulatively lost approximately 2.6 million square feet of industrial space over the last ten years to other uses, most notably residential, as well as in the South East and the best urban locations across the UK.

Alternatives — Income-focused investors abound

The UK real estate investment market remained highly polarised in 2019, with the alternative sector clearly in vogue once again. This alternative sector, or "Other Property" as it is categorised by MSCI, represents real estate which falls outside the traditional 'Retail', 'Office' or 'Industrial' definitions – collectively it is fast becoming mainstream and outperformed the market average in 2019 with a total return of 5.5%. Alternative property types possess a number of appealing facets for income focused investors, most notably the long index linked leases which are common across much of the sector resulting in values which have tended to be less volatile than the traditional commercial sectors. The sector has grown in prominence in recent years and 2019 was no exception; alternative property types accounted for close to a third of all investment activity in UK real estate amounting to its greatest share on record. The Purpose Built Student Accommodation (PBSA) and hotel sectors, the most established alternative sectors for institutional investors in the UK, accounted for over 50% of the £16.5 billion that was invested in alternative property types last year, with the former benefitting from a number of large portfolio transactions and M&A activity. There was a noticeable increase in interest in retirement living and the Build to Rent (BtR) sectors during 2019, which follows a more general trend emerging in UK real estate – one where investors are increasingly allocating to more operational sectors which provide greater exposure to the underlying performance of income generating assets. COVID-19 has exposed the additional risk in such strategies but it is a trend that is likely to re-emerge as the world recovers from the pandemic.

Market Outlook

The political clarity derived from the election result prompted a noticeable increase in the level of optimism from agents in the market, particularly towards Central London offices. However, in light of COVID-19, we see very little justification to be taking on unnecessary risk at this stage in the UK real estate cycle. The focus remains on asset-level risk and income prospects to identify attractive long term investment opportunities in the UK real estate market.

Given the macroeconomic environment, capital values are expected to fall this year but there will be significant dispersion across the sectors. While industrials are forecast to see stable capital values, it is anticipated that retail values will fall substantially, with rents under downward pressure and yields set to move out. Supermarkets are the clear exception to this. Leisure and hospitality assets also face a particularly difficult 2020. While investment volumes in 2019 were down compared to previous years, occupancy ahead of the pandemic was generally high (other than for much of the retail sector), which may help to mitigate some of the effects of the unprecedented contraction in the economy. The trends that have negatively impacted the retail sector have benefitted the industrial/logistics sector as retailers move more of their business online, increasing the need for storage and distribution space.

Aside from well documented issues in much of the retail sector, the wider property market entered 2020 underpinned by good fundamentals – limited development, high occupancy rates and controlled leverage with attractive income returns compared to other asset classes. But COVID-19 represents a unique challenge for the world, this industry included, and the fundamentals for much of the property market are likely to weaken in the near term.

The White Building
Reading

Junction 27
Leeds

Portfolio Performance

During the reporting period, the Company's property portfolio generated a total return of 1.4% versus 1.8% for its MSCI benchmark. This relative underperformance can be attributed solely to the sale in the second half of the year of the Company's last remaining shopping centre asset. Since the inception of the Company, and over the last three years, the portfolio has outperformed its MSCI benchmark which is the MSCI UK Balanced Portfolios Quarterly Property Index.

The table opposite sets out the components of these returns for the year to 31 December 2019 with all valuations undertaken by the Company's external valuer, CBRE Limited.

	Total Return*		Income Return		Capital Growth	
	UKCM %	Benchmark %	UKCM %	Benchmark %	UKCM %	Benchmark %
Industrial	7.4	6.8	3.2	4.3	4.0	2.4
Office	7.1	4.6	4.3	4.0	2.7	0.6
Retail	-11.6	-6.4	6.0	5.6	-16.7	-11.4
Alternatives	-1.3	5.4	4.9	4.4	-5.9	0.9
TOTAL	1.4	1.8	4.3	4.6	-2.8	-2.7

Source: MSCI

* 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 again been the main driver of total returns, delivering 4.3% compared to a capital return of -2.8% for the 12 month period. This trend, of a reliance on income as the dominant generator of total returns, is expected to continue. The Company has benefitted over the year from its now 51% exposure to the industrial sector, 62% of which is located in urban assets and a very high proportion of these urban assets (79%) are within London and the South East. This latter portion of the portfolio has been the largest contributor to total return for the year although the relative income return has fallen a little short of the benchmark; the reason being most of the Company's unoccupied property (7.9% by rental value) is within the industrial sector – a good thing given the positive prognosis for leasing well located industrial property. Retail exposure has been reduced again, accounting for 21% at the year end, with a further sale in Q1 2020 taking this down further to 19.5%. Though headwinds are still in play for the retail sector, the Company's risk has been significantly reduced by the sale of its last shopping centre and the retail portfolio occupancy rate was 98% at the year end.

Industrial

The industrial portfolio, now 51% of the Company's holdings by capital value, has delivered a total return for the year of 7.4% against the benchmark return of 6.8%. This performance was led by the successful reletting to Amazon of the 180,000 square foot Neasden warehouse in Wembley on a 10 year index-linked lease, and despite 12% of this well located industrial portfolio being vacant at the year end. Three of the Company's industrial properties were in the top five contributors to positive performance for the year – its largest, Ventura Park, Radlett (North London beside the M25), Dolphin Estate at Sunbury-on-Thames (West London), and Emerald Park, Bristol, where a clutch of rent reviews were settled ahead of estimated rental value. We put political uncertainty in the second half of 2019 behind the delay in leasing the Company's largest void, XDock 377, Magna Park, Lutterworth, where Q1 2020 has seen a significant uptick in occupier interest. Representing approximately 3% of Company rental value the impact upon letting will be positive.

Office

The Company's office portfolio has again performed strongly during the course of the year, delivering a total return of 7.1% compared to the benchmark return of 4.6%. Outperformance came from a combination of stronger capital growth and income compared to the benchmark, helped in no small amount by achieving full occupancy at Eldon House in the City of London in Q1, and The White Building, Reading, with two final leases completed in Q4. Reading is a hub for the tech industry for which The White Building has proven very popular in terms of design and location; as a result it also featured in the Company's top five contributors to performance for the year. Looking forward, its popularity should be boosted on the reasonable assumption the Elizabeth Line (Crossrail) will open in the next couple of years, dramatically improving connectivity to Central and East London. As a result of political uncertainty and pricing, against a backdrop of a good occupational market, the Company maintained its exposure to Central London offices through Craven House in the West End and Eldon House in the City, together representing almost 5% of the portfolio by capital value.

Retail

Performance of the Company's retail portfolio, standing at 21% by value at the year end after two sales in the year, was dominated by the impact of selling the Company's last shopping centre investment, The Parade, Swindon, without which the Company would have outperformed its benchmark over the year. Swindon town centre suffers from a combination of a large and growing out of town supply and an under-invested town centre environment. Against this backdrop the buyer, a private equity firm, has a different risk and return profile. Having been working on a sale for a considerable period it does represent a significant positive milestone for the Company. Total return from the Company's retail portfolio for the year was -11.6% versus -6.4% for the benchmark; income return was better than the benchmark and capital loss worse. In absolute terms at the year end 16% of the Company's portfolio was within the retail warehouse sub-sector (78% of the retail exposure) and, whilst this was by no means immune from the travails of the sector, it performed more in line with the benchmark and as described later allowed for positive asset management opportunities such as the incorporation of an Aldi food store into Great Lodge Retail Park, Tunbridge Wells. The retail portfolio finished the year 98% occupied and the second sale was of a High Street shop in Market Street, Manchester in line with valuation.

Alternatives

In April last year shareholders approved a resolution to widen the Company's investment policy to include all elements of the alternative real estate sector; assets which are not office, retail or industrial. To date the Company has not invested to take advantage of this wider policy though it remains a firm focus with a number of opportunities under consideration. As such, returns from this sector for the period relate to the Company's existing assets in the sector which are leisure by nature and collectively represent 11% of the portfolio by capital value. They delivered a total return of -1.3% against the benchmark of 5.4%. In fact this was very much a tale of two cities: the Company's recent development funding of its long-let Dalata-Maldron hotel in Newcastle-upon-Tyne, completed at the end of the previous year, was a top-five contributor to 2019 performance whilst its leisure and supermarket investment at Regents Circus, Swindon, having suffered the closure of its Morrisons supermarket, was in the bottom five. Despite this closure Morrisons remain the tenant and liable to rent for a further 14.5 years allowing us the ability to work with them to find a replacement tenant whilst continuing to collect rent. As the table on the previous page shows, income from this sector exceeded the benchmark but was offset by capital performance behind the benchmark.

Investment Activity

In a year of political uncertainty we have reduced risk in the portfolio with the Company's two retail sales described below and have held back from new investment as the shape of the new UK government developed. In line with our strategy to selectively increase exposure to the alternative sector, we have a number of opportunities in different stages of consideration, but not in the restaurant-leisure sector where we see continuing headwinds.

Sales

The Company completed three sales in the year.

- In September we completed the sale of a prime retail unit for £10.3 million in Market Street, Manchester, let to Adidas with a lease break in 1.5 years; this was completed in line with its valuation and, as well as removing risk that Adidas might vacate at a rent we felt would be difficult to replicate, secured a market leading yield.
- In November we made the strategic disposal of the Company's sole remaining shopping centre asset, The Parade, Swindon, to a private equity partnership for £23.35 million; as described earlier the asset was projected to continue to underperform with downward pressure on rents despite asset management initiatives being undertaken. Although sold in line with its September valuation, this was considerably below its June valuation.
- In December, having concluded a 10 year lease renewal with Hertfordshire County Council, Meadowside House, an office investment in Apsley, Hemel Hempstead, was sold for £11.5 million, in line with its valuation.

After the year end, and so excluded from numbers and statistics in this report, the Company sold three further assets. In Q1 2020 Motor Park in Portsmouth, a multi-use asset predominantly comprising seven car showrooms, to Glasgow City Council for £29.8 million, representing a 3% discount to the December 2019 valuation. This was sold following a programme of active asset management, increasing the weighted unexpired lease length at the asset with new leases to Snows Business Holdings, which operates BMW, Mini and SEAT franchises, and Harwoods, which operates the Audi franchise. This asset management activity enhanced the asset's value which we have now crystallised giving the Company additional firepower to reinvest into attractive, income accretive assets where we see longer term opportunity to deliver reliable returns. Secondly Broadbridge Retail Park in Horsham sold for £18.1 million in line with the September and December 2019 valuations, following the exercise of an option to purchase which had been agreed in November 2019.

And finally, on 5 May 2020, the Company unconditionally exchanged contracts to sell Eldon House, its only office asset in the City of London, for £40 million representing a 3.6% discount to its valuation as at 31 March 2020 but ahead of its 31 December 2019 valuation. The property was purchased for £27.8 million in 2015 and the sale follows the completion of an asset management plan which comprised a refurbishment of public spaces, as well as capturing reversionary potential by achieving full occupancy and regearing existing leases.

Purchases

With limited capital available to deploy at the start of the year and accentuated political uncertainty in the second half, no purchases were made during the year. Receipts from sales were used to repay debt on the Company's efficient revolving credit facility, pending reinvestment. However during the first quarter of 2020, and following an expansion of the Company's investment policy in 2019, the Company agreed to forward fund a new 221 bed student residential development in central Exeter, adjacent to the main university campus. With completion expected to match the start of the 2022/23 academic year, it is expected that by this time demand for well located, well designed modern accommodation next to "in demand" universities will be strong. The land, with full planning permission, was acquired for £6.5 million with an additional capped funding commitment of c.£21.5 million. Exeter is a Russell Group University that is ranked 10th in the UK according to The Guardian's University League Table 2020 and, from an investment perspective, benefits from an under-supply of modern accommodation.

Asset Management Activity

Throughout 2019, the Company continued to proactively manage the portfolio to extend lease lengths, drive rents and reduce risk in the portfolio. Over £9.1 million of annual income was secured after rent free periods and incentives through 25 new leases and 21 lease renewals / rent reviews. The Company is also pleased to report that, on average, 97% of rent was collected within 21 days of each quarterly payment date during 2019.

We continued to capture strong rental growth within the industrial portfolio. Over the year £4.54 million of rent was secured at review which was 17% ahead of previous passing rent and 9% ahead of the estimated rental value at the rent review date.

The average weighted unexpired lease term of the portfolio remained consistent at 8.9 years compared to 8.8 years at 31 December 2018. There has been an increase in the proportion of portfolio income derived from leases with fixed or inflation-linked uplifts which has risen to 19% of estimated rental value.

Thematically we have experienced a continued bifurcation in rental growth from the significant uplifts on the London and South East based element of our industrial portfolio, whilst retail estimated rental values, particularly in the retail parks, have dropped through the year.

The White Building, Reading

Motor Park, Portsmouth

Despite the falling rental tone amongst the retail assets, the disposal of the shopping centre in Swindon has reduced risk and occupancy across the retail portfolio was 98% at 31 December 2019. The asset management team continues to look to extend leases and rebase rents with retail tenants. The leisure portfolio is predominantly let on long term leases, albeit the food and beverage sector has been subject to similar headwinds to the retail market. Our office portfolio remains well let with minimal voids and the final lettings completed at The White Building, Reading in Q4 further reducing void and risk in this sector.

The following asset management activity, grouped by sector with percentage occupancy shown as at 31 December 2019, represents a summary of noteworthy transactions:

In Offices
97% occupied

Apsley One, Hemel Hempstead

A lease renewal completed with Hertfordshire County Council for 10 years at a rent of £825,000 per annum which was 19% ahead of the estimated rental value and 36% ahead of the previous passing rent. This greatly enhanced the liquidity of the asset which was subsequently sold in December at a level in excess of valuation.

The White Building, Reading

Two lettings completed to Barracuda Networks, which agreed a 10 year lease, and Act on Software, which signed a five year commitment. The asset is now fully let and the estimated rental value and capital value has been increased since acquisition in Q3 2018. The asset is well placed to benefit from further tenant demand given its proximity to the Elizabeth Line terminus.

Central Square, Newcastle

A refurbishment was undertaken improving the common parts and amenity offer. A lease renewal completed with The Arts Council of England at a rent of £39,616 per annum which was 22% ahead of estimated rental value.

St George's Retail Park, Leicester

In Retail & Leisure
97% occupied

Great Lodge Retail Park, Tunbridge Wells

Completed a new 20 year index-linked lease with Aldi on a 27,000 sq ft unit which was previously part of B&Q's demise. A part surrender was negotiated with B&Q, which included a £1.1 million premium from B&Q which was co-terminus with the new lease to Aldi at £500,000 per annum. This transaction will increase footfall on the park given the popularity of Aldi as a retailer, as well as downsizing the store for B&Q and reducing its lease liabilities.

Junction 27 Retail Park, Leeds

At this prime bulky goods park adjacent to an Ikea store, the final vacant unit was let to Natuzzi for 10 years at a rent of £225,450 per annum. In Q4 2019 a 5 year lease extension was completed with Sofology at a rent of £338,715 per annum which increased the unexpired lease term to 7.5 years and was accretive to capital value. We continue to speak to the tenants to look to further extend and restructure lease agreements.

St George's Retail Park, Leicester

It was another busy year at St George's Retail Park where the development and letting of a three unit extension completed in Q1 with Wren Living, Tapi Carpets and Floors and Laura Ashley taking occupation on 10 year leases at a combined rent of £599,500 per annum. A 15 year lease was completed to Home Bargains at a rent of £200,000 per annum which further benefitted from fixed rental increases. Finally, a lease renewal completed with DSG (Currys) which agreed a 10 year reversionary lease at £210,500 per annum, in line with estimated rental value.

In Industrial / Logistics Distribution
88% occupied

Central Way, Neasden

A comprehensive refurbishment of the 180,000 sq ft unit was completed and the asset was pre-let to the high quality covenant of Amazon, which agreed a 10 year index linked lease. The new rent of £2,700,000 per annum was in excess of the property's estimated rental value.

Newton's Court, Dartford

A 10 year lease was secured with Veerstyle Ltd at a rent of £575,237 per annum, representing a 31% increase on the previous passing rent of £440,000 per annum. A lease renewal was also agreed with Compagnie Fruitiere UK Ltd for a two year lease renewal at a rent of £711,000 per annum delivering a 30% uplift on the previous passing rent and an 11% premium to the units estimated rental value.

Dolphin Trading Estate, Sunbury-on-Thames

The estate continues to benefit from the shortage of supply of industrial space within the M25 and strong occupier demand. A rent review was settled with Trans Global Freight Management at £704,000 per annum, providing a £193,400 increase on the previous passing rent and being 13% ahead of the unit's estimated rental value at the rent review date.

Aberdeen Gateway, Aberdeen

Fixed increases were documented with tenants at this light industrial scheme which secured an overall increase of £393,192 per annum.

Motor Park, Portsmouth

Lease Renewals were documented with Affinion International across two units for five years at a combined rent of £359,640 per annum. This further enhanced the weighted average unexpired term of the asset and liquidity of the investment which enabled the asset to be sold post year end.

M8 Interlink, Coatbridge

Completed a 10 year lease with SPL Powerlines securing a rent of £88,416 per annum, in line with estimated rental value.

Environmental, Social and Governance (ESG)

The Investment Manager views the management of ESG 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, the potential to affect environmental and social outcomes, both positively and negatively. The Investment Manager's approach is underpinned by the following three principles:

- Transparency, Integrity and Reporting: being transparent in the ways in which we communicate and discuss our strategy, approach and performance with our investors and stakeholders.
- Capability and Collaboration: drawing together and harnessing the capabilities of our ESG platform, with the insights and experiences of our property consultants and industry best practice.
- Investment Process and Asset Management: integrating ESG into decision making, governance, underwriting decisions and asset management approach. This includes the identification and management of material ESG risks and opportunities across the portfolio.

A key element of our approach is the employment of our ESG Impact Dial, a proprietary research framework in support of investment strategies and asset management approach. We have identified four major forces for change:

- Environment and Climate
- Governance and Engagement
- Demographics and Technology
- Infrastructure

These forces together form the basis of the ESG Impact Dial. These guide the assessment of materiality and integration of ESG factors within the Company's portfolio and provide the framework for our ESG objectives.

