AEW UK REIT plc

Annual Report and Financial Statements
for the year ended 31 March 2019

Contents

Strategic Report

Financial Highlights

- Net Asset Value ('NAV')* of £149.46 million and of 98.61 pence per share ('pps') as at 31 March 2019 (31 March 2018: £146.03 million and 96.36 pps).
- Operating profit before fair value changes of £13.52 million for the year (11 months ended 31 March 2018: £9.60 million).
- Unadjusted profit before tax ('PBT')* of £15.54 million and earnings of 10.26 pps for the year (11 months ended 31 March 2018: £9.82 million and of 7.17 pps).
- EPRA Earnings Per Share ('EPRA EPS')* for the year of 8.07 pence (11 months ended 31 March 2018: 6.56 pence).
- Total dividends of 8.00 pps declared for the year (11 months ended 31 March 2018: 7.33 pps, equating to an annualised dividend of 8.00 pps).
- Shareholder Total Return* for the year of 5.44% (11 months ended 31 March 2018: 3.65%).
- The price of the Company's Ordinary Shares on the Main Market of the London Stock Exchange was 92.80 pps as at 31 March 2019 (31 March 2018: 95.60 pps).
- As at 31 March 2019, the Company had drawn £50.00 million (31 March 2018: £50.00 million) of a £60.00 million (31 March 2018: £60.00 million) term credit facility with the Royal Bank of Scotland International Limited ('RBSi') and was geared to 25.30% of the Gross Asset Value ('GAV')* (31 March 2018: 26.00%) (see note 21 on pages 95 and 96 for further details).
- The Company held cash balances totalling £2.13 million as at 31 March 2019 (31 March 2018: £4.71 million). Under the terms of its loan facility, the Company can draw a further £2.31 million (31 March 2018: £1.11 million) up to the maximum 35% loan to NAV at drawdown.
- On 1 March 2019, the Company published its Prospectus in relation to a Share Issuance Programme of up to 250 million new Ordinary shares and up to 250 million convertible redeemable preference shares ("C shares"). No shares have been issued, to date, under the programme.

Property Highlights

- The Company acquired one property during the year for a purchase price of £6.93 million, excluding acquisition costs (11 months ended 31 March 2018: 10 properties for £60.11 million). The Company made two full disposals and two part disposals during the year for gross sales proceeds of £6.80 million (11 month period ended 31 March 2018: one disposal for gross sales proceeds of £11.05 million).
- As at 31 March 2019, the Company's property portfolio had a fair value of £197.61 million across 35 properties (31 March 2018: £192.34 million across 36 properties) and a historical cost of £196.86 million (31 March 2018: £196.64 million).
- The majority of assets that have been acquired are fully let and the portfolio had an EPRA Vacancy Rate** of 2.99% as at 31 March 2019 (31 March 2018: 7.10%).
- Rental income generated in the year under review was £17.18 million (11 months ended 31 March 2018: £12.33 million). The number of tenants as at 31 March 2019 was 95 (31 March 2018: 104).
- EPRA Net Initial Yield ('NIY')** of 7.62% as at 31 March 2019 (31 March 2018: 7.73%).
- Weighted Average Unexpired Lease Term ('WAULT')* of 4.87 years to break (31 March 2018: 5.08 years) and 6.10 years to expiry (31 March 2018: 6.16 years).

* See KPIs on pages 13 to 15 for definition of alternative performance measures.
** See Glossary on pages 102 to 104 for definition of alternative performance measures.