Specific examples of our ESG Strategy in action include:

Office Portfolio

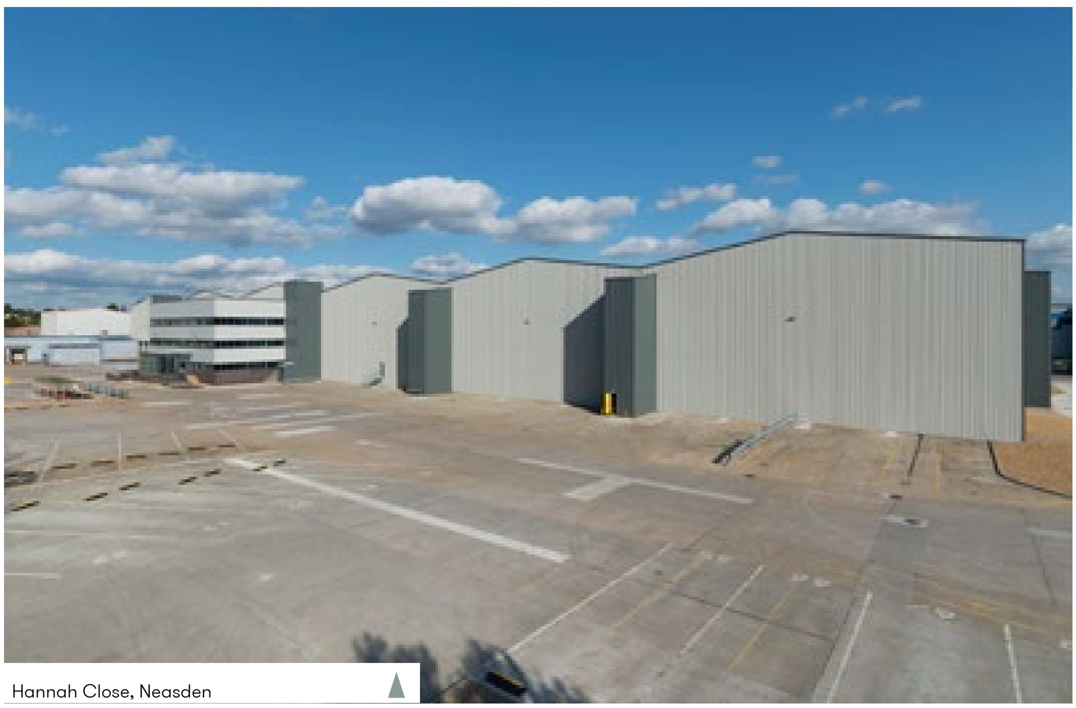
Our ESG data platform, Envizi, captures energy and emissions performance data from these assets and provides the facility for live monitoring and action planning. Our Consultants, Property Manager and the Investment Manager's portfolio management team all have access to the platform, which also provides the basis for meeting the Company's energy and emissions reporting obligations.

This approach has resulted in a number of recent improvements at office assets. At 9 Colmore Row, Birmingham the replacement of a large chiller and extensive lighting upgrades resulted in an 8% reduction in electricity consumption in 2019. Similar lighting upgrades and improvements to the operation of heating and ventilation equipment at Eldon House, London led to a 5% improvement in 2019.

Our consultants have also started an exercise to benchmark office assets against industry net zero emission targets.

Industrial Refurbishments

The Company has recently completed the refurbishment of industrial assets at Hannah Close, Neasden and Magna Park, Lutterworth. Both projects incorporated high levels of sustainability performance to deliver modern, future-proof industrial buildings.



Hannah Close, Neasden

Wembley 180 at Hannah Close was refurbished to a BREEAM Very Good standard, incorporating a solar PV array (with capacity to expand further in future), high efficiency lighting and high levels of natural light. The Energy Performance Certificate (EPC) improved to a C rating as a result of the works. The projects also incorporated biodiversity improvement measures including an insect hotel on spare land.

The project at XDock 377 at Magna Park, Lutterworth included a full refurbishment of the office space including full LED lighting and high-efficiency heating, ventilation and cooling. The warehouse space incorporates a high level of natural light, reducing the need for artificial lighting. The EPC rating for the asset improved to a B as a result of the works, future-proofing the asset against expected tightening of energy performance regulations over the next decade.

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 is clear and benefits from the sale of our last shopping centre asset, forecast to be the weakest sub-sector of UK real estate over the next three years. Conversely the industrial sector, which comprises more than 50% of the portfolio, remains a top forecast performer over that period.

We will continue to selectively sell non-core assets, reinvesting with several objectives in mind:

- to diversify the portfolio towards sectors which will deliver income growth, particularly given the disruption in the retail sector through e-commerce and the uncertainty in the market surrounding viable base rent levels;
- to cover the dividend medium term with sustainable and growing earnings and do so without materially increasing income risk while at the same time keeping gearing modest.

COVID-19 has undoubtedly created more risk in the world. The Company had a very clear strategy entering 2020 and in broad terms that clear strategy remains unchanged as outlined above. However, as this report is published, it is harder to forecast the route the UK will take to emerge from the pandemic and bring its working population back to work which, of course, helps inform prospects for different sectors of the property market. As a result your Company will adopt an ‘eyes-open’, flexible focus within the parameters of its strategy outlined above.

One aspect of that focus is the alternatives sector, whilst at the same time monitoring the market for signs of price weakness, perhaps from sellers with liquidity requirements, in areas of the market with strong fundamentals. The additional sub-sectors we now have access to, which have come to be regarded as mainstream and are commonly referred to as “alternative sectors”, 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 encouraged by a combination of favourable structural drivers which we believe are set to continue – for example demographic, urbanisation and trends in technology, together with the stability of income returns and diversification benefits that investing in this alternative sector brings. As an example we are studying closely, but very selectively, the student accommodation market, where our focus is on universities that are not overly reliant on the international student population and where demand is forecast to outstrip supply; we believe this to be having a renaissance with the removal of student number caps expected to create a demand swing in favour of the better universities. Since the year end we have concluded on an agreement to fund the construction of one such, relatively small, investment adjacent to the University of Exeter expected to complete for the start of the academic year 2022/23. We will take advantage of a tried and tested operational leasing arrangement which, for the right investment such as this, we believe offers a compelling yield premium linked to a diversifying income stream. We would also consider long-let indexed income, but much of that market continues to be very expensive, and also judicious funding opportunities with planning permission and where income risk is suitably considered and controlled. Finally, and with additional weight since the year end given the uncertainty caused by the COVID-19 global pandemic, we are alert to take advantage of pricing anomalies and opportunities across favoured sectors.

At the year end we had £130 million of capital available to invest, comprising £30 million in cash and £100 million undrawn debt from our revolving credit facility. Taking account of post-year end investment activity throughout the first quarter of 2020 we now have £154 million of available capital.

Alongside new investment it is important to actively manage the bulk of the portfolio we retain to improve the quality of the portfolio and income stream. The industrial portfolio is designed to provide better yielding steady income from the circa 30% invested in regional logistics stock. The 70% balance invested in urban and London and South East stock targets the rental growth we experienced from occupiers being priced out of very central London locations as demand builds against a backdrop of limited supply. In retail, the Company’s assets are well located and by and large we believe our tenants who like to trade from their units, can make a profit, but are often paying more rent than the current rental value. Here we work with them to manage their lease and commitments with a view to extending leases and increasing income security.

We remain focused on rent collection in 2020 and in particular we are working closely with tenants in the leisure and retail sectors which are most affected by the COVID-19 crisis and lockdown. Our engagement is even more active to help them through the extreme challenges presented by this pandemic. We are also aware of the longer term potential for alternative use value on some of our retail assets in London and its environs.

The escalation of the COVID-19 pandemic is having a dramatic impact on economic activity. It is hitting retail, leisure and hospitality businesses especially hard. On top of this the UK still has to contend with Brexit, potential trade negotiations and/or delay and the further uncertainty that brings, especially when mixed in with COVID-19. All businesses, including UKCM, will face a challenging year. However the point of diversification is to offer a degree of insulation from risk events and the Company benefits from a diverse tenant, and so income, exposure. All in all we enter the year with a diversified portfolio biased towards favourable sectors of the market with continuing positive fundamentals, a reversionary income portfolio, a clear investment strategy, and a strong balance sheet.

Will Fulton
Fund Manager
Aberdeen Standard Investments
1 June 2020

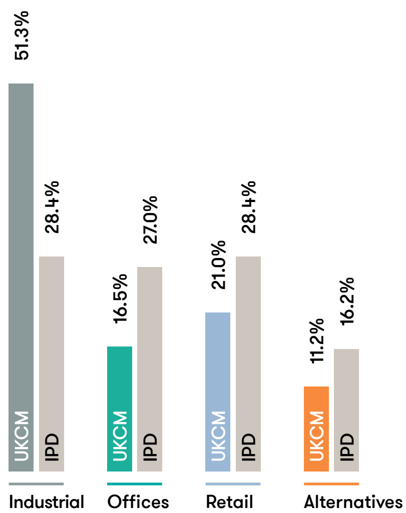
2019 PORTFOLIO ANALYSIS

(all figures as at 31 December 2019)

LEASE EXPIRY PROFILE

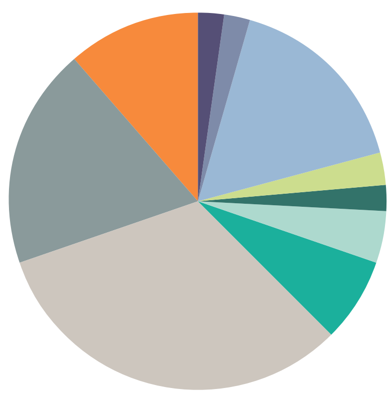
	UKCM	Benchmark
0-1 yr	8.1%	10.8%
1-2 yrs	5.7%	9.3%
2-3yrs	9.2%	8.8%
3-5 yrs	15.8%	16.1%
5-10yrs	31.5%	22.9%
10-15 yrs	10.9%	9.0%
>15 yrs	18.9%	23.1%

SECTOR SPLIT V BENCHMARK



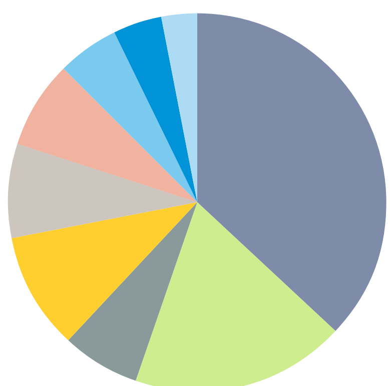
PORTFOLIO SPLIT BY SUB SECTOR

Standard Retails — South East	2.4%
Standard Retails — Rest of UK	2.3%
Shopping Centres	0.0%
Retail Warehouses	16.3%
Offices — City	2.8%
Offices — West End	2.2%
Offices — Rest of South East	4.5%
Offices — Rest of UK	7.0%
Industrials — South East	32.3%
Industrials — Rest of UK	19.0%
Alternatives	11.2%



PORTFOLIO SPLIT BY GEOGRAPHY

South East	37.9%
London	18.1%
South West	6.5%
Scotland	9.9%
West Midlands	8.0%
East Midlands	7.4%
Yorks/Humber	5.1%
North East	4.3%
City of London	2.8%



TOP 10 TENANTS BY RENT

#01 **B&Q PLC**
Retail Warehouse
5.3% of contracted rent
IPD risk band: Negligible

#02 **OCADO RETAIL LIMITED**
Industrial
4.6% of contracted rent
IPD risk band: Low/Medium

#03 **PUBLIC SECTOR**
Office
4.1% of contracted rent
IPD risk band: Negligible

#04 **TOTAL E&P UK LIMITED**
Industrial
3.3% of contracted rent
IPD risk band: Low

#05 **ODEON CINEMAS LIMITED**
Alternatives
2.8% of contracted rent
IPD risk band: Low

#06 **WARNER BROS LIMITED**
Industrial
2.6% of contracted rent
IPD risk band: Low

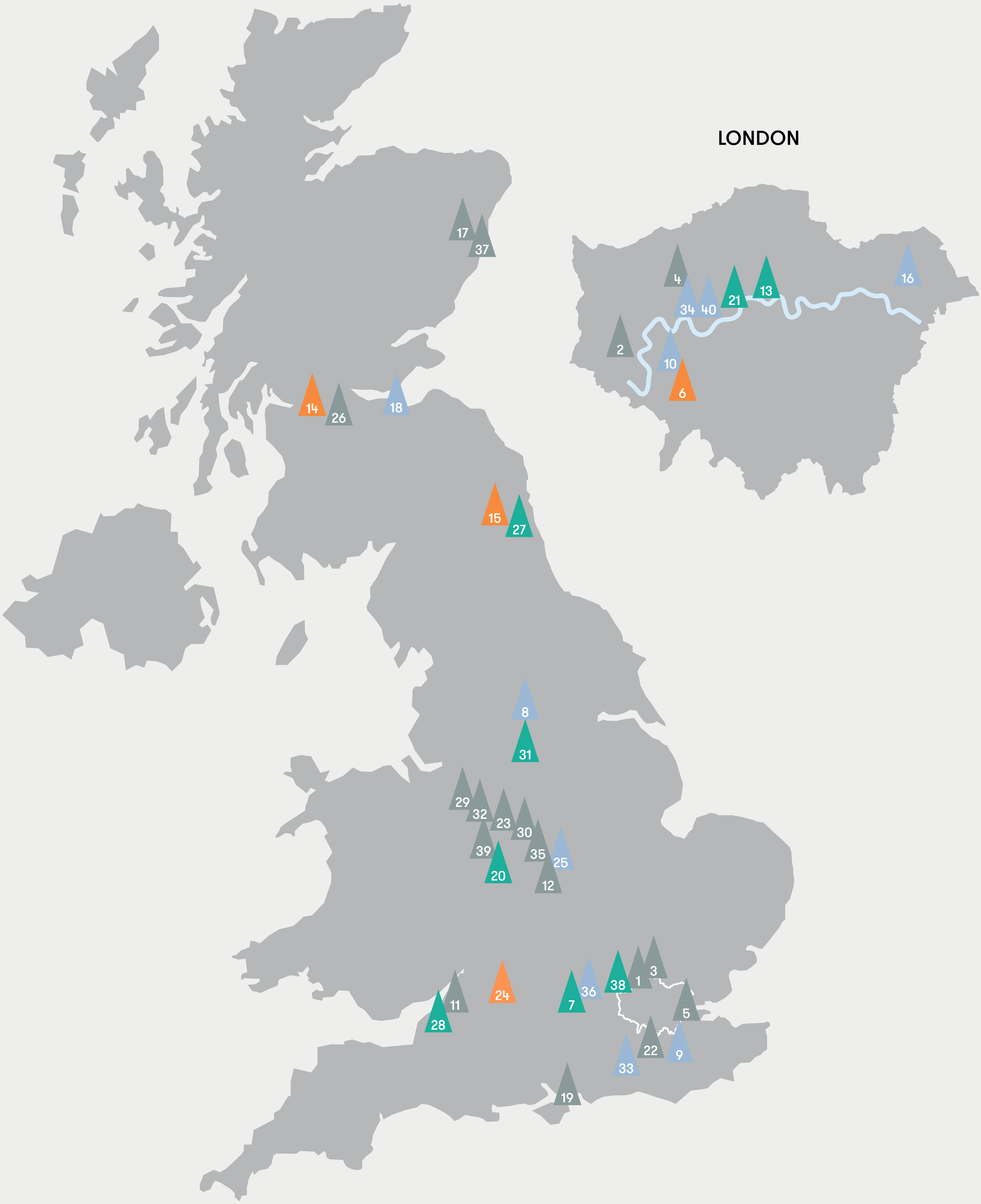
#07 **DALATA CARDIFF LIMITED**
Alternatives
2.4% of contracted rent
IPD risk band: Medium/High

#08 **DSG RETAIL LIMITED**
Retail Warehouse
2.4% of contracted rent
IPD risk band: Low/Medium

#09 **CINEWORLD ESTATES LIMITED**
Alternatives
2.4% of contracted rent
IPD risk band: Low

#10 **PALLETFORCE LIMITED**
Industrial
2.2% of contracted rent
IPD risk band: High

PROPERTY PORTFOLIO
as at 31 December 2019



PROPERTY		Tenure	Sector	Principal Tenant	Value Range
1	Ventura Park, Radlett	Freehold	Industrial	Warner Bros Studios Limited	Over £70m (representing 14% of the portfolio capital value)
2	Dolphin Estate, Sunbury-on-Thames	Freehold	Industrial	Trans Global Freight Management Ltd	
3	Ocado Distribution Unit, Hatfield Business Area, Hatfield	Freehold	Industrial	Ocado Ltd	£50m–£70m (representing 29% of the portfolio capital value)
4	Hannah Close, London NW10	Leasehold	Industrial	Amazon UK Services Limited	
5	Newton's Court , Dartford	Freehold	Industrial	Compagnie Fruitiere UK Limited	
6	The Rotunda, Kingston upon Thames	Freehold	Alternatives	Odeon Cinemas Ltd	
7	The White Building, Reading	Freehold	Office	Workday (UK) Ltd	
8	Junction 27 Retail Park, Birstall, Leeds	Freehold	Retail Warehouse	DSG Retail Ltd	
9	Great Lodge Retail Park, Tunbridge Wells	Freehold	Retail Warehouse	B&Q Plc	
10	Kew Retail Park, Richmond	Freehold	Retail Warehouse	TK Maxx Ltd	£30m–£50m (representing 28% of the portfolio capital value)
11	Emerald Park East, Emersons Green, Bristol	Freehold	Industrial	Knorr-Bremse Systems Ltd	
12	XDock 377, Magna Park, Lutterworth	Leasehold	Industrial	Vacant	
13	Eldon House, City of London EC2*	Freehold	Office	Stace LLP	
14	Cineworld Complex, Glasgow	Freehold	Alternatives	Cineworld	
15	Maldron Hotel, Newcastle	Leasehold	Alternatives	Dalata Group plc	
16	B&Q, Roneo Corner, Romford	Freehold	Retail Warehouse	B&Q Plc	
17	Total, Aberdeen Gateway, Aberdeen	Freehold	Industrial	Total E&P UK Ltd	
18	81/85 George Street, Edinburgh	Freehold	High St, Retail	Clydesdale Bank plc	
19	Motor Park, Eastern Road, Portsmouth*	Freehold	Industrial	Pentagon Ltd	
20	Colmore Court, 9 Colmore Row, Birmingham	Leasehold	Office	BNP Paribas	
21	Craven House, Fouberts Place, London W1	Freehold	Office	Molinaire Ltd	£20m–£30m (representing 19% of the portfolio capital value)
22	Gatwick Gate Industrial Estate, Crawley	Freehold	Industrial	Airbase Interiors Ltd	
23	Centrum 260, Burton on Trent	Freehold	Industrial	Palletforce plc	
24	Regent Circus, Swindon	Freehold	Alternatives	WM Morrison Supermarkets Plc	
25	St Georges Retail Park, Leicester	Freehold	Retail Warehouse	DSG Retail Ltd	
26	M8 Industrial Estate, Glasgow	Freehold	Industrial	Boots UK Ltd	
27	Central Square, Forth Street, Newcastle Upon Tyne	Freehold	Office	Ove Arup & Partners	
28	No 2 Temple Quay, Bristol	Freehold	Office	Public Sector	
29	Dalewood Road, Newcastle-Under-Lyme	Freehold	Industrial	TK Maxx Ltd	
30	Tetron Point, Swadlincote	Freehold	Industrial	Clipper Logistics Plc	
31	Hartshead House, Sheffield	Freehold	Office	Capita Business Services Ltd	Below £20m (representing 10% of the portfolio capital value)
32	Whittle Road, Stoke-on-Trent	Freehold	Industrial	Bestway Pharmacy NDC Limited	
33	Broadbridge Retail Park, Horsham*	Mixed	Retail Warehouse	HHGL Ltd	
34	140/144 King's Road, London SW3	Freehold	High St, Retail	French Connection UK Ltd	
35	Interlink Way West, Bardon	Freehold	Industrial	Roca Ltd	
36	14–22 West Street, Marlow	Freehold	High St, Retail	Sainsbury's Supermarket Ltd	
37	Tetra, Aberdeen Gateway, Aberdeen	Freehold	Industrial	Tetra Technologies UK Ltd	
38	Apsley One, Hemel Hempstead	Freehold	Office	Public Sector	
39	Gallan Park, Cannock	Freehold	Industrial	Rhenus Logistics Limited	
40	146 King's Road, London SW3	Freehold	High St, Retail	Telefonica O2 UK Ltd	

Overall number of properties	40
Total number of tenancies	245
Total average property value	£34.4m
Total floor area	6,313,043 sq ft
Freehold/Leasehold (leases over 100 years)	88%/12%

Industrial Offices Retail Alternatives

*Sold post year end

Gatwick Gate
Crawley

Investment Strategy

The Group's investment strategy, and purpose, 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 recognises 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, members of the Board 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. Further details of how the Company engages with all its stakeholders is set out in the Stakeholder Engagement section of the Annual Report encompassing section 172 of the UK Companies Act 2006 on page 37.

On 18 April 2019, shareholders voted in favour of an amendment to the investment policy 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 Group's investment policy as approved on 18 April 2019 is 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, offices, 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."

Although not part of the Company's formal investment policy, the Board intends to limit the Company's investment into alternative sectors to 35 per cent of the gross assets of the Group at the time of acquisition.

The Company's current gearing policy, as approved by shareholders at an EGM in 2011, is 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 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".

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 per cent debt cap referred to above.

The Group's performance in meeting its objective is measured against key performance indicators as set out on page 25. 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 40 to 41 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 Investments (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 2019, the Group generated operating cash flows of £32.1 million (2018: £45.9 million) and a net profit for the year of £1.6 million (2018: £53.0 million). The fall in profits in 2019 was attributable to the slowing UK commercial real estate sector with losses on investments of £43.1 million compared with gains on investments of £18.9 million being generated in 2018.

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 2019 is contained on page 23 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.

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, ukcpreit.com, and the Company also utilises 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 UK Balanced Portfolios 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 MSCI 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 2019 are set out on page 6. In addition the Board considers specific property KPIs such as void rates, rent collection levels and weighted average lease length on a regular basis.

Cineworld Complex
Glasgow

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.

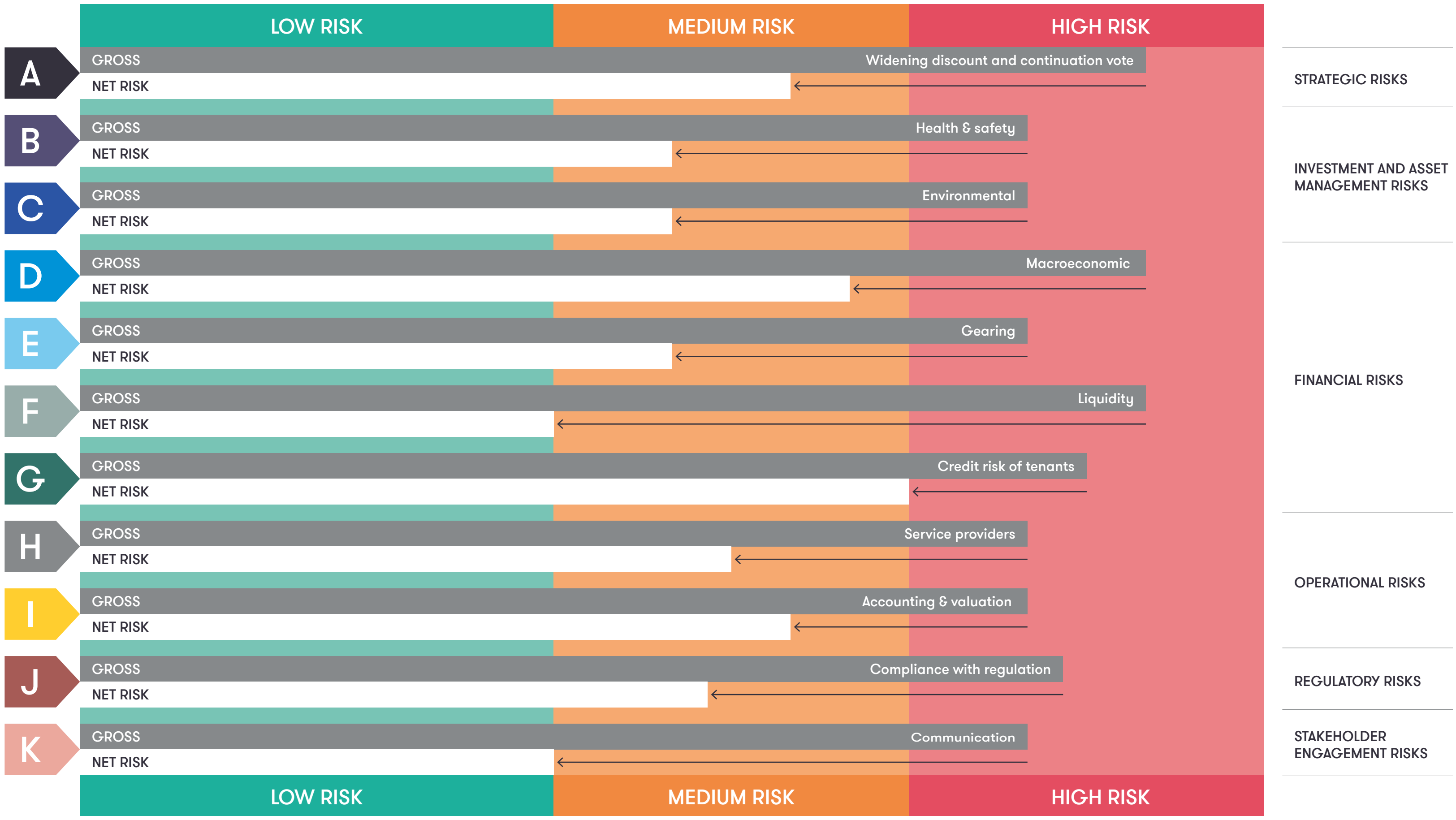
The Board has appointed a Risk Committee to ensure that proper consideration of risk is undertaken in all aspects of the Company's business on a regular basis. The Risk Committee meets quarterly and comprises all members of the Board and is chaired by Margaret Littlejohns. Its duties include the assessment 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 at least quarterly, and any significant changes to the Risk Matrix are presented to the Board.

PRINCIPAL RISKS



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 & 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 G

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

Operations Risk: H I

Poor service and inadequate control processes at the Company's outsourced suppliers may lead to disruption, error and fraud, and increasingly cyberattacks. The Company's key service providers are the Investment Manager, the Company Secretary, the Managing Agent, the Valuer and the Registrar and are assessed at least annually through the Management Engagement Committee, or more often during times of stress.

Regulation Risk: J

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: K

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.

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.

The overarching risk that has recently emerged is COVID-19, the global pandemic that has impacted all areas of society in the UK and abroad. This pandemic has caused significant loss of life and global economic disruption and is considered further in the detailed risk reporting on pages 28 to 33. COVID-19 affects to differing degrees all areas of risk to which the Company is exposed, but particular consideration has been given to the key emerging risks caused by COVID-19 which relate to strategic risk, macroeconomic risk, gearing risk, credit risk and accounting and valuation risk.

Two other areas of emerging risk are noted below:

- Macroeconomic changes particularly associated with both the uncertainty surrounding Brexit negotiations and the resultant effect on the UK commercial property market (Risk D).
- Credit risk, in particular the structural weakness in consumer facing sectors and its impact on the Group's tenants, affecting both capital values and income generation of the investment portfolio (Risk G).

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

A STRATEGIC RISKS: WIDENING DISCOUNT AND CONTINUATION VOTE

Risks & Impact

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.

Mitigation

- 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 at least quarterly by the Board.
- Regular contact is maintained with shareholders and the Company's broker.

Commentary

- The Company's periodic continuation vote held in March 2020 was overwhelmingly supported by shareholders.
- The next periodic continuation vote is scheduled to be held in 2027 and seven yearly thereafter.
- In addition, a continuation vote may be required if, after 18 March 2022 (being the second anniversary of the Company's most recent continuation vote), the shares trade at a discount of over 5 per cent for a continuous period of 90 dealing days or more.
- The Company's discount decreased in 2019 from 10.8% at the end of 2018 to 1.1% at the end of 2019. This compares to the peer group which moved from an average discount of 6.4% to a premium of 0.8%.
- As a result of COVID-19, which has caused global market uncertainty and undoubtedly will have a negative economic impact, the discount has widened considerably, in line with its peer group, and stood at 21.8% on 30 April 2020.

Change

INCREASED AND EMERGING RISK

The Company's rating improved in 2019 together with a continuation vote successfully passed in March 2020. However, the impact of COVID-19 on the future prospects for the UK real estate sector and hence the Company's ongoing strategy is uncertain.

i See page 46 for details of the current discount control policy.

B INVESTMENT AND ASSET MANAGEMENT RISKS: HEALTH & SAFETY

Risks & Impact

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.

Mitigation

- Health & 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 & Safety matters of each building.
- The Investment Manager monitors on an ongoing basis all identified Health & 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 multi-let properties.
- The Risk Committee reviews the Company's Health & Safety performance quarterly.

Commentary

- No major Health & Safety issues were noted in the year. A comprehensive fire safety strategy at the Company's Cineworld property in Glasgow, involving Health & Safety advisers and the Fire Brigade service, has been completed.

Change

NO SIGNIFICANT CHANGE IN RISK

i See the annual report for further information on the Group's Health & Safety policy.

C INVESTMENT AND ASSET MANAGEMENT RISKS: ENVIRONMENTAL

Risks & Impact

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.

Mitigation

- 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).

Commentary

- 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 and an EPRA "Gold" rating for European Sustainability Best Practice Recommendations in 2019, compared to sector average of B.
- A full review of EPC ratings across the Group's portfolio has been undertaken with now only two units rated as below standard. A strategy has been put in place to improve these sub-par ratings before any new lease is granted.
- A number of asset management initiatives are underway to consider the feasibility of installing solar panels at some of the Company's properties.

Change

NO SIGNIFICANT CHANGE IN RISK

i See page 36 for further information on the Group's ESG policy and the Company's separate ESG publication "Dialling Up the Integration of ESG" on the Company's website.

D FINANCIAL RISKS: MACROECONOMIC

Risks & Impact

Macroeconomic changes (e.g. levels of GDP, employment, inflation, interest rate movements), political changes (e.g. Brexit, new legislation), structural changes (e.g. new technology, demographics) or global events (pandemics, wars, terrorist attacks, oil price disruption) 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.

Mitigation

- 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 reduce any risk concentration where possible.
- 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 generally 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

- The outlook for the UK economy and the UK real estate market is uncertain given the current COVID-19 pandemic and the unknown duration or severity of the impact of the virus itself and of the government measures to restrict its spread.
- The Bank of England has introduced a package of monetary measures and the government is providing significant financial support in response to economic hardship but a large contraction in UK GDP is forecast as a result of the pandemic.
- Portfolio continues to be diversified with investments across the four main commercial property sectors and across a number of geographical regions.
- 245 tenancies at the year end with top ten tenants accounting for 34.2% of annualised rental income. However, some tenants' loss of income due to the recent government imposed "lockdown" has hampered their ability to pay rent in the short term.
- Net gearing of 14.7% at year end.
- Occupancy rate of 92.1% at year end.

Change

INCREASED AND EMERGING RISK

COVID-19 has materially impacted both the UK and the wider global economy in the short term due to domestic and international "lockdowns". The extent to which these will have a long term impact on the UK and global economy is unclear at the time of writing although some negative effect should be expected.

While the UK general election has removed some of the political uncertainty, there remains a large degree of uncertainty surrounding the negotiation of Great Britain's withdrawal from the EU. Any trade agreement, or lack of, has a potential impact on the health of the UK economy.

i See further details on risk in note 18 to the accounts on pages 82-86.

E FINANCIAL RISKS: GEARING

Risks & Impact

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.

Mitigation

- Gearing is restricted to a maximum of 25% of gross assets. This low gearing limit means that the Company should, barring exceptional 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 the Company's viability assessment, whenever new debt facilities are being considered and whenever unusual events occur.
- Loan covenants are continually monitored and reported to the Board at least quarterly and also reviewed as part of the disposal process of any secured property.

Commentary

- The Group increased and extended its loan facilities in February 2019.
- Of the drawn amounts, 80% are fixed rate and 20% 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 8.2 years (as at 31 December) with an overall blended rate of interest of 2.78% and net gearing of 14.7%.
- There is considerable headroom before any loan covenants would be breached with bank covenants all having satisfactory cover as at 31 March 2020 although less headroom than before COVID-19 given the recent fall in rental income receipts and drop in valuations.
- Over £480 million of property remains unencumbered.
- Good long-term relationship with both lenders who remain supportive.

Change

INCREASED AND EMERGING RISK

The Company has low gearing and significant headroom both in relation to its overall corporate gearing limit of 25% and also its individual bank covenants. However, due to the impact of COVID-19 on both income and capital values, the margin of comfort has since decreased.

i See further details on risk in note 18 to the accounts on pages 82-86.

F FINANCIAL RISKS: LIQUIDITY

Risks & Impact

The Company may be unable to dispose of property assets in order to meet its financial commitments or obtain funds when required for asset acquisition or payment of expenses or dividends.

Company's shares could become illiquid due to lack of investor demand, market events or regulatory intervention and the Company's shareholders may be unable to sell their shares due to lack of liquidity in the market.

Mitigation

- The Company has a diversified portfolio of good quality, marketable properties.
- The Company had significant capital resources at year end.
- The closed ended structure of the Company ensures that it is not a forced seller of assets.
- The Company is listed on the London Stock Exchange and a component of the FTSE 350 Index made up of the largest 350 companies in the UK by market capitalisation.
- Financial commitments are limited by the Company's relatively low level of gearing.
- Liquidity risk is managed on an ongoing basis by the Investment Manager and reviewed at least quarterly by the Board.
- Cash is placed in liquid deposits and accounts with a high credit rating.

Commentary

- All financial commitments were comfortably met during the year.
- Real estate market liquidity has decreased given COVID-19.
- The Company's closed ended structure has ensured investment strategy is sole driver for any property disposal.
- 1.7 million shares on average were traded daily in 2019 highlighting the ongoing liquidity of the Company's shares.
- Shareholders are able to sell their shares in a highly regulated and liquid secondary market.

Change

NO SIGNIFICANT CHANGE IN RISK

See further details on risk in note 18 to the accounts on pages 82-86.

G FINANCIAL RISKS: CREDIT RISK OF TENANTS

Risks & Impact

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.

Mitigation

- 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 undertaken 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

- Dividend cover of 95% in 2019, increased from 82% in 2019.
- Key focus on ongoing voids, particularly at XDock 377 at Lutterworth.
- Retail sector continues to be of concern with a number of administrations in this sector in the last 12 months.
- Reduction in Company's retail holdings which now represent 21% of the portfolio at the year end.
- COVID-19 has impacted some tenants' ability to pay rent. For the billing run relating to the second quarter of 2020, 68% of tenants had paid by 24 April. If, as anticipated, this rental collection rate continues or indeed falls further during the pandemic, then dividend cover will also fall.

Change

INCREASED RISK

The continued structural weakness of the retail sector had already increased the credit risk of retail and some leisure tenants in 2019. The imposed "lockdowns" as a result of COVID-19 have further disrupted both retail and leisure businesses in particular, but have also affected some tenants in other sectors depending on their business models, customers and supply chains.

See further details on risk in note 18 to the accounts on pages 82-86.

H OPERATIONAL RISKS: SERVICE PROVIDERS

Risks & Impact

Poor performance and/or inadequate procedures at key service providers i.e. Investment Manager, Company Secretary, Managing Agent, Registrar, could lead to errors, fraud and non-compliance with their contractual agreements and/or with relevant legislation. Failings in their data management processes and disaster recovery and business continuity plans, including cyber security safeguards, could lead to financial loss and business disruption for the Company.

Mitigation

- The Company 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 and whenever necessary during times of stress.

Commentary

- Key service providers have not changed during 2019. Section 172 statement in the accounts on page 37 provides details on the Company's collegial approach to stakeholders. No material issues noted from the reviews of service providers in the year.
- Key service providers have notified the Investment Manager of the impact on their operations caused by COVID-19. Their ability to conduct business during "lockdown" is monitored regularly by the Investment Manager. No material issues of concern have been raised. The Investment Manager has also updated the Board on its own contingency arrangements and has demonstrated its resilience in terms of remote working.

Change

NO SIGNIFICANT CHANGE IN RISK

i —

I OPERATIONAL RISKS: ACCOUNTING & VALUATION

Risks & Impact

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. Limited transactions in the property market could hinder price discovery and could result in out of date valuations.

Mitigation

- All properties within the portfolio are independently valued by CBRE Limited 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 Independent valuer, CBRE. The Investment Manager also feeds into this process.
- 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

- No material accounting/valuation issues recorded in the year.
- Post the year end, CBRE included a material uncertainty clause due to COVID-19 in their valuation at the end of the first quarter 2020. This is set out in full in the Stock Exchange announcement made on 27 April 2020.
- In March 2020, the Company's rent collection process changed with rent collection from 1 March 2020 being moved from the Investment Manager to JLL, the Company's existing Managing Agent, following a detailed tender process undertaken by ASI.

Change

INCREASED AND EMERGING RISK

Material uncertainty now exists in relation to property valuations in 2020. There is no material uncertainty in relation to the 31 December 2019 valuation included in these financial statements.

i —

J REGULATORY RISKS: COMPLIANCE WITH REGULATION

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

- 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 at least annually by the Management Engagement Committee.
- The Board reviews quarterly a REIT dashboard confirming compliance with REIT regulations.

Commentary

- Board has reviewed and taken action to ensure compliance with new AIC Code on 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 the Company's conversion to a REIT on 1 July 2018.

Change

NO SIGNIFICANT CHANGE IN RISK

i —

K 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

- A high degree of engagement is maintained with both shareholders and tenants. Communication has increased considerably as a result of COVID-19.
- 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 Cazenove, 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

- The Company has held two shareholder and analyst presentations in the year and the Investment Manager has met multiple shareholders.
- The Chair of the Board has also met with several institutional shareholders.
- The continuation vote was overwhelmingly passed.
- Investment Managers have visited all properties held at least once in 2019.
- 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.
- Section 172 report on page 37 highlights the collaborative nature of interaction between the Company and it key stakeholders.

Change

NO SIGNIFICANT CHANGE IN RISK.

i —

Maldron Hotel
Newcastle

Viability Statement

The Board considers viability as part of its ongoing programme of monitoring risk and also has considered this in light of the ongoing COVID-19 pandemic. The Board continues to consider 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. A periodic continuation vote held in March 2020 was passed with the next one scheduled for 2027 and seven yearly thereafter. In addition, under the discount control policy of the Company, 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 beginning after the date of the second anniversary of the Company's most recent continuation vote. The secondary anniversary of the most recent continuation vote is 18 March 2022. Further details on this are set out on page 46 of the Report of the Directors.

The Board has considered the nature of the Group's assets and liabilities and associated cash flows both in a normal environment and also in relation to the current environment as impacted by COVID-19. The Board has determined that five years is a reasonable timescale over which the performance of the Group 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 and emerging risks faced by the Group, as detailed on pages 26-33. The main risks which the Board considers will affect the business model, future performance, solvency, and liquidity, are tenant failure leading to a fall in dividend cover, macroeconomic uncertainty and ongoing discounts leading to continuation votes. These risks along with other reported risks have also been considered in relation to the COVID-19 pandemic. The Board takes any potential risks to the ongoing success of the Group, and its ability to perform, very seriously and works hard to ensure that risks are consistent with the Group's risk appetite at all times.