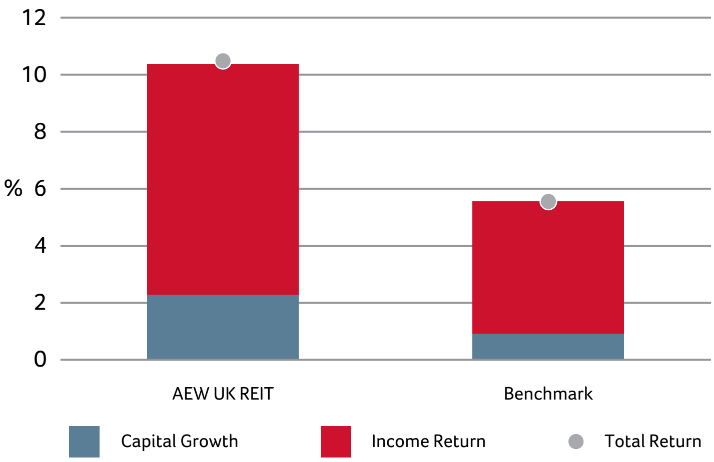
The current period being reported is for the 12 months from 1 April 2018 to 31 March 2019. The prior period ended 31 March 2018 was an 11-month period from 1 May 2017 to 31 March 2018 and so cannot be used as a direct comparator.

Chairman's Statement

Overview

I am pleased to present the audited annual results of AEW UK REIT plc (the 'Company') for the year ended 31 March 2019. As at 31 March 2019, the Company had a diversified portfolio of 35 commercial investment properties throughout the UK with a value of £197.61 million. On a like-for-like* basis, the portfolio valuation increased by 2.80% over the year.

AEW UK REIT Portfolio Performance vs. Benchmark for 12 months to 31 March 2019



Source: MSCI 31 March 2019

A key feature of the financial year has been achieving the target income returns of 8.00 pps from the Company's established portfolio of assets. Dividends of 8.00 pps have been declared in relation to the year, equating to a dividend yield of 8.62% based on the share price as at 31 March 2019. Dividends were fully covered by EPRA EPS of 8.07 pps, reflecting the high yielding nature of the portfolio. Over the year, the portfolio achieved total returns of 10.5%, an outperformance of 4.7% relative to the Benchmark (MSCI/AREF UK PFI Balanced Funds Quarterly Property Index) ('the Benchmark'). This performance was driven by income returns of 8.1% and the portfolio also achieved capital growth of 2.3%.

Such returns demonstrate the success of both the Company's investment strategy and the stock selection process of the Investment Manager when deploying the proceeds of the most recent capital raise, which occurred in October 2017. From the date of the share issue and up to 31 March 2018, the Company made seven acquisitions totalling £49.72 million, which fully utilised the capital raised, as well as an additional £17.50 million of debt. These acquisitions have played a major part in the Company achieving EPRA EPS ahead of its dividend target for the current year, with the seven assets having a combined NIY equating to 9.10% on the purchase price.

An active approach to asset management has also played a role in maximising returns from the portfolio. The vacancy rate has fallen from 7.10% as at 31 March 2018 to 2.99% as at 31 March 2019, largely as a result of new lettings in the office sector during the year. The most notable of these were the letting of Orion House in Oxford at a contracted rent of £179,410 per annum and the letting of Third Floor East, 255 Bath Street, Glasgow at a contracted rent of £88,608 per annum. Lease renewals have also been completed at 40 Queen Square, Bristol, increasing contracted rent on that accommodation from £66,623 to £94,500 per annum and at Cedar House, Gloucester, increasing contracted rent from £300,000 to £321,000 per annum and securing a 10-year term.

Another contributor to the fall in the vacancy rate has been the Company's divestment of largely vacant premises. The Company disposed of Floors 1-9, Pearl House, Nottingham in April 2018, retaining the fully let ground floor accommodation. 18-36, Chapel Walk, Sheffield was sold in August 2018 with the fully let adjoining units, 11-15 Fargate being retained. These disposals, for combined gross proceeds of £4.55 million, eliminated over a quarter of the Company's vacant Estimated Rental Value ('ERV')** as at 31 March 2018.

Further to these disposals, in December 2018, the Company divested Stoneferry Retail Park, Hull, for gross proceeds of £1.80 million. The asset had c.£165,000 of income due to expire in May 2019. Waggon Road, Mossley, was sold at auction, completing in March 2019, for gross proceeds of £450,000. This price was £100,000 ahead of the asset's most recent valuation in December 2018.