In assessing the Group'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 and also forecast conditions relating to the COVID-19 pandemic;
- The Group'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; and
- The valuation and liquidity of the Group's property portfolio, the Investment Manager's portfolio strategy for the future and the market outlook.

Despite the uncertainty in the UK regarding both the COVID-19 pandemic and also Brexit, the Board has a reasonable expectation, based on the information at the time of writing, that the Group 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 reviews mentioned above and also the recent support of shareholders for the Company's continuation.

Approach to ESG

The Company adopts the Investment Manager's policy and approach to integrating ESG and this has been used as the basis for establishing the Company's ESG objectives.

The Investment Manager views the management of ESG 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 – the potential to affect environmental and social outcomes, both positively and negatively.

The Investment Manager's approach is underpinned by the following three over-arching principles:

Transparency, Integrity and Reporting:
being transparent in communicating and discussing strategy, approach and performance with our investors and stakeholders.

Capability and Collaboration:
drawing together and harnessing the capabilities and insights of its platforms, with those of investment, supply chain and industry partners.

Investment Process and Asset Management:
integrating ESG into decision making, governance, underwriting decisions and asset management approach. This includes the identification and management of material ESG risks and opportunities across the portfolio.

Of particular focus is responding to climate change, both in terms of resilience to climate impacts and in reducing emissions from the Company's activities. The Investment Manager has committed to achieving net-zero emissions across its global portfolio by 2050 as part of the Better Building Partnership's Climate Change Commitment. Over the course of the next year the focus will be on benchmarking the Company's assets and appraising necessary improvement measures in the context of this goal.

The Company's approach and specific ESG commitments are set out in more detail in the document shown on the website: Dialling Up the Integration of ESG. Progress against these commitments will be reported in next year's Annual Report & Accounts.

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 on page 91.

Operational Performance Summary

We have processes in place to ensure operational sustainability performance is monitored and actions are implemented to drive continual improvement. Overall, the energy intensity of the like-for-like portfolio improved by 3% in 2019 (landlord procured energy). Like-for-like electricity consumption reduced by 5%, driven by energy efficiency improvements. Greenhouse gas emissions intensity reduced by 9% on a like-for-like basis, aided by a further improvement in the carbon-intensity of the UK electricity grid.

Water consumption also reduced year-on-year and 100% of waste was diverted from landfill.

Full details of performance against material EPRA sBPR indicators are included on page 91.

2019 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 2019 assessment, the Company maintained its position at the top of the UK Diversified (Listed) peer group and achieved a score of 76 and a Three Star rating. The Company also performed well in GRESB's Public Disclosure Assessment with an A score compared to the peer average of B.

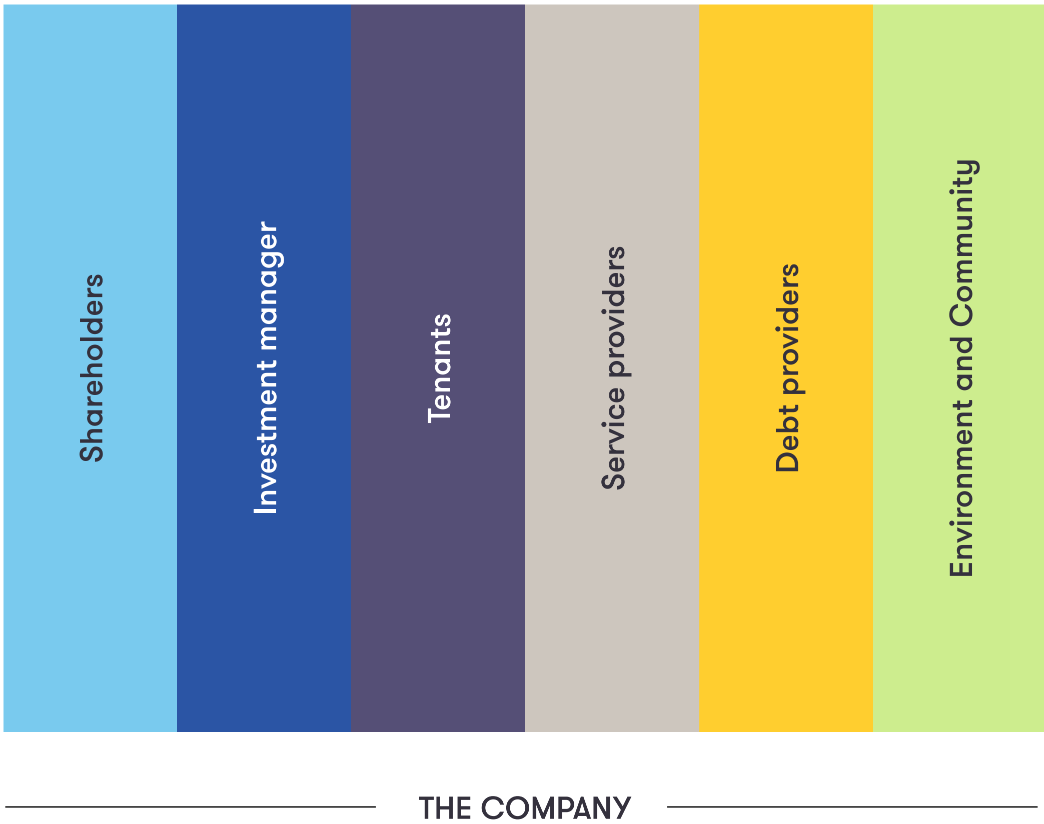
Health & Safety Policy

Alongside these environmental principles the Company has a health & 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 and Managing Agent, manages and controls health & safety risks as systematically as any other critical business activity using technologically advanced systems and environmentally protective materials and equipment. By achieving a high standard of health & safety performance, the Company aims to earn the confidence and trust of tenants, customers, employees, shareholders and society at large.

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.

STAKEHOLDER ENGAGEMENT



Board's Obligations under section 172 of the Companies Act

This section, which serves as the Company's section 172 statement as requested by the AIC Code on Corporate Governance, explains how the Directors have promoted the success of the Company for the benefit of its members as a whole during the financial year to 31 December 2019, taking into account the likely long term consequences of decisions, the need to foster relationships with all stakeholders and the impact of the Company's operations on the environment.

The role of the REIT Board

The Company is a REIT and has no executive directors or employees and is governed by the Board of Directors. Its main stakeholders are Shareholders, the Investment Manager, Tenants, Service Providers, Debt Providers and the Environment and Community. The Board considers relations with stakeholders very seriously and has cited Stakeholder Engagement as one of the Company's principal risks. The mitigating actions to address the Stakeholder Engagement risk are set out on page 33.

The Board, which comprises six independent non-executive directors, whose skills and experience are set out on pages 40 and 41, retains responsibility for taking all decisions relating to the Group's investment objective and policy, dividend policy, gearing, corporate governance and strategy.

The Board delegates management functions to the Investment Manager and, either directly or through the Investment Manager, the Company employs key suppliers to provide services in relation to property management, health & safety, valuation, legal and tax requirements, auditing, depositary obligations and share registration, amongst others. The Board regularly reviews the performance of the Investment Manager, and its other service providers, to ensure they manage the Company and its stakeholders effectively and that their continued appointment is, over the long term, in the best interests of the Shareholders as a whole.

The Board seeks to maintain a constructive working relationship with its stakeholders and prides itself on its transparent and collegiate culture. The Board operates in a manner which is supportive, yet challenging, of the Investment Manager and its other service providers, with the goal of overseeing the Company's activities on behalf of all stakeholders.

As set out in the Board of Directors' Report, the Board reviews its performance annually to ensure it is meeting its obligations to stakeholders. The evaluation helps the Board to determine whether they have sufficiently discharged their duties and responsibilities over the course of the financial year in accordance with section 172 (1) of the Companies Act 2006. Engagement with key stakeholders is considered formally as part of the annual evaluation process.

OUR STAKEHOLDERS' INTERESTS

Shareholders

- Attractive and sustainable level of income, earnings and dividends
- Potential for capital and income growth
- Diversification of portfolio
- Execution of investment objective
- Responsible capital allocation and dividend policy
- Value for money – low ongoing charges
- Liquidity in the Company's shares

Investment Manager

- Productive working relationship with the Board
- Clear and sustainable investment objective and policy
- Collaboration with all stakeholders

Tenants

- Positive working relationship with the Board and the Investment Manager
- Sustainable buildings — remodelled and refurbished to meet their requirements
- A focus on the community, health & safety and the environment

Service Providers

- Productive working relationship with the Company
- Strong internal controls
- Collaboration

Debt Providers

- Responsible portfolio management
- Compliance with loan covenants

Environment and Community

- Sustainable investment policy
- Community engagement and socio-economic benefit
- A focus on consumption, emissions and resource efficiency

HOW WE ENGAGE WITH OUR STAKEHOLDERS

The Board considers its stakeholders at every Board meeting and receives feedback on the Investment Manager's interactions with the Company's Shareholders, tenants and service providers. The Board also engages directly with its stakeholders.

Shareholders

Shareholders are key stakeholders and the Board places great importance on communication with them. The Board's primary focus is to promote the long term success of the Company for the benefit of its Shareholders as a whole. The Board oversees the delivery of the investment objective, policy and strategy, as agreed by the Company's Shareholders. The Board welcomes all Shareholder's views and aims to act fairly between all Shareholders. The Investment Manager and Company's Broker regularly meet with Shareholders, and prospective Shareholders, to discuss Company initiatives and seek feedback. The views of Shareholders are discussed by the Board at every Board meeting, and action taken to address any Shareholder concerns. The Investment Manager provides regular updates to Shareholders and the market through the Annual Report, Half-Yearly Report, Quarterly Net Asset Value announcements and Company Factsheets.

The Chair meets with key Shareholders at least annually, and other Directors are available to meet Shareholders as required. This allows the Board to hear feedback directly from Shareholders. During the financial year to 31 December 2019, the Board members, and the Investment Manager, undertook several meetings with large Shareholders to provide reports on the progress of the Company and receive feedback, which was then provided to the full Board. Shareholders are also invited to vote on the continuation of the Company at regular intervals and the Board encourages Shareholders to participate in this vote.

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. The Board would ordinarily encourage as many Shareholders as possible to attend the Company's AGM to engage directly with the Board. However, as set out in the Chair's Statement on page 10, in light of the COVID-19 pandemic, Shareholders are discouraged from attending the AGM but are encouraged to engage with the Company and the Board. Details on how to submit a question in advance of the AGM are set out in the Chair's Statement.

Investment Manager

The Chair's Statement and Investment Manager's Report on pages 8 to 20 detail the key investment decisions taken during the year and subsequently. The Investment Manager has continued to manage the Company's assets in accordance with the mandate provided by Shareholders, with the oversight of the Board. The Company regularly reviews its performance against its investment strategy by reference to its rolling five year business plan to ensure it remains fit for purpose. The Board undertakes an annual strategy meeting to test itself and ensure the Company is positioned well for the future delivery of its objective for its stakeholders. The Board receives presentations from the Investment Manager at every Board meeting to help it to exercise effective oversight of the Investment Manager and the Company's Strategy. The Board formally reviews the performance of the Investment Manager at least annually. More details on the conclusions from the Board's review is set out on page 49.

Tenants

Board members regularly visit properties and, where appropriate, engage with tenants directly to enhance their understanding of each property and the tenants' requirements. Board visits to properties are discussed at every Board meeting to consider relationships, opportunities, and potential challenges, at each of the Company's assets, to allow the Board to take appropriate action where necessary. During the financial year to 31 December 2019, Directors visited a number of properties in different cities across the UK including Portsmouth, Swindon, Newcastle, Bristol and Glasgow.

The day to day management of the portfolio and tenant interaction is delegated to the Investment Manager. The Investment Manager takes a proactive approach to its relationship with tenants, working closely alongside them to understand their needs through regular communication, visits to properties and collaboration on projects. The Investment Manager reports on its engagement with tenants at every Board meeting.

Following the outbreak of the COVID-19 pandemic, the Company's Investment Manager has worked closely with stakeholders, particularly tenants, to understand their needs during the crisis. The Board firmly believes that by helping tenants now and building better relationships the Company will have better occupancy over future months and years, which will in turn benefit the Company's cash flow.

Service Providers

The Board seeks to maintain constructive relationships with the Company's suppliers either directly or through the Investment Manager with regular communications and meetings. On behalf of the Company's Shareholders, the Management Engagement Committee conducts annual reviews of the Company's Service Providers and their respective fees to ensure they are performing in line with Board expectations and provide value for money.

Debt Providers

The Company maintains a positive working relationship with its debt providers, Barclays Bank plc and Barings Real Estate Advisers, and provides regular updates on business activity and compliance with its loan covenants. The Company has an overall flexible debt profile to allow it to move quickly to take advantage of any attractive opportunities that may occur in the present uncertain economic environment.

Environment and Community

The Board and the Investment Manager are committed to investing in a responsible manner. There are a number of geopolitical, technological, social and demographic trends underway in the developed world that can, and do, influence real estate investments – many of these changes fall under the umbrella of the Environment and Community, or ESG, considerations. As a result, the Investment Manager fully integrates ESG factors into its investment decision making and governance process.

The Board has adopted the Investment Manager's ESG Policy and associated operational procedures and is committed to environmental management in all phases of the investment process. The Company aims to invest responsibly, to achieve environmental and social benefits alongside returns. By integrating ESG factors into the investment process, the Company aims to maximise the performance of the assets and minimise exposure to risk. Please see page 36, and the EPRA Financial and Sustainability Reporting starting on page 91, for more information on the Company's approach to ESG plus the Company's separate ESG document available on the Company's website "Dialling Up the Integration of ESG".

Specific examples of stakeholder consideration during 2019

While the importance of giving due consideration to the Company's stakeholders is not new, and is considered during every Board decision, the Board were particularly mindful of stakeholder considerations during the following strategic decisions undertaken during the financial year to 31 December 2019.

Expansion of the Investment Policy and Objective

As set out in the Chair's Statement on pages 8 to 11, Shareholders were invited to vote on an extension to the Company's investment policy and objective at an Extraordinary General Meeting on 18 April 2019. The Board considered that an extension to the investment policy and objective is in the best interests of all Shareholders as it will allow the Investment Manager to invest across a wider spectrum of commercial property assets, to respond to the evolution of the commercial property market and provide the flexibility to maintain an attractive and diversified portfolio, potentially including assets in the alternative commercial property sectors.

Debt Re-financing

In February 2019, the Board announced that it had refinanced and increased the Company's debt facilities as set out in the Chair's Statement on page 9. The Board considered stakeholder appetite during its deliberations and agreed that increasing the Company's debt facility in light of the low interest rate environment to take advantage of future investment opportunities, was in the best interests of shareholders in light of market conditions at that time.

B&Q
Romford

81/85 George Street
Edinburgh

Examples of Tenant Interaction During 2019

Specific examples of collaboration during 2019 include:

- Supporting a tenant's application for enhanced status with regulatory authorities, which allowed the tenant to invest in their IT systems and to upgrade the security of the property;
- Supporting multiple tenants through the facilitation of a new entrance and reception area to improve and enhance collaboration within a building; and
- Agreeing a specific pre-let specification with an incoming tenant to ensure the property was fit for purpose, with improved ESG credentials.

As set out above, the Board considers the long term consequences of its decisions on its stakeholders to ensure the long term sustainability of the Company.

Approval of Strategic Report

The Strategic Report of the Company comprises the following on pages 4 to 39: Financial and Portfolio Highlights, Performance Summary, Chair's Statement, Investment Manager Review, Portfolio Information and Strategic Overview incorporating the risk management and stakeholder overview section.

The Strategic Report was approved by the Board on 1 June 2020.

Ken McCullagh
Director

BOARD OF DIRECTORS AND MANAGEMENT TEAM

BOARD OF DIRECTORS

Ken McCullagh, Chair of the Board, 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 and is also a Principal in the Pearl Residential Equity Fund. 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, prior to his appointment as Chair on 1 January 2020, was Senior Independent Director and Chair of the Audit Committee.

Michael Ayre, Chair of the Audit Committee, is a resident of Guernsey. He joined BDO Reads, a Guernsey chartered accountancy practice from the London office of Touche Ross, in February 1987 progressing to his appointment as a tax partner in 1991. Subsequent to the purchase of the fiduciary, investment and taxation divisions of BDO Reads by Banque Generale du Luxembourg in 1999, Mr Ayre was appointed in 2003 as the Group Managing Director of its successor, Fortis Guernsey – a position he held until 2009. He continued to work for its successor business, Intertrust, until June 2019. In addition, until its sale in July 2019 he was 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 and from 1 January 2020 is Chair of the Audit Committee, previously being Chair of the Property Valuation Committee.

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.

MANAGEMENT TEAM

Will Fulton, Lead Manager, 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.

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.

Sandra Platts, Chair of the Management Engagement Committee and Nomination and Remuneration 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.

Margaret Littlejohns, Chair of the Risk Committee and Senior Independent Director, 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 Foresight VCT plc and the Chair of Henderson High Income Trust plc. Ms Littlejohns was appointed to the Board on 1 January 2018.

Chris Fry, Chair of the Property Valuation Committee, is a resident of the UK. Mr Fry is a Chartered Surveyor with over 20 years' experience in real estate investment management. He is currently Chief Executive Officer of Kingsbridge Estates a privately owned property company, investing and developing across the South of England. Prior to this he worked for 13 years (2005-2018) with LaSalle Investment Management as a Senior Fund Manager, ultimately being responsible for over £3 billion of assets under management and for Schroders plc as a Fund Manager (2000-2005). Mr Fry joined the Board on 1 January 2020 and is Chair of the Property Valuation Committee.

Tom Elviss, Deputy Fund Manager, has an MA from Edinburgh University and an MSc from the University of Northumbria and started his career at JLL in London. After 6 years working in investment agency, Tom joined Scottish Widows Investment Partnership in June 2011 as an investment manager, before being appointed deputy fund manager for a £2.3 billion Institutional Fund in 2014, with responsibility for transactions, asset management, risk reporting and strategy. Tom was appointed deputy fund manager for UKCM in August 2019.

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.

The Directors present the report and accounts of UK Commercial Property REIT Limited, ("the Company") for the year ended 31 December 2019.

Results and Dividends

The Group generated an IFRS profit of £1.6 million (2018: £53.0 million) in the year equating to an earnings per share of 0.13p (2018: 4.08). The Company had cash at the year end of £48.9 million (2018: £43.5 million). The Group paid out dividends totalling £47.8 million (2018: £47.8 million) in the year.

The Company has paid interim dividends in the year ended 31 December 2019 as follows:

	Payment date	Rate per share (p)
Fourth interim for prior period	February 2019	0.92
First interim	May 2019	0.92
Second interim	August 2019	0.92
Third interim	November 2019	0.92
TOTAL		3.68

On 6 February 2020 the Company declared a fourth interim dividend of 0.92 pence per ordinary share with an ex-dividend date of 13 February 2020, which was paid on 28 February 2020.

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 11 on page 78.

Strategy

The Company's purpose, objective and strategy is set out in detail in the Strategic Report on page 24.

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 2019 consisted of 1,299,412,465 ordinary shares of 25p each. At 1 June 2020 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).

Directors

The Directors who held office during the period and their interests in the ordinary shares of the Company as at 31 December 2019 are shown in the audited table above. As set out in the Chair's Statement, Mr Wilson retired as a Director of the Company on 31 December 2019 and Mr Fry was appointed as a Director of the Company on 1 January 2020.

On 28 February 2020, Mr Fry purchased 40,000 shares in the Company and, on 10 March 2020, Mr McCullagh purchased an additional 40,000 shares in the Company. There have been no other changes in the above interests between 31 December 2019 and 30 April 2020.

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 and UK Commercial Property Estates (Reading) Limited, both of which are UK Limited Companies. Up to 31 December 2019, the Directors were Mr Andrew Wilson, Ms Margaret Littlejohns and Mr Robert Fowlds. With effect from 1 January 2020, the Directors were Ms Margaret Littlejohns and Mr Robert Fowlds.

	Date of Appointment	Shares as at 31 December 2019	Shares as at 31 December 2018
Andrew Wilson retired 31 December 2019	September 2006	100,000	100,000
Ken McCullagh	February 2013	40,000	40,000
Sandra Platts	December 2013	—	—
Michael Ayre	February 2016	42,000	42,000
Margaret Littlejohns	January 2018	40,000	40,000
Robert Fowlds	April 2018	50,000	50,000
Chris Fry appointed 1 January 2020	January 2020	6,445*	n/a

* Indirect interest held through a pension fund over which Mr Fry has discretion.

01.01.20

Chris Fry appointed as a Director

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 on Corporate Governance 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 election or re-election at the AGM.

In March 2020 the Board engaged Boardroom Review Ltd to carry out an external evaluation of the performance of the Board, the Committees and the individual Directors. Boardroom Review Ltd undertook an external evaluation of the Company in 2017 but there is no other connection between Boardroom Review Ltd and the Company or any individual directors. This review sought to identify whether the Board demonstrates sufficient collective skill and expertise, independence and knowledge of the Company and whether each Director exhibits the commitment required for the Company to achieve its objective. The Board undertook a half day session with representatives of Boardroom Review Ltd in private, without the presence of any other service providers. 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. No changes to Board composition were recommended. The action points arising from the review have been addressed and, where appropriate, revised policies have been adopted. In addition the Nominations Committee undertook the annual internal evaluation of the Board and Directors in December 2019. Based on the results of the external and internal evaluations of the performance of the individual Directors, and their individual skills and expertise, as reflected in their biographies on pages 40 to 41, and contribution to the long-term success of the Company, the election and re-election of all the Directors who are being put forward is recommended to Shareholders at the 2020 AGM.

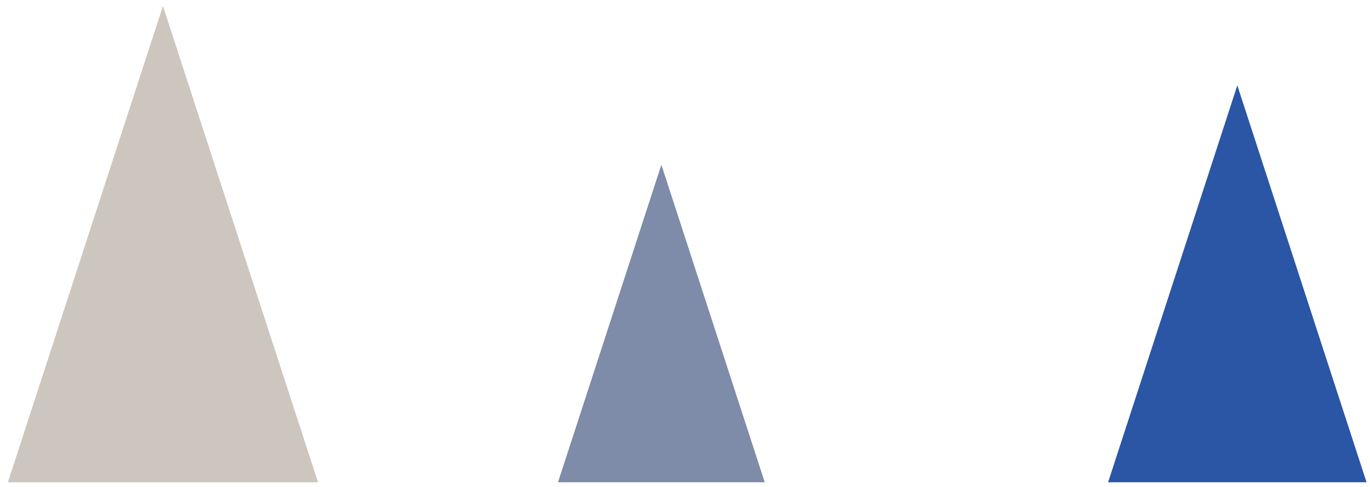
Alternative Investment Fund Manager ("AIFM")

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.

Depositary

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

SHARE CAPITAL AT 31 DECEMBER 2019



Phoenix Life Limited (PLL)

Number of ordinary shares held

438,313,679

% Held

33.7

Phoenix Life Assurance Limited (PLAL)

Number of ordinary shares held

125,483,786

% Held

9.7

Investec Wealth Limited

Number of ordinary shares held

136,510,445

% Held

10.5

Substantial Interests in Share Capital

At 31 December 2019 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 which 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 1 June 2020.

The Takeover Code

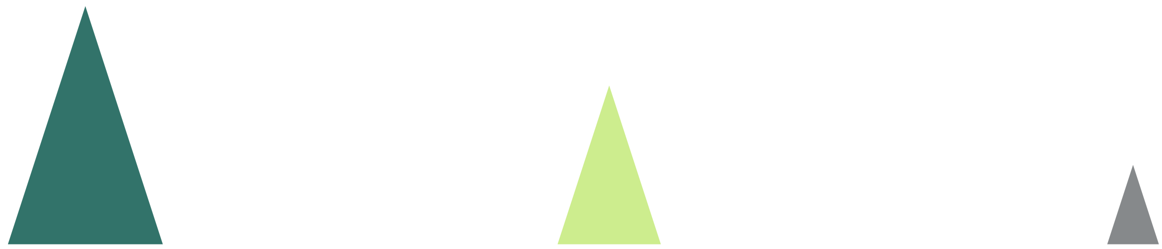
The Directors are aware that following the completion of the sale of Standard Life Aberdeen's insurance business to the Phoenix Group, the Investment Manager is part of the Phoenix concert party. Under Rule 37 of the Takeover Code, when a company purchases its own shares, any resulting increase in the 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. It is the intention of the Company to again seek this waiver at an Extraordinary General Meeting on 27 August 2020, immediately after the Annual General Meeting. A circular to this effect will be published in due course.

The Board acknowledges that 26.4% of the shareholders who voted on the Rule 9 waiver resolution on 18 April 2019 did not support the resolution. In the period since the resolution the Board has continued to engage with shareholders on any concerns that they have regarding the Rule 9 waiver as part of its normal investor relations activities. The Board understands the "creeping control" concerns in the standard voting guidelines of some voting bodies that are followed by institutional shareholders in the Company. However, without the approval of independent shareholders of the Rule 9 Waiver, the Company would not be able to exercise its share buyback authority as to do so would trigger an obligation for a mandatory offer to be made under Rule 9 of the Takeover Code.

The Board believes, particularly in the light of the Company being a listed closed-ended investment company, that it is in the interests of shareholders as a whole that the Company has flexibility to exercise the buyback authority.



Interactive Investor Services Limited

Number of ordinary shares held

66,478,782

% Held

5.1

BlackRock

Number of ordinary shares held

51,508,143

% Held

4.0

Coutts & Company

Number of ordinary shares held

51,151,250

% Held

4.0

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 24 to 36. 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 AIC Code on Corporate Governance.

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 including consideration of the COVID-19 pandemic on these items. In addition shareholder sentiment has been considered towards the Company as reflected in the recent passing of the continuation vote.

Having thoroughly considered the going concern assessment, the Board recognise that there is undoubtedly an increase in risk in relation to the ongoing COVID-19 pandemic. However, based on the information available to the Directors at the time of signing and subject to the evolving COVID-19 situation, the Board do not believe there is 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. Therefore, the Board continues to adopt the going concern basis of accounting when 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 27 August 2020, 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. 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.

Disapplication of Pre-emption Rights

Resolution 12 gives the Directors, for the period until the conclusion of the Annual General Meeting in 2021 or, if earlier, on the expiry of 15 months from the passing of resolution 12, 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 1 June 2020. 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 2019 AGM to buy back shares in the Company expires at the end of the AGM to be held in 2020. 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 13), 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.

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 18 March 2020.

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 & Accounts and, where practical, will incorporate any suggestions that will improve the document.

Approved by the Board on 1 June 2020.

Ken McCullagh
Director

Kew Retail Park
Richmond

Introduction

The Company is committed to high standards of corporate governance. The Board has considered the Principles and Provisions of the AIC Code on Corporate Governance (AIC Code). The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code (the UK Code), as well as setting out additional Provisions on issues that are of specific relevance to the Company.

The Board considers that reporting against the Principles and Provisions of the AIC Code, which has been endorsed by the Financial Reporting Council and the Guernsey Financial Services Commission provides more relevant information to shareholders.

The Company has complied with the recommendations of the AIC Code, except as set out below:

- interaction with the workforce (provisions 2, 5 and 6);
- the role and responsibility of the chief executive (provisions 9 and 14);
- previous experience of the chairman of a remuneration committee (provision 32); and
- executive directors' remuneration (provisions 33 and 36 to 40).

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 AIC Code is available on the AIC website (www.theaic.co.uk). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

The Board

The Board consists solely of non-executive Directors. Until 31 December 2019, Mr Andrew Wilson was Chair and Mr Ken McCullagh was Senior Independent Director and Chair of the Audit Committee. Following Mr Wilson's retirement on 31 December 2019, Mr McCullagh was appointed as Chair of the Board, Ms Littlejohns was appointed as Senior Independent Director and Mr Ayre was appointed as Chair of the Audit Committee. On 1 January 2020, Mr Christopher Fry was appointed as a Director and succeeded Mr Ayre as Chair of the Property Valuation 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.

In considering tenure, including the Chair's tenure, the Board considers a number of factors including experience, integrity and judgement of character as well as the need for regular refreshment of the Board, succession planning and diversity. The Board also takes the view that independence is not compromised by length of tenure on the Board.

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 not in any 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 2019, the Board engaged Thomas Cole Kinder to carry out a search for a new Director and Mr Fry was subsequently appointed to the Board on 1 January 2020. The Company nor the individual Directors have any other connection to Thomas Cole Kinder.

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, Nomination and Remuneration 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 Chairs 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 51 to 52.

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 2019. 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 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 key 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.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee comprises all Directors and is chaired by Mrs Sandra Platts. The Nomination and Remuneration Committee believes that, given the size of Board, it is appropriate for all Directors to serve as members of the Nomination and Remuneration Committee. During the financial year to 31 December 2019, the Nomination Committee was renamed the Nomination and Remuneration Committee to better reflect the work it undertakes.

The Nomination and Remuneration 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 Committee also undertakes the annual Board and Director evaluation process. The Board and Committee are supportive of the debate around the recommendations of the Davies Report on Women on Boards and the Hampton Alexander Review and recognise 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 and Remuneration Committee where the fees are compared against a number of different comparators. The Nomination and Remuneration Committee met four times during the year to consider Board recruitment, Board succession and to consider the level of Directors' fees.

Property Valuation Committee

The Property Valuation Committee comprises all of the Directors and was chaired by Mr Michael Ayre until 31 December 2019 and by Mr Chris Fry from 1 January 2020. The Chair prepares a report to the Committee four time 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 the Investment Manager 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 is chaired by Ms Margaret Littlejohns. 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 26-33 of the report. The Risk Committee also reviews the Investment Manager's risk processes related to health & safety, and ensures that health & safety risks applying to property acquisitions are fully considered.

Directors Meeting Attendance Summary

The table following sets out the number of Board and Committee meetings all held during the year and the number attended by each Director. In addition to this, there were 27 ad hoc meetings held during the year. All meetings were held in the UK.

	Board of Directors		Audit Committee		Management Engagement Committee		Nomination and Remuneration Committee		Property Valuation Committee		Risk Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Andrew Wilson	4	4	4	4	1	1	4	4	4	4	4	4
Michael Ayre	4	4	4	4	1	1	4	4	4	4	4	4
Ken McCullagh	4	4	4	4	1	1	4	4	4	4	4	4
Sandra Platts	4	3	4	3	1	1	4	3	4	3	4	3
Margaret Littlejohns	4	4	4	3	1	1	4	4	4	3	4	4
Robert Fowlds	4	4	4	4	1	1	4	4	4	4	4	4

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 26-33. In addition consideration of ISAE 3402 and similar reports issued by the Investment Manager, and other service providers where applicable, is considered. The Board also receives quarterly updates from both the Risk and 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. As set out in the Stakeholder Engagement section on page 37, 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. Ordinarily, 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.

However, as set out in the Chair's Statement on page 10, in light of the COVID-19 pandemic, shareholders are discouraged from attending this year's AGM but should still engage with the Company and the Board. Details on how to submit a question in advance of the AGM are set out in the Chair's Statement.

Approved by the Board on 1 June 2020.

Ken McCullagh
Director

Composition

The Audit Committee comprises all Directors and, with effect from 1 January 2020, is chaired by Mr Michael Ayre. The Audit Committee was chaired by Mr McCullagh until 31 December 2019. The Audit Committee believes that, given Mr McCullagh's skill-set and experience, and the size of the Board, it is appropriate for his membership of the Audit Committee to continue, as permitted by the AIC Code, despite his appointment as Chair of the Board. The committee operates within well defined terms of reference which are available on the Company's website. Within the membership of the Committee, Mr Ayre and Mr McCullagh are qualified accountants.

Responsibilities

The terms of reference of the Audit Committee are reviewed and re-assessed for their adequacy on an annual basis. In accordance with those terms of reference, the Audit Committee:

- reviews and monitors the internal control systems and risk management systems including review of non financial risks and the Manager's policy on information security on which the Company is reliant. The Directors' statement on the Company's internal controls and risk management is set out in the Directors' Report;
- considers whether there is a need for the Company to have its own internal audit function;
- monitors the integrity of the half yearly and annual financial statements of the Company by reviewing, and challenging where necessary, the actions and judgements of the Manager;
- reviews, and reports to the Board on, the significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements, interim reports, announcements and related formal statements;
- reviews the content of the Annual Report and financial statements and make recommendations to the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- meets with the auditor to review the proposed audit programme of work and the findings of the auditor. The Directors also use this as an opportunity to assess the effectiveness of the audit process;
- meets in private with the auditor, without any representatives of the Manager being present;
- develops and implements a policy on the engagement of the auditor to supply non-audit services. There were no non-audit fees (2018: £Nil) paid to the auditor during the year under review;
- reviews a statement from the Manager detailing the arrangements in place within the Standard Life Aberdeen Group whereby staff may, in confidence, escalate concerns about possible improprieties in matters of financial reporting or other matters;
- makes recommendations in relation to the appointment of the auditor and to approve the remuneration and terms of engagement of the auditor; and
- monitors and reviews the auditor's independence, objectivity, effectiveness, resources and qualification.

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 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 2020 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 £1,377,890,000 was agreed as the valuation of the property portfolio as at 31 December 2019. 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 £71,754,000 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
- 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.

Michael Ayre
Chair of Audit Committee

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 (2018: £Nil) for the year ended 31 December 2019. 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.

The continued appointment of Deloitte LLP as independent auditor for the year ending 31 December 2020 will be subject to approval by shareholders. A resolution proposing the re-appointment of Deloitte LLP will be put to shareholders at the AGM to be held on 27 August 2020.

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 Gold Award from EPRA for its enhanced sustainability reporting in the 2018 Annual Report.

Recommendation to the Board

Following its review of the Annual Report & Accounts for the year ended 31 December 2019, the Audit Committee has advised the Board that it considers that the Annual Report & 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.

The Audit Committee is able to give this advice on the basis that it has carefully scrutinised the Annual Report & 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.

Michael Ayre
Chair of the Audit Committee
1 June 2020

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 AIC Code on Corporate Governance. 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 Nomination and Remuneration 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. 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 not change and hence be as follows:

	2020 £	2019 £
Chair	65,000	65,000
Chair of Audit Committee	52,500	52,500
Chair of Risk Committee	46,000	46,000
Chair of Management Engagement Committee	46,000	46,000
Chair of Property Valuation Committee	46,000	46,000
Director	44,500	44,500

Rates for the entire Board will be reviewed again in 2020. However given the COVID-19 pandemic and the resultant effect on the Company's income generation prospects the Board of Directors have agreed to take a fee cut of 20% for 9 months to the end of the year.

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 re-election 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 across was approved by shareholders at the 2019 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 2022.

Implementation Report

Aggregate Fees

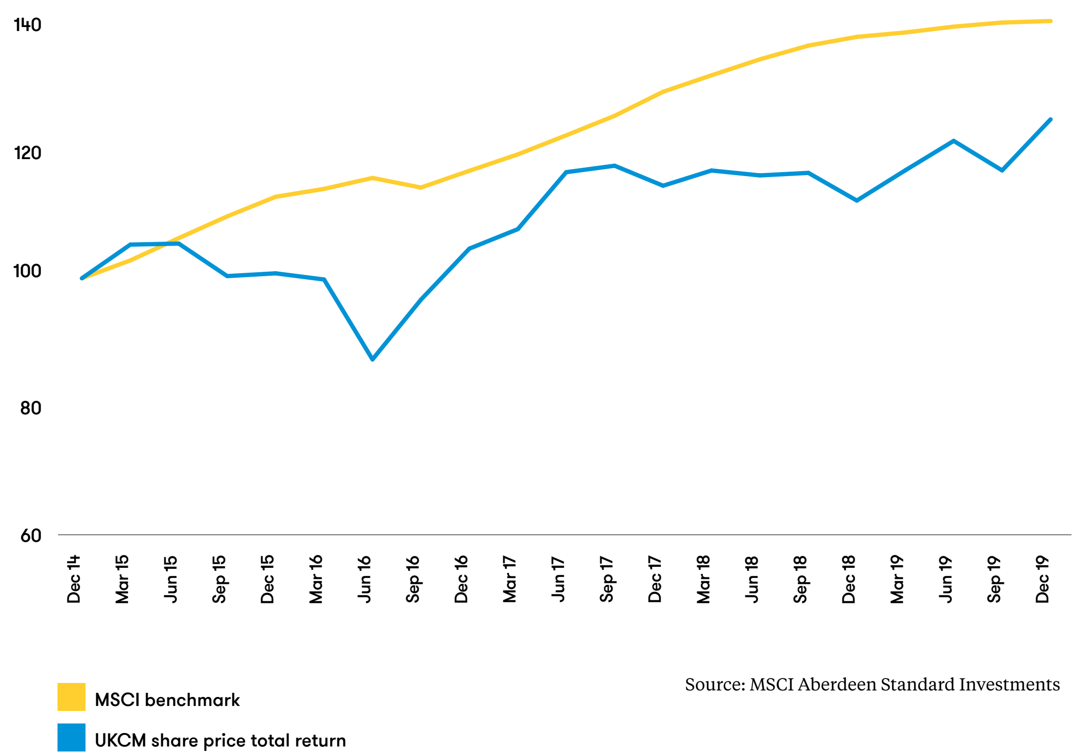
Article 79 of the Company's Articles of Association currently limits the aggregate fees payable to the Board of Directors to a total of £400,000 per annum as approved by the Company's shareholders at the AGM in 2019.