The Company reinvested the proceeds from its disposals into an industrial asset, Lockwood Court, Parkside Industrial Estate, Leeds, which was acquired for £6.93 million, net of purchase costs, in February 2019.

* See Glossary on pages 102 to 104 for definition of alternative performance measures.
** See KPIs on pages 13 to 15 for definition of alternative performance measures.

Chairman's Statement *(continued)*

The Company's share price was 92.80 pps as at 31 March 2019 (31 March 2018: 95.60 pps), representing a 5.89% discount to NAV. The share price has been trading at a discount to NAV since June 2018. The fall in the share price over the year was offset by total dividend payments of 8.00 pps, generating a Shareholder Total Return of 5.44%, compared with a NAV Total Return of 10.64%. Since the year end, the share price has increased and as at 31 May 2019 was 96.00 pps, representing a 2.65% discount to NAV.

On 1 March 2019, the Company published its prospectus (the "Prospectus") in relation to a share issuance programme (the "Share Issuance Programme") of up to 250 million new Ordinary Shares and up to 250 million convertible redeemable preference shares ("C Shares"). The Share Issuance Programme will close on 28 February 2020 (or on any earlier date on which it is fully subscribed). We continue to see attractive opportunities across our target sectors and look forward to raising additional capital to pursue those opportunities as and when market conditions allow.

Financial Results

	Year ended 31 March 2019	Period from 1 May 2017 to 31 March 2018
Operating profit before fair value changes (£'000)	13,524	9,601
Operating profit (£'000)	17,226	10,472
Profit after tax (£'000)	15,544	9,820
EPS (basic and diluted) (pence)	10.26	7.17
EPRA EPS (basic and diluted) (pence)	8.07	6.56
Ongoing Charges (%)	1.40	1.24
NAV per share (pence)	98.61	96.36
EPRA NAV per share (pence)	98.51	96.34

Financing

There were no drawdowns or repayments of the loan facility during the year and the Company's loan balance remained at £50.00 million as at 31 March 2019 (31 March 2018: £50.00 million), producing gearing of 25.30% of property valuation (31 March 2018: 26.00%). The amount available under the facility was £60.00 million as at 31 March 2019 (31 March 2018: £60.00 million).

On 22 October 2018, the Company extended the term of the facility by three years up to 22 October 2023, to mitigate the financing risk associated with Brexit. The margin remains unchanged, with the loan incurring interest at three month LIBOR +1.4%, which equated to an all-in rate of 2.32% as at 31 March 2019 (31 March 2018: 2.11%). The Company is protected from a significant rise in interest rates as it has interest rate caps (£26.51 million at 2.50% and £10.00 million at 2.00%) with a combined notional value of £36.51 million (31 March 2018: £36.51 million), resulting in the loan being 73.00% hedged (31 March 2018: 73.00%). These interest rate caps are effective until 19 October 2020. The Company has entered into additional interest rate caps on a notional value of £46.51 million at 2.00% covering the extension period of the loan from 20 October 2020 to 19 October 2023.

Under the Prospectus the long-term gearing target remains 25.00% or less, however, the Company can borrow up to 35.00% of GAV in advance of an expected capital raise or asset disposal. Under the terms of the current loan facility, borrowing is restricted to 35.00% of NAV at drawdown. The Board and Investment Manager will continue to monitor the level of gearing and may adjust the target gearing according to the Company's circumstances and perceived risk levels.

Chairman's Statement *(continued)*

Dividends

The Company has continued to deliver on its target of paying dividends of 8.00 pps per annum. During the year, the Company declared and paid four quarterly dividends of 2.00 pence per Ordinary Share, in line with its target.

On 26 April 2019, the Board declared an interim dividend of 2.00 pence per Ordinary Share in respect of the period from 1 January 2019 to 31 March 2019. This interim dividend was paid on 31 May 2019 to shareholders on the register as at 9 May 2019.

The Directors will declare dividends taking into account the current level of the Company's earnings and the Directors' view on the outlook for sustainable recurring earnings. As such, the level of dividends paid may increase or decrease from the current annual dividend of 8.00 pps