	2020 £	2019 £
Chair	65,000	65,000
Chair of Audit Committee	52,500	52,500
Chair of Risk Committee	46,000	46,000
Chair of Management Engagement Committee	46,000	46,000
Chair of Property Valuation Committee	46,000	46,000
Director	44,500	44,500

Company Performance

Although the Company has appointed Aberdeen Standard Fund Mangers 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 MSCI benchmark over a five year period to 31 December 2019 (rebased to 100 at 31 December 2014).

TOTAL RETURN %



Source: MSCI Aberdeen Standard Investments

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. Each Director received an additional £5,000 for work undertaken on the debt refinancing and extension of investment policy in 2019.

	2019	2018
Andrew Wilson	70,000	60,000
Michael Ayre	51,000	43,000
Ken McCullagh	57,500	48,750
Sandra Platts	51,000	43,000
John Robertson*	—	10,750
Margaret Littlejohns**	51,000	42,500
Robert Fowlds***	49,500	30,750
Directors National Insurance and expenses†	20,385	3,693
Total	**350,385**	**282,443**

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

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

	Year to 31 December 2019	Year to 31 December 2018
Aggregate Directors' Remuneration	£350,385	£282,443
Aggregate Shareholder Distributions	£47,818,378	£47,818,378

REMUNERATION REPORT 2019

Shareholder votes in favour
99.9%

The graphic above shows the results in respect of the resolution to approve the Directors' Remuneration Report at the AGM in June 2019.

Directors' Interests in the Company

The Directors are not required to have a shareholding in the Company. The audited Directors' interests in the share capital of the Company are shown in the Report of the Directors on page 43. Approved by the Board on 1 June 2020.

Ken McCullagh
Director
1 June 2020

* Retired 31 March 2018
** Appointed 1 Jan 2018
*** Appointed 1 Apr 2018
† Payable on fees from 1 July 2018

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 AIC Code on Corporate Governance 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 & 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

Ken McCullagh
Director
1 June 2020

Maldron Hotel
Newcastle

Independent Auditor's Report and Financial Statements

UK Commercial Property REIT

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

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 2019 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; and
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.

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

Continued

SUMMARY OF OUR AUDIT APPROACH

Key audit matters	The key audit matters that we identified in the current year were: ▲ Investment property valuation; and ▲ Impact of COVID-19 post balance sheet event. Within this report, key audit matters are identified as follows: ! Newly identified ↑ Increased level of risk ⟷ Similar level of risk ↓ Decreased level of risk
Materiality	The materiality that we used for the Group financial statements in the current year was £11.7 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 engagement team. All of the Group's subsidiaries that are registered as Guernsey Companies are subject to full scope audits.
Significant changes in our approach	In the current year we have identified a new key audit matter relating to the appropriateness of COVID-19 post balance sheet event disclosures following the ongoing uncertainty surrounding its impact after the balance sheet date.

CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

Going concern

We have reviewed the directors' statement in note 1(a) 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 the COVID-19 pandemic and 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.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

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 26 to 33 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 35 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 35 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.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the directors.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified.

These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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

Investment property valuations ⟷

Key audit matter description

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.

Valuation of the investment property is the most judgmental 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.

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 2019 amounted to £1,310 million (2018: £1,431 million).

Refer to notes 1(b), 1(h) of Accounting policies on pages 68-70 and note 10 on page 76 of the Notes to the Financial Statements. Also refer to the audit committee report pages 51-52.

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

We performed the following:

- Obtained an understanding of the relevant controls in relation to the valuation process;
- Evaluated the competence, capabilities and objectivity of the external valuer in order to obtain an understanding of the work of that expert;
- With the involvement of our real estate specialists we challenged the external valuer on their valuation process, performance of the portfolio, significant assumptions and significant judgements, by benchmarking the valuation assumptions to relevant market evidence including specific property transactions and other external data;
- Performed audit procedures to assess the integrity of information provided to the external valuer, including testing on a sample basis back to underlying lease agreements;
- Reviewed the financial statement disclosures and assessed whether the significant judgements and estimations are appropriately disclosed; and
- Assessed the disclosures around the potential valuation impact of the post year end COVID-19 outbreak, as a non-adjusting event.

Key observations

We concluded that the fair value of the Group's investment property valuation as determined by management is appropriate.

Impact of COVID-19 post balance sheet event !

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Subsequent to the balance sheet date a global pandemic of a new strain of Coronavirus has emerged. The virus, and responses taken by organisations and governments to manage its spread in markets to which the Group is exposed have led to increased volatility and economic disruption. The matter is a non-adjusting event since it is indicative of conditions that arose after the reporting period. Management have reviewed the measurement of assets and liabilities to assess that their valuations only reflect the conditions that existed at the reporting date. The 31 March 2020 valuation, disclosed in note 21, showed a like-for-like 3.1% decrease from 31 December 2019; this was following an external valuation report which included a material uncertainty clause surrounding the potential impact of COVID-19 on 31 March 2020 valuations. Subsequent to the year end, management have performed procedures to assess the financial and operational impacts of COVID-19 on the Group, including: ▲ An assessment of operational resilience, challenging internal control and governance, critical business functions, crisis management, and the impact on key stakeholders; ▲ Considerations of solvency, and liquidity projections, including further assessment of financial resources, gearing, bank covenant assessment, rent collection and the portfolio valuation on the exposure across the Group. The assessment of the impact of COVID-19 on the Group, requires management judgement and consideration of a range of factors. Management have placed a particular focus on the level of cash and financial resources available through banking facilities that has been maintained post year end, the risks associated with liquidity and bank covenants, and the credit quality of the Group's tenants and the impact of COVID-19 on their trading. Having considered the results of the activities described above and performed stress and scenario testing, management believes that the Group continues to be a going concern due to having a stable solvency position in respect of the levels of cash and financial resources available through banking facilities and appropriate plans to manage liquidity and credit risks. The Group's business continuity plans have also been initiated and management believe that these will enable them to continue to deliver critical business services across the Group. The Group has made disclosures throughout the annual report and financial statements to reflect the results of its assessment, in line with applicable accounting standards, the company law and corporate governance code provisions. Due to the inherent management judgement in, and the increased level of audit effort focused on the appropriateness of, the financial statement disclosures, we considered these to be a key audit matter. Refer to management's disclosure in notes 1 and 21 of the financial statements. Further detail is included on page 25 of the Strategic Report.	We evaluated management's approach to assessing the impact of COVID-19 on the Group, and challenged the financial statement disclosures by performing the following procedures: ▲ Evaluated management's stress and scenario testing, and challenged management's key assumptions by considering its consistency with other available information and our understanding of the business; ▲ Reviewed the actions that came out of the various board meetings which considered COVID-19 in advance of reporting; ▲ Evaluated management's assessment of the risks across the Group; ▲ Assessed the mitigating actions management have put in place and further plans they have if required, due to further deterioration of the wider UK and Global economy; and ▲ Assessed the post balance sheet event and going concern disclosures made by management in the financial statements including working with our real estate specialists to review the 31 March 2020 Valuation report for reasonableness.	We consider that the post balance sheet event and going concern disclosures in the financial statements are appropriate in relation to the potential impact of COVID-19.

OUR APPLICATION OF MATERIALITY

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

£11.7 million (2018: £12.1 million)

Basis for determining materiality

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

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 level materiality of £2.2 million (2018: £1.7 million), which equates to 5% (2018: 5%) of that measure for testing all balances impacting that measure.

- NAV £1,167 million
- Group materiality £11.7 million
- Audit Committee reporting threshold £0.6 million

Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

- we have not identified any significant changes in business structure and operations; and
- our experience from previous audits has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.6 million (2018: £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

Scoping

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 perform analytical review procedures on UKCPT Limited Partnership which does not require an audit. 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.

As part of our risk assessment, we assessed the control environment in place at the investment manager, Aberdeen Standard Investments to the extent relevant to our audit.

OTHER INFORMATION

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT 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 and non-compliance with laws and regulations are set out below.

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

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

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

Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their 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;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax and valuations specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: Investment property valuation. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Listing Rules and Companies (Guernsey) Law, 2008.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. This included compliance with the REIT regime rules.

Audit response to risks identified

As a result of performing the above, we identified investment property valuation as a key audit matter related to the potential risk of fraud. 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 provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- 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 four years, covering the years ending 31 December 2016 to 31 December 2019.

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
Recognised Auditor,
St Peter Port, Guernsey

1 June 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	Notes	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
REVENUE			
Rental income	2	71,754	65,936
Service charge income	3	6,234	5,950
(Losses)/gains on investment properties and disposal of subsidiaries	10	(43,094)	18,947
Interest income		238	510
Total income		**35,132**	**91,343**
EXPENDITURE			
Investment management fee	4	(8,700)	(9,567)
Direct property expenses	5	(4,226)	(3,569)
Service charge expenses	5	(6,234)	(5,950)
Other expenses	5	(5,222)	(5,446)
Total expenditure		**(24,382)**	**(24,532)**
Operating profit before finance costs		**10,750**	**66,811**
FINANCE COSTS			
Finance costs	6	(8,359)	(7,976)
Loss on derecognition of interest rate swap		(703)	0
Total finance costs		**(9,062)**	**(7,976)**
Net profit from ordinary activities before taxation		1,688	58,835
Taxation on profit on ordinary activities	7	(45)	(5,830)
Net profit for the year		**1,643**	**53,005**
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT OR LOSS			
Gain arising on effective portion of interest rate swap	14	703	0
(Loss)/Gain arising on effective portion of interest rate swap	14	(1)	1,388
Other comprehensive income		**702**	**1,388**
Total comprehensive income for the year		**2,345**	**54,393**
Basic and diluted earnings per share	9	**0.13p**	**4.08p**
EPRA earnings per share (excluding non-recurring tax items)	9	**3.50p**	**3.03p**

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 88-89.

The accompanying notes are an integral part of this statement.

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

	Notes	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
NON-CURRENT ASSETS			
Investment properties	10	1,309,541	1,430,851
Interest rate swap	14	—	166
		1,309,541	**1,431,017**
CURRENT ASSETS			
Investment properties held for sale	10	48,850	—
Trade and other receivables	12	30,262	23,765
Cash and cash equivalents		48,984	43,505
		128,096	**67,270**
Total assets		**1,437,637**	**1,498,287**
CURRENT LIABILITIES			
Trade and other payables	13	(23,046)	(35,139)
Interest rate swap	14	—	(868)
		(23,046)	**(36,007)**
NON-CURRENT LIABILITIES			
Bank loan	14	(247,447)	(249,661)
Interest rate swap	14	—	0
		(247,447)	(249,661)
Total liabilities		**(270,493)**	**(285,668)**
Net assets		**1,167,144**	**1,212,619**
REPRESENTED BY			
Share capital	15	539,872	539,872
Special distributable reserve		567,075	570,158
Capital reserve		60,197	103,291
Revenue reserve		0	0
Interest rate swap reserve		0	(702)
Equity shareholders' funds		**1,167,144**	**1,212,619**
Net asset value per share	16	**89.8p**	**93.3p**
EPRA Net asset value per share	16	**89.8p**	**93.4p**

The accounts on pages 64-87 were approved and authorised for issue by the Board of Directors on 1 June 2020 and signed on its behalf by:

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 2019

	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 2019		539,872	570,158	103,291	—	(702)	1,212,619
Net Profit for the year		—	—	—	1,643	—	1,643
Other comprehensive income		—	—	—	—	702	702
Total comprehensive income		—	—	—	1,643	702	2,345
Dividends declared	8	—	—	—	(47,820)	—	(47,820)
Transfer in respect of losses on investment property	10	—	—	(43,094)	43,094	—	—
Transfer from special distributable reserve		—	(3,083)	—	3,083	—	—
As 31 December 2019		**539,872**	**567,075**	**60,197**	**—**	**—**	**1,167,144**

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**

The accompanying notes are an integral part of this statement.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2019

	Notes	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the year before taxation		1,688	58,835
Adjustments for:			
Losses/(gains) on investment properties	10	43,094	(18,947)
Movement in lease incentives	10	(5,180)	2,408
Movement in provision for bad debts	12	(236)	71
Increase in operating trade and other receivables		(1,081)	(7,996)
(Decrease)/Increase in operating trade and other payables		(13,503)	4,571
Finance costs	6	8,359	7,976
Loss on derecognition of interest rate swap	14	702	—
Cash generated by operations		33,843	46,918
Tax paid		(1,779)	(1,010)
Net cash inflow from operating activities		**32,064**	**45,908**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment properties	10	—	(156,030)
Sale of investment properties	10	46,250	171,928
Capital expenditure	10	(14,692)	(40,490)
Net cash inflow/(outflow) from operating activities		**31,558**	**(24,592)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Facility fee charges from bank financing		(2,092)	0
Dividends paid	8	(47,820)	(43,008)
Bank loan interest paid		(7,344)	(6,215)
Payments under interest rate swap arrangement		(184)	(1,031)
Swap breakage costs		(703)	0
Net cash outflow from financing activities		**(58,143)**	**(50,254)**
Net increase/(decrease) in cash and cash equivalents		**5,479**	**(28,938)**
Opening cash and cash equivalents		**43,505**	**72,443**
Closing cash and cash equivalents		**48,984**	**43,505**
REPRESENTED BY			
Cash at bank		25,453	16,363
Money market funds		23,531	27,142
		48,984	**43,505**

The accompanying notes are an integral part of this statement.

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.

The Directors have considered the basis of preparation of the accounts given the COVID-19 pandemic and believe that it is still appropriate for the accounts to be prepared on the going concern basis.

(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 and unobservable inputs such as capitalisation rates. 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 non-rental service charge income is received.

Interest income 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.

Management considers each property transaction separately, with an assessment carried out to determine whether the transaction represents an asset acquisition or business combination. In making its judgement on whether the acquisition of property through the purchase of a corporate vehicle represents an asset acquisition or business combination, management consider whether the integrated set of assets and activities acquired contain both input and processes along with the ability to create outputs.

(i) Operating Lease Contracts

The Group has entered into commercial property leases on its investment property portfolio.

The Group as lessor

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. The Group has assessed all leases where it acts as a lessor, based on an evaluation of the terms and conditions of the arrangements, and has determined that the Group retains all the significant risks and rewards of ownership of these properties therefore, the leases are accounted for as operating leases. Where the Group does not retain all the significant risks and rewards of ownership these leases would be classified as finance 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.

The Group as intermediate lessor

When the Group is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately. The Group has assessed all leases where it acts as an intermediate lessor, based on an evaluation of the terms and conditions of the arrangements, and has identified that all head leases have low value at the lease commencement date. The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets. The Group classifies the sub-leases as operating leases and accounts for the lease payments on a straight-line basis over the lease terms.

(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.

(q) Derivative financial instruments

The Group used 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

The new standards, amendments and interpretations which have been adopted by the Group on 1 January 2019 are listed below.

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 sub-leases will not change from operating lease to financial lease on transition to IFRS 16, as the Group applies the low-value assets exemption outlined in the Group's updated accounting policy for Operating Lease Contracts, note 1(i).

The Group has made no adjustments to its financial statements following adoption of IFRS 16.

IFRIC 23 — Uncertainty over Income Tax Treatments

IFRIC 23 Uncertainty over Income Tax Treatments ("IFRIC 23") is effective for annual periods beginning on or after 1 January 2019. IFRIC 23 clarifies the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The Group has assessed the impact of IFRIC 23 and determined that it has not been required to make any adjustments to its financial statements in relation to IFRIC 23 and hence this is not discussed further.

Annual Improvements to IFRS

The Group has made no adjustments to its financial statements following adoption of the amendments to the IFRS Standards detailed in the annual Improvements to IFRS 2015-2017 Cycle (1 January 2019). The amendments were not applicable to the Group and hence not discussed.

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

There are a number of amended standards issued which are effective from annual periods beginning on or after 1 January 2020. The Group does not anticipate these to have a material impact on the annual consolidated financial statements of the Group and hence not discussed and are detailed below:

- Amendments to IAS 1 Presentation of Financial Statements ("IAS 1") and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") definition of material.
- An amendment of IFRS 3 Business Combinations ("IFRS 3") definition of business.

2. RENTAL INCOME

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Rental income	71,754	65,936

3. SERVICE CHARGE INCOME

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Service charge income	6,234	5,950

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

The service charge paid by the Group in respect of void units was £1.2 million (2018: £0.6 million) and is included within note 5 Direct Property Expenses.

4. INVESTMENT MANAGEMENT FEES

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Investment management fee	8,700	9,567

The Group's Investment Manager is Aberdeen Standard Fund Managers Limited. Previously, up to 10 December 2018, this was Standard Life Investments (Corporate Funds) Limited.

The Investment Manager received an aggregate annual fee from the Group at an annual rate of 0.60 (2018: 0.65) per cent of the Total Assets.

In the prior year, the Investment Manager was also entitled to an administration fee of £100,000 per annum. In 2019, the Company also paid the Investment Manager £200,000 for marketing services which is included in other expenses. The Investment Management agreement is terminable by either of the parties to it on 12 months' notice.

5. EXPENSES

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Direct Property Expenses	4,226	3,569
Service charge expenses	6,234	5,950
OTHER EXPENSES		
Professional fees (including valuation fees)	4,221	4,739
Movement in bad debt provision	236	(71)
Directors' fees and expenses	350	282
Administration fee	—	100
Administration and company secretarial fees	85	85
Regulatory fees	240	230
Auditor's remuneration for:		
Statutory audit	90	81
Non audit services	—	—
	5,222	**5,446**

6. FINANCE COSTS

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Interest on principal loan amount	7,170	6,352
Amounts payable in respect of interest rate swap arrangement	30	894
Facility fees	588	332
Amortisation of loan set up fees	571	398
	8,359	**7,976**

7. TAXATION

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
NET PROFIT FROM ORDINARY ACTIVITIES BEFORE TAX	**1,688**	**58,835**
UK Corporation tax at a rate of 19 per cent (2018: 19%)	321	11,178
Effect of:		
Capital losses/(gains) on Investment properties not taxable	8,188	(3,600)
UK REIT exemption on net income	(8,509)	(3,963)
Income not taxable	—	(50)
Intercompany loan interest	—	(3,478)
Expenditure not allow for tax purposes	—	415
Total current tax charge	—	502
Net movement in deferred tax asset	—	3,271
Net under accrual of tax from previous year	45	2,057
Total tax charge	**45**	**5,830**

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 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. 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.

In the prior year, up to REIT conversion on 1 July 2018, 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 elected to receive rental income gross under HMRC's non-resident landlord scheme. On the Group's submission of the final income tax returns, to 5 April 2019, UKCPEL had underaccrued income tax of £78,000, which has been charged to the Statement of Comprehensive Income in the current year.

The components of the tax charge in the consolidated income statement are as follows:	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
RECONCILIATION OF CURRENT CORPORATION AND INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT		
Income Tax charge in the year	—	502
Adjustment in respect of prior year under provision of income tax	78	—
Adjustment in respect of prior year over provision of corporation tax	(33)	2,057
At 31 December	**45**	**2,559**

The Company owns two UK Limited Companies, Brixton Radlett Property Limited ("BRPL") and UK Commercial Property Estates (Reading) Limited ("UKCPERL"). In the prior year, The White Building, Reading was acquired in June 2018 via the purchase of the share capital of UKCPERL. 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. On submission of UKCPERL's CT600, the tax charge was overaccrued by £33,000, which was released to the current year statement of comprehensive income.

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
RECONCILIATION OF DEFERRED TAX IN THE CONSOLIDATED INCOME STATEMENT		
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	**—**	**3,271**

Deferred tax asset

In the prior year, the Group became part of the UK corporation tax regime and it was anticipated that the Group's pre UK corporation tax regime losses of £40,186,000, based on the 2017/2018 tax returns to 5 April 2018, would not be utilised. As a result the deferred tax asset and liability, which netted off to £3,271,000, were written off in 2018.

8. DIVIDENDS

DIVIDENDS ON ORDINARY SHARES	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Interim dividends paid per ordinary share:		
2018 Fourth interim: property income dividend ("PID") of 0.775p and Ordinary dividend ("Non PID") of 0.145p paid 28 February 2019 (2017 Fourth interim: dividend of 0.92p)	11,955	11,955
2019 First interim: PID of 0.92p paid 31 May 2019 (2018 First interim: dividend of 0.92p)	11,955	11,955
2019 Second interim: PID of 0.92p paid 30 August 2019 (2018 Second interim: dividend of 0.92p)	11,955	11,955
2019 Third interim: PID of 0.658p and Non PID of 0.262p paid 29 November 2019 (2018 Third interim: PID 0.643p and Non PID 0.277p)	11,955	11,955
	47,820	**47,820**

A fourth interim PID of 0.506p and Non PID of 0.414p was paid on 28 February 2020 to shareholders on the register on 14 February 2020. Although this payment relates to the year ended 31 December 2019, under International Financial Reporting Standards it will be accounted for in the year ending 31 December 2020.

9. BASIC AND DILUTED EARNINGS PER SHARE

	Year ended 31 December 2019	Year ended 31 December 2018
Weighted average number of shares	1,299,412,465	1,299,412,465
Net Profit (£)	1,643,000	53,005,000
Basic and diluted Earnings per share (pence)	0.13	4.08
EPRA earnings per share (pence)[1]	**3.50**	**3.03**

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

Earnings per share are based on the net profit of the year divided by the weighted average number of Ordinary Shares in issue during the period.

1 A breakdown of the calculation is detailed in the table A. EPRA Earnings on page 88.

10. INVESTMENT PROPERTIES

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
FREEHOLD AND LEASEHOLD PROPERTIES		
Opening valuation	1,430,851	1,380,523
Purchase at cost	—	156,030
Capital expenditure	14,692	40,490
(Loss)/Gain on revaluation to market value	(15,172)	14,650
Disposals at prior year valuation	(66,800)	(163,250)
Lease incentive movement	(5,180)	2,408
Total fair value at 31 December	**1,358,391**	**1,430,851**
Less: reclassified as held for sale	(48,850)	—
Fair value as at 31 December	**1,309,541**	**1,430,851**

(LOSSES)/GAINS ON INVESTMENT PROPERTIES AT FAIR VALUE COMPRISE		
Valuation (losses)/gains	(15,172)	14,649
Movement in provision for lease incentives	(5,180)	2,408
(Loss)/gain on disposal	(22,742)	1,890
	(43,094)	**18,947**

GAINS ON INVESTMENT PROPERTIES SOLD		
Original cost of investment properties	(93,300)	(168,188)
Sale proceeds less sales costs	46,250	171,928
(Loss)/profit on investment properties sold	(47,050)	3,740
Recognised in previous periods	(26,500)	(4,938)
Recognised in current period	(20,550)	8,678
	(47,050)	**3,740**

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 2019 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 £1,377,890,000 (2018: £1,445,170,000). The difference between the fair value and the value per the consolidated balance sheet at 31 December 2019 consists of accrued income relating to the pre-payment for rent-free periods recognised over the life of the lease totalling £19,499,000 (2018: £14,319,000) 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.

The property portfolio's fair value as at 31 December 2019 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 3.25 to 8.75 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 10.25 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.

Sector	Fair Value at 31 December 2019 (£m)	Valuation techniques	Unobservable inputs	Range (weighted average)
Industrial	706.8	Yield methodology	Annual rent per sq ft Capitalisation rate	£0–£16 (£8) 3.8%–6.7% (4.8%)
Office	227.5	Yield methodology	Annual rent per sq ft Capitalisation rate	£14–£57 (£30) 3.3%–8.7% (5.3%)
Retail	289.4	Yield methodology	Annual rent per sq ft Capitalisation rate	£17–£327 (£51) 3.6%–7.7% (5.7%)
Alternatives	154.2	Yield methodology	Annual rent per sq ft Capitalisation rate	£14–£21 (£18) 5.5%–6.3% (5.8%)

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. The movement of 50 basis points is based on past observed data.

Sector	Assumption	Movement	Effect on valuation
Industrial	Capitalisation rate	+50 basis points −50 basis points	Decrease £69.3 million Increase £86.6 million
Office	Capitalisation rate	+50 basis points −50 basis points	Decrease £21.4 million Increase £26.3 million
Retail	Capitalisation rate	+50 basis points −50 basis points	Decrease £23.5 million Increase £28.6 million
Alternatives	Capitalisation rate	+50 basis points −50 basis points	Decrease £12.4 million Increase £14.8 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.

Asset held for sale

At the current year end, the assets held for sale are; Portsmouth Motor Park and Broadbridge Retail Park. The assets are 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. At the prior year end, there were no assets held for sale.

11. SUBSIDIARY UNDERTAKINGS

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 is to hold and manage investment properties for rental income. 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 to hold and manage investment properties for rental income. UKCPEH also owns 100% of Brixton Radlett Property Limited and UK Commercial Property Estates (Reading) Limited, both UK companies, whose principal businesses are that of investment and property companies.

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 is to hold and manage investment properties for rental income. 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. 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 to hold and manage investment properties for rental income.

UKCPT Limited Partnership, (GLP), is a Guernsey limited partnership, whose principal business is to hold and manage investment properties for rental income. 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.

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.

12. TRADE AND OTHER RECEIVABLES

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Rents receivable	3,306	4,067
Lease incentives	19,499	14,319
Other debtors and prepayments	7,457	5,379
	30,262	**23,765**
Provision for bad debts as at 31 December 2018/2017	719	790
Movement in the year	236	(71)
Provision for bad debts as at 31 December 2019/2018	**955**	**719**

The ageing of these receivables is as follows:	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Less than 6 months	781	566
Between 6 and 12 months	86	124
Over 12 months	88	29
	955	**719**

Other debtors include tenant deposits of £3,281,000 (2018: £2,618,000).
All other debtors are due within one year. No other debts past due are impaired in either year.

13. TRADE AND OTHER PAYABLES

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Rental income received in advance	14,023	13,308
Investment Manager fee payable	2,129	2,381
Income tax payable	293	2,030
Withholding tax payable[1]	—	608
Other payable	6,601	16,812
	23,046	**35,139**

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

Other payables include tenant deposits of £3,281,000 (2018: £2,618,000), bank loan payments of £1,080,000 (2018: £1,429,000 includes swap interest payments of £154,000) and acquisition costs of £550,000 (2018: £830,000). In the prior year, other payables included a dilapidation settlement of £3,500,000 and dividends payable of £4,182,000. On 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

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Total facilities available	350,000	300,000
Drawn down:		
Barclays facility	50,000	150,000
Barings facility	200,000	100,000
Set up costs incurred	(6,628)	(4,536)
Accumulated amortisation of set up costs	4,045	3,465
Accrued variable interest rate on bank loan	30	732
Total due	**247,447**	**249,661**

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 2019 £'000
Bank Loan	249,661	(2,092)	—	(122)	247,447
Interest Rate Swaps	(702)	703	(1)	—	—

(i) Barclays Facility

The Group has a £150 million revolving credit facility ("RCF"), maturing in April 2024, with Barclays Bank plc at a margin of 1.70 per cent above LIBOR. The RCF was taken out by UKCPEH and is cancellable at any time. The RCF was initially taken out by UKCPEL as a £50 million RCF in April 2015 at a margin of 1.50 per cent above LIBOR and was increased and extended in February 2019. The RCF has a non-utilisation fee of 0.68 per cent per annum (0.60 per cent per annum prior to February 2019) charged on the proportion of the RCF not utilised on a pro-rata basis. As at 31 December 2019, £100 million (2018: £150 million) remained unutilised. The RCF is secured on the property portfolio held by UKCPEH. Under bank covenants related to the RCF, UKCPEH 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 175 per cent and projected over the course of the proceeding 12 months is not less than 175 per cent.

UKCPEH met all covenant tests during the year for the RCF.

In the prior year, the Group had a five year £150 million facility ("Facility 1"), maturing in April 2020, which was fully drawn at the 31 December 2018. The bank loan was secured on the property portfolio held by UKCPEL. Under bank covenants related to the loan UKCPEL had 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 175 per cent and projected over the course of the proceeding 12 months is not less than 175 per cent.

UKCPEL met all covenant tests during 2018 for Facility 1.

Facility 1's interest rate exposure was hedged by the purchase of an interest rate swap contract. The notional amount of the swap and the swap term matched 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. The interest rate swap effectively hedged Facility 1's drawn down loan with Barclays Bank plc.

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

Facility 1 was repaid in February 2019 along with the associated interest rate swap. The cost of closing out the swap was £703,000. There was no repayment fees on the term loan facility.

(ii) Barings Facility

The Group has a £100 million facility ("Facility 2"), maturing in April 2027, with Barings Real Estate Advisers, a member of the MassMutual Financial Services Group. The loan was taken out by UKCFH. As at 31 December 2019, the facility was fully drawn (31 December 2018: Fully drawn). The bank loan is secured on the portfolio of seven properties held within UKCFH. 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 for Facility 2.

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.

During the year, the Group took out a new £100 million facility ("Facility 3"), maturing in February 2031, with Barings Real Estate Advisers. The loan was taken out by UKCFH. As at 31 December 2019, the facility was fully drawn. The bank loan is secured on the portfolio of seven properties held within UKCFH. Facility 3 has the same bank covenants as Facility 2 as outlined above. UKCFH also met all covenant tests during the year for Facility 3.

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 2.72 per cent per annum. There are no interest rate swaps in place relating to this facility.

Swap Instruments

At the prior year end, 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 prior year end resulted in a gain on interest rate swaps of £1.4 million. Of the total gain arising on interest rate swaps, £1.4 million related to effective hedge instruments 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. Based on current yield curves and non-performance risk, £868,000 of this value was a liability which related to the next 12 months and was therefore classified as a current liability. The remainder was classified as a Non-Current asset.

The swap was closed out in February 2019 as part of the Group's refinance at a cost of £703,000.

15. SHARE CAPITAL ACCOUNTS

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
SHARE CAPITAL		
Opening balance	539,872	539,872
Share capital as at 31 December 2019	539,872	539,872

Number of shares in issue and fully paid at the year end being 1,299,412,465 (2018: 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

	Year ended 31 December 2019	Year ended 31 December 2018
Ordinary Shares	1,299,412,465	1,299,412,465
Net assets (£'000)	1,167,144	1,212,619
NAV per share (pence)	**89.8**	**93.3**
EPRA Net asset value per share (pence)[1]	89.8	93.4

1 A breakdown of the calculation is detailed in the table B. EPRA NAV on page 88.

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.

Aberdeen Standard Fund Managers Limited, as the Manager of the Group from 10 December 2018, previously Standard Life Investments (Corporate Funds) Limited, received fees for their services as investment managers. Further details are provided in note 4. The total management fee charged to the Statement of Comprehensive Income during the year was £8,700,000 (2018: £9,567,000) of which £2,129,000 (2018: £2,381,000) remained payable at the year end. The Investment Manager also received £200,000 for marketing services in the year of which £200,000 remained payable at the year end. In the prior year, the Investment Manager also received an administration fee of £100,000, of which £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 53-54. Total fees for the year were £335,826 (2018: £282,443) none of which remained payable at the year end (2018: nil).

The Group invests in the Aberdeen Standard Investments Liquidity Fund accounted for as a cash equivalent which is managed by Aberdeen Standard Investments Limited. As at 31 December 2019 the Group had invested £23.5 million in the Fund (2018: £27.1 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 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
Investment properties	—	—	1,377,890	1,377,890

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

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

31 December 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
Bank loans	—	261,589	—	261,589

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

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.

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

31 December 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
Interest rate swap	—	—	—	—
Trade and other receivables	—	30,262	—	30,262
Trade and other payables	—	23,046	—	23,046

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

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 10.

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 below). 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 2019	3 months or less £'000	More than 3 months but less than one year £'000	More than one year £'000	Total £'000
Cash	48,984	—	—	48,984
Rent receivable	3,306	—	—	3,306
Other debtors	7,457	—	—	7,457
	59,747	**—**	**—**	**59,747**

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**

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 2019 is £3,306,000 (2018: £4,067,000). The Group holds rental deposits of £3,281,000 (2018: £2,618,000) as potential 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. £23.5 million (2018: £27.1 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 2019 the cash balance was £48,984,000 (2018: £43,505,000).

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 2019	3 months or less £'000	More than 3 months but less than one year £'000	More than one year £'000	Total £'000
Bank loans	51,734	4,332	245,248	301,314
Other creditors	21,882	—	—	21,882
	73,616	**4,332**	**245,248**	**323,196**

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**

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 £490,000 (2018: increased the reported profit by £435,000). A decrease of 1 per cent would have reduced the reported profit £490,000 (2018: decreased the reported profit by £435,000). The effect on equity is nil (excluding the impact of a change in retained earnings as a result of a change in net profit).

Interest rate risk arises on the interest payable on the RCF only, as the interest payable on the other facilities are at fixed rates. At 31 December 2019, the draw down on the RCF was £50 million (2018: Nil). It is estimated that an increase of 1% of the three month LIBOR would reduce the reported profit by £500,000 (2018: Nil). A decrease of 1% of the three month LIBOR would increase the reported profit by £500,000 (2018: Nil). Assumptions are based on the £50 million being outstanding for the full year, based on the exposure to interest rates at the reporting date, and all other variables being constant.

In the prior year, the Group's bank loans were hedged by interest rate swaps or are at fixed rates, these loans were not subject to interest rate risk.

At the prior year end, the Group had in place a total of £150 million of interest rate swap instruments. 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 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 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 2019 or 31 December 2018 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 principally invests 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 are calculated as the amount of outstanding debt divided by the market value of the properties secured. The Group's loan to value ratios are 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 2019.

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Carrying amount of interest-bearing loans and borrowings	247,447	249,661
External valuation of completed investment property and assets held for sale (excluding lease incentive adjustment)	1,377,890	1,445,170
Loan to value ratio	18.0%	17.30%

The Group's capital balances are set out on page 66 and are regarded as the Group's equity and net debt.

19. CAPITAL COMMITMENTS

The Group had contracted capital commitments as at 31 December 2019 of £2.2 million (31 December 2018 – £11.5 million), which include:

- £1 million capital works building pre-let additional units at St George's Retail Park, Leicester.
- £1.2 million for capital works across Brixton Radlett, XDock 377, Central Square Newcastle, Gallan Park Cannock, The White Building, Reading.

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):

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Less than one year	65,529	65,487
Between one and five years	225,886	218,547
Over five years	325,175	355,523
Total	**616,590**	**639,557**

The largest single tenant at the year end accounted for 6.6 per cent (2018: 5.9) of the current annual rental income. The unoccupied property expressed as a percentage of annualised total rental value was 7.9 per cent (2018: 6.9 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.

21. EVENTS AFTER THE BALANCE SHEET DATE

On 6 February 2020 the Group sold Portsmouth Motor Park for £30.65 million.

On 6 March 2020 the Group sold Broadbridge Retail Park for £18.1 million.

On 13 March the Company purchased land at Exeter in relation to the forward funding of a student accommodation development.

On 5 May 2020 the Group sold Eldon House, an office asset in the City of London, for £40 million.

Post Balance Sheet Event Disclosure

The outbreak of the novel Coronavirus ("COVID-19") in 2020 has resulted in significant loss of life, adversely affected global commercial activity and contributed to significant volatility in certain equity and debt markets. The global impact of the outbreak is rapidly evolving and on 11 March 2020, the World Health Organization declared a pandemic. Many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the duration and severity of COVID-19, are creating significant disruption in supply chains and economic activity and are having particularly adverse repercussions on transportation, hospitality, tourism, entertainment, non-food retail and other industries. The impact of COVID-19 has led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue. As COVID-19 continues to spread and the uncertainty remains regarding the reopening of economies, the potential consequences, including global or regional recessions, are increasingly uncertain and difficult to assess.

The outbreak of COVID-19 and the resulting financial and economic market uncertainty could have significant adverse impact on the Group, including the fair value of its investments. The most significant implications relating to COVID-19 arose after the reporting period and as a result the Group considers the emergence of the COVID-19 pandemic to be a non-adjusting post balance sheet event. Any future effect on the Group is likely to be in connection with the assessment of the fair value of investments and stability of rental income at future dates. The Company announced a fall in like-for-like portfolio values of 3.1% as at 31 March 2020 with a NAV of 86.3p, a fall of 3.9% as announced on 6 May 2020 and announced a 50% reduction in its dividend payable on 29 May 2020. The independent portfolio valuation prepared by CBRE as at 31 March 2020 also included a material uncertainty clause. At the date of reporting it is not possible to quantify the future financial results of COVID-19 on the Group's investments or rental income with any degree of certainty. The Board will continue to closely analyse and review the impact of COVID-19 on the Group and will take appropriate action as required.

EPRA PERFORMANCE MEASURES
Unaudited

	31 December 2019 Total £'000	31 December 2018 Total £'000
EPRA earnings	45,439	34,058
EPRA earnings per share (pence per share)	3.50	2.62
EPRA earnings per share (pence per share — excluding non recurring tax items)	3.50	3.03
EPRA NAV	1,167,144	1,213,321
EPRA NAV per share	89.8	93.4
EPRA NNNAV	1,153,002	1,208,330
EPRA NNNAV per share	88.7	93.0
EPRA Net Initial Yield	4.1%	4.3%
EPRA topped-up Net Initial Yield	4.5%	4.4%
EPRA Vacancy Rate	7.9%	6.9%
EPRA Cost Ratios — including direct vacancy costs	25.3%	28.2%
EPRA Cost Ratios — excluding direct vacancy costs	20.8%	23.5%

A. EPRA EARNINGS	31 December 2019 £'000	31 December 2018 £'000
Earnings per IFRS income statement	1,643	53,005
Adjustments to calculate EPRA Earnings, exclude:		
Net changes in value of investment properties	20,352	(17,057)
Gain on disposal of investment properties	22,742	(1,890)
Close-out costs of interest rate SWAP	703	—
EPRA Earnings	45,440	34,058
Basic number of shares	1,299,412	1,299,412
EPRA Earnings per share (pence per share)	3.50	2.62
EPRA Earnings per above	45,440	34,058
Adjustment for non recurring tax items	45	5,328
	45,485	39,386
EPRA Earnings per share excluding non-recurring tax items	3.50	3.03

B. EPRA NET ASSET VALUE	31 December 2019 £'000	31 December 2018 £'000
IFRS NAV	1,167,144	1,212,619
Exclude		
Fair value of financial instruments	—	702
	1,167,144	1,213,321
EPRA NAV per share	89.8	93.4

C. EPRA TRIPLE NET ASSET VALUE (NNNAV)	31 December 2019 £'000	31 December 2018 £'000
EPRA NAV	1,167,144	1,213,321
Fair value of financial instruments	0	(702)
Fair value of debt	(14,142)	(4,289)
EPRA NNNAV	1,153,002	1,208,330
EPRA NNNAV per share	88.7	93.0
Fair value of debt per financial statements	261,589	253,950
Carrying value	247,447	249,661
Fair value of debt adjustment	14,142	4,289

D. NET INITIAL AND TOPPED UP YIELD	31 December 2019 £'000	31 December 2018 £'000
Investment property — wholly owned	1,377,890	1,445,170
Completed property portfolio	**1,377,890**	**1,445,170**
Allowance for estimated purchasers' costs	93,697	98,272
Gross up completed property portfolio valuation	**1,471,587**	**1,543,442**
Annualised cash passing rental income	64,348	69,013
Property outgoings	(3,837)	(3,408)
Annualised net rents	60,511	65,605
Add: notional rent expiration of rent free periods or other lease incentives	5,301	2,894
Topped-up net annualised rent	65,812	68,499
EPRA NIY	4.1%	4.3%
EPRA "topped-up" NIY	4.5%	4.4%

E. EPRA COST RATIOS	31 December 2019 £'000	31 December 2018 £'000
Administrative/Property operating expense line per IFRS income statement	18,148	18,582
EPRA costs (including direct vacancy costs)	18,148	18,582
Direct vacancy costs	(3,248)	(3,101)
EPRA costs (excluding direct vacancy costs)	14,900	15,481
Gross rental income less ground rent costs	71,754	65,936
EPRA cost ratio (including direct vacancy costs)	25.3%	28.2%
EPRA cost ratio (excluding direct vacancy costs)	20.8%	23.5%

Environmental, Social, and Governance

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 2018 and 2019.

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 following therefore appear low due to the inclusion of all of the Company 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 assets in the sector 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 were not subject to major refurbishment or development during that time.

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 portfolio as it is the most widely available metric. It enables year-on-year comparisons within the portfolio to be made.

Renewable energy

Several industrial assets in the portfolio have solar PV installed which is demised to the tenant. There is currently no landlord self-generated renewable electricity across the portfolio although we are at the detailed stages of feasibility with a number of large landlord-led schemes.

In the reporting period, all landlord-procured electricity was from 100% renewable sources.

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 considering for future years.

Materiality

We have undertaken a review of materiality against each of the EPRA sBPR indicators. The table below 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 & safety	
H&S-Asset	Asset health & safety assessments	Material
H&S-Comp	Asset health & safety compliance	Material
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 48 for content related to Governance)
Gov-Selec	Process for nominating and selecting the highest governance body	
Gov-CoI	Process for managing conflicts of interest	

ENVIRONMENTAL INDICATORS

Unaudited

Like-for-like energy consumption

Landlord electricity and gas consumption across like-for-like assets decreased by 5% and 1% respectively year-on-year. It was encouraging to see improvements in energy efficiency at office assets, reversing the trend in 2018. This was achieved through improvements in the management regime and upgrades in landlord plant. The increase in gas consumption at industrials is due to energy procured by the landlord for vacant space.

Our Property Manager and Sustainability Consultant closely monitor consumption trends, benchmark performance and identify improvement measures.

		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-LfL**			**Elec-LfL**			**Elec-LfL**			**Fuels-LfL**			**Energy-Int**		
Sector	**Coverage (assets)**	**2018**	**2019**	**Change (%)**	**2018**	**2019**	**Change (%)**	**2018**	**2019**	**Change (%)**	**2018**	**2019**	**Change (%)**	**2018**	**2019**	**Change (%)**
Industrial, Business Parks	5 of 8	314,345	282,511	-10%	305,672	274,450	-10%	620,017	556,961	-10%	62,118	70,713	14%	4.93	4.54	-8%
Alternatives	2 of 3	464,168	426,390	-8%	2,729	2,557	-6%	466,897	429,119	-8%	No meters		N/A	18.8	17.3	-8%
Offices	4 of 8	2,068,367	1,999,095	-3%	814,253	796,397	-2%	2,882,620	2,795,492	-3%	3,078,863	3,052,418	-1%	261.3	256.3	-2%
Retail, Warehouses	5 of 6	207,516	196,714	-5.2%	No sub-metered consumption		N/A	207,516	196,714	-5%	No meters		N/A	3.8	3.6	-5%
Totals	**13 of 30**	**3,054,396**	**2,904,710**	**-5%**	**1,122,654**	**1,073,404**	**-4%**	**4,177,050**	**3,978,286**	**-5%**	**3,140,981**	**3,123,131**	**-1%**	**30.4**	**29.5**	**-3%**

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 opposite. 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-on-Trent has a Very Good rating. These assets account for 7% of the Company by net lettable area.

EPC RATING	% NET LETTABLE AREA
A	6.1%
B	16.2%
C	48.7%
D	23.1%
E	3.9%
F	0.5%
G	1.5%

Social Indicators

Health & Safety

Every asset in the portfolio (i.e. 100% coverage) was subject to a health & 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 retail assets. 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.

Like-for-like greenhouse gas emissions

The like-for-like gas consumption figures below translate into a 1% reduction in Scope 1 greenhouse gas (GHG) emissions. Scope 2 emissions from landlord electricity consumption reduced by 14% due to the combination of a reduction in consumption and improvements in the emissions intensity of grid electricity. Scope 3 emissions from energy sub-metered to occupiers reduced by 12%.

		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)**	**2018**	**2019**	**Change (%)**	**2018**	**2019**	**Change (%)**	**2018**	**2019**	**Change (%)**	**2018**	**2019**	**Change (%)**
Industrial, Business Parks	5 of 8	11	13	14%	89	72	-19%	101	91	-10%	1.5	1.3	-13%
Alternatives	2 of 3	No meters		N/A	131	109	-17%	12	10	-17%	6	5	-17%
Offices	4 of 8	567	562	-1%	585	511	-13%	300	264	-12%	64	59	-8%
Retail, Warehouses	5 of 6	No meters		N/A	59	50	-14%	5	4	-15%	1.2	1.0	-14%
Totals	**13 of 30**	**578**	**575**	**-1%**	**865**	**742**	**-14%**	**419**	**370**	**-12%**	**8**	**7**	**-9%**

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.
Note: Scope 3 also includes emissions associated with transmission and distribution losses for all landlord-procured electricity.

Water Consumption

Water consumption at like-for-like assets decreased by 6% year-on-year. There was a 12% reduction achieved at Central Square in Newcastle which offset small increases at other office assets. Water consumption is monitored and targeted by our Property Managers and Sustainability Consultants. However, it remains sensitive to small changes in occupancy and one-off events such as sprinkler tank refills. All water for the Company is sourced from mains supply.

			Absolute Water Consumption (m^3)					LfL Water Consumption (m^3)					
Indicator references			Water-Abs; Water-Int					Water-LfL; Water-Int					
Sector	**Coverage 2018 (assets)**	**Coverage 2019 (assets)**	**2018 (m^3)**	**2018 Intensity (litres/m^2)**	**2019 (m^3)**	**2019 Intensity (litres/m^2)**	**Change (%)**	**Coverage (assets)**	**2018 (m^3)**	**2018 Intensity (litres/m^2)**	**2019 (m^3)**	**2019 Intensity (litres/m^2)**	**Change (%)**
Industrial, Business Parks	2 of 8	2 of 9	2,891	34	2,221	28	-23%	2 of 8	2,891	36	2,221	28	-23%
Alternatives	2 of 3	2 of 3	715	29	509	21	-29%	2 of 3	715	29	509	21	-29%
Offices	5 of 11	5 of 9	18,538	584	19,248	607	4%	4 of 9	17,779	779	17,266	757	-3%
Retail, Shopping Centre	3 of 4	1 of 1	663	12	210	7	-68%	No like-for-like assets					
Totals	**12 of 49**	**10 of 43**	**22,808**	**116**	**22,188**	**131**	**-3%**	**8 of 30**	**21,385**	**167**	**19,997**	**156**	**-6%**

ENVIRONMENTAL INDICATORS

Unaudited

Absolute energy consumption

Absolute landlord electricity consumption increased by 7% year-on-year. This was driven by the acquisition of The White Building in Reading in October 2018 and by consumption at industrial assets in Lutterworth and Neasden that were undergoing development works. The increase in occupier electricity consumption is due to the acquisition of The White Building which is heated by a highly-efficient air sourced heat pump solution. Gas consumption reduced substantially following a spike in 2018 associated with vacant industrial units. The two refurbished industrial assets at Lutterworth and Neasden now have no gas heating in the warehouse space which contributes to significant reductions in consumption and emissions.

			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 2018 (assets)**	**Coverage 2019 (assets)**	**2018**	**2019**	**Change (%)**	**2018**	**2019**	**Change (%)**	**2018**	**2019**	**Change (%)**	**2018**	**2019**	**Change (%)**	**2018**	**2019**	**Change (%)**
Industrial, Business Parks	4 of 9	6 of 9	314,345	282,511	-10%	306,499	274,450	-10%	620,844	556,961	-10%	78,041	70,713	-9%	5.5	3.8	-31%
Industrial, Distribution Warehouses	2 of 10	2 of 10	390,687	551,474	41%	No sub-metered consumption		N/A	390,687	551,474	41%	864,595	9,247	-99%	19.9	8.9	-55%
Alternatives	3 of 3	3 of 3	483,501	469,461	-3%	2,729	2,964	9%	486,230	472,425	-3%	No meters		N/A	13.1	12.7	-3%
Offices	5 of 11	5 of 9	2,142,454	2,182,139	2%	1,290,903	1,749,614	36%	3,509,246	3,931,753	12%	3,078,863	3,052,418	-1%	207.7	220.2	6%
Retail, Shopping Centre	4 of 4	1 of 1	181,190	46,891	-74%	No sub-metered consumption		N/A	181,190	46,891	-74%	4,948	No consumption	N/A	2.8	1.5	-48%
Retail, Warehouses	5 of 6	5 of 6	207,516	196,714	-5%	No sub-metered consumption		N/A	207,516	196,714	-5%	No meters		N/A	3.8	3.6	-5%
Totals	**23 of 49**	**24 of 43**	**3,719,693**	**3,729,190**	**0.3%**	**1,600,131**	**2,027,028**	**27%**	**5,395,713**	**5,756,218**	**7%**	**4,026,447**	**3,132,378**	**-22%**	**24.7**	**23.1**	**-6%**

Note: Hotel and Unit Shop are excluded from the table as there is no landlord consumption but are included in the total possible coverage number.

Waste generation and treatment

We are responsible for waste management at a number of multi-let assets. Our Waste Management Consultant undertakes regular waste audits and works closely with our Property Manager to implement interventions to improve segregation of materials and ultimately increase recycling rates.

In total across the nine assets for which we manage waste, 769 tonnes of non-hazardous waste was generated in 2019 with 62% recycled and 38% recovered via energy from waste. There was no waste sent to landfill.

		Total Waste (tonnes)		Waste to Landfill (tonnes)		Waste Recovered (tonnes)		Waste Recycled (tonnes)	
Indicator references		Waste-LfL							
Sector	**Coverage (assets)**	**2018**	**2019**	**2019**		**2019**		**2019**	
Alternatives	2 of 3	449	583	0%	0	41%	239	59%	344
Offices	3 of 9	164	138	0%	0	35%	48	65%	90
Retail, Warehouse	2 of 6	20	25	0%	0	0%	0	100%	25
Totals	**7 of 30**	**788**	**746**	**0%**	**0**	**38%**	**287**	**62%**	**459**

Absolute greenhouse gas emissions

Absolute Scope 1 GHG emissions decreased by 22%, in line with the reduction in absolute gas consumption noted previously. Scope 2 emissions from landlord consumption of electricity reduced by 9% due to an improvement in the carbon intensity of the UK electricity grid. Scope 3 emissions from electricity sub-metered to occupiers increased, largely due to the acquisition of The White Building in Reading in late 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			GHG-Dir-Abs			GHG-Indir-Abs			GHG-Indir-Abs			GHG-Int		
Sector	**Coverage 2018 (assets)**	**Coverage 2019 (assets)**	**2018**	**2019**	**Change (%)**	**2018**	**2019**	**Change (%)**	**2018**	**2019**	**Change (%)**	**2018**	**2019**	**Change (%)**
Industrial, Business Parks	4 of 9	6 of 9	14	13	-9%	89	72	-19%	102	82	-19%	1.6	1.0	-37%
Industrial, Distribution Warehouses	2 of 10	2 of 10	159	2	-99%	111	141	27%	9	12	27%	4.4	2.4	-45%
Alternatives	3 of 3	3 of 3	No meters		N/A	137	120	-12%	13	11	-12%	4.0	3.5	-12%
Offices	5 of 11	5 of 9	566	561	-1%	606	558	-8%	450	533	18%	51.2	52.1	2%
Retail, Shopping Centre	4 of 4	1 of 1	1	No consumption	N/A	51	12	-77%	4	1	-77%	0.8	0.4	-52%
Retail, Warehouses	5 of 6	5 of 6	No meters		N/A	59	50	-14%	5	4	-15%	1.2	1.0	-14%
Totals	**23 of 49**	**24 of 43**	**741**	**576**	**-22%**	**1,053**	**953**	**-9%**	**583**	**643**	**10%**	**6.2**	**5.6**	**-9%**

Note: Hotel and Unit Shop are excluded from the table as there is no landlord consumption but are included in the total possible coverage number.
Note: Scope 3 also includes emissions associated with transmission and distribution losses for all landlord-procured electricity.

			Total Waste (tonnes)		Waste to Landfill (tonnes)		Waste Recovered (tonnes)		Waste Recycled (tonnes)	
Indicator references			Waste-Abs							
Sector	**Coverage 2018 (assets)**	**Coverage 2019 (assets)**	**2018**	**2019**	**2019**		**2019**		**2019**	
Alternatives	2 of 3	2 of 3	449	583	0%	0	41%	239	59%	344
Offices	4 of 11	4 of 9	164	161	0%	0	34%	55	66%	106
Retail, Warehouse	2 of 6	2 of 6	20	25	0%	0	0%	0	100%	25
Retail, Shopping Centres	1 of 4	0	155	0	No landlord-managed waste in 2019					
Totals	**9 of 49**	**8 of 43**	**788**	**769**	**0%**	**0**	**38%**	**294**	**62%**	**475**

NOTICE OF ANNUAL GENERAL MEETING

Shareholders' attention is drawn to the Chair's Statement on page 10 concerning arrangements for the AGM under the UK Government's "stay at home" and "stay alert" measures.

Notice is hereby given that the thirteenth 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 27 August 2020 at 11.30 am 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 2019.
2. To approve the dividend policy of the Company as set out in the Annual Report.
3. To receive and adopt the Directors' Remuneration Report for the year to 31 December 2019.
4. To re-appoint Deloitte LLP as Auditor to the Company until the conclusion of the next Annual General Meeting.
5. To authorise the Directors to determine the Auditor's remuneration.
6. To re-elect Mr Ayre as a Director of the Company.
7. To elect Mr Fry as a Director of the Company.
8. To re-elect Mr McCullagh as a Director of the Company.
9. To re-elect Mrs Platts as a Director of the Company.
10. To re-elect Ms Littlejohns as a Director of the Company.
11. To re-elect Mr Fowlds as a Director of the Company

Special Resolutions

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

12. 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 1 June 2020.

13. 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 of 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 2021 or, if earlier, on 27 February 2022, 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: 1 June 2020

Shareholders’ attention is drawn to the Chair’s Statement on page 10 concerning arrangements for the AGM under the UK Government’s “stay at home” and “stay alert” measures.

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 11.30 am on 25 August 2020.

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 1 June 2020, 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 100.

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 identity 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 next section for the contact details).

The Financial Conduct Authority providers advice with respect to share fraud and boiler room scams: www.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: 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 103. 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 INVESTMENTS 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 INVESTMENTS 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 INVESTMENTS 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 2020/2021.

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 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 Investments 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 www.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; Hargreaves Lansdown; iDealing; Interactive Investor/TD Direct; EQi; 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 www.pimfa.co.uk.

Independent Financial Advisers

To find an adviser who recommends on investment trusts, visit www.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 register.fca.org.uk
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.

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 103) and the remuneration disclosures in respect of the AIFM's reporting period for the period ended 31 December 2019 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 2019	123%	123%

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 98 to 100 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.

XDock 377, Magna Park
Lutterworth

FINANCIAL CALENDAR 2020/21

2020

May 2020
Payment of 2020 first interim dividend

2 June 2020
Announcement of annual results

27 August 2020
Annual General Meeting

July 2020

August 2020
Payment of 2020 second interim dividend

September 2020
Posting of Interim Report

October 2020

November 2020
Payment of 2020 third interim dividend

December 2020

2021

January 2021

February 2021
Payment of 2020 fourth interim dividend

March 2021

CORPORATE INFORMATION

Directors (all non-executive)

Andrew Wilson
Chair (retired 31 December 2019)

Ken McCullagh
Chair (appointed on 1 January 2020)
Chair of Audit Committee and Senior Independent Director (until 31 December 2019)

Michael Ayre
Chair of Audit Committee (appointed 1 January 2020)
Chair of Property Valuation Committee (until 31 December 2019)

Sandra Platts
Chair of the Management Engagement Committee and Nomination and Remuneration Committee

Margaret Littlejohns
Chair of the Risk Committee
Senior Independent Director (appointed 1 January 2020)

Robert Fowlds
Non-Executive Director

Chris Fry
Chair of Property Valuation Committee (appointed 1 January 2020)

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
Glategny Esplanade
St Peter Port
Guernsey
Channel Islands
GY1 3HW

Guernsey Legal Advisors

Walkers
12-14 New Street
Guernsey
GY1 2PF

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

Depositary

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

Environmental Statement

This Report is printed on Revive 100 Offset, made from 100% FSC® Recycled certified fibre sourced from de-inked Post-consumer waste. The printer and the manufacturing mill are both credited with ISO 14001 Environmental Management Systems Standard and both are FSC® certified. The mill also hold EMAS, the EU Eco-label.

Revive 100 offset is a Carbon Balanced paper which means that the carbon emissions associated with its manufacture have been measured and offset using the World Land Trust's Carbon Balanced scheme.

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.

	2019 £'000	2018 £'000
Total comprehensive income for the year	2,345	54,393
Add back:		
Losses/(Gains) on investment properties	43,094	(18,947)
(Gain)/Loss arising on interest rate swap	1	(1,388)
Non-recurring tax movement	45	5,328
Profit for dividend cover	45,485	39,386
Annual dividend	47,820	47,820
Dividend cover	95%	82%

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.

	2019 £'000	2018 £'000
Gross borrowings	250,000	250,000
Total assets	1,437,637	1,498,287
Less current liabilities	(23,046)	(36,007)
	1,414,591	(1,462,280)
Gross gearing	17.7%	17.1%

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.
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.

MSCI benchmark	Benchmark which includes data relevant to all properties held by funds included in the MSCI UK Balanced Portfolios Quarterly Property Index Benchmark.
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.

	2019 £'000	2018 £'000
Gross borrowings	250,000	250,000
Less cash	(48,984)	(43,505)
	201,016	(206,495)
Total assets	1,437,637	(1,498,287)
Less cash	(48,984)	(43,505)
Less current liabilities	(23,046)	(36,007)
	1,365,607	(1,418,775)
Net gearing	14.7%	14.6%

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 in 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.

UK Commercial Property REIT

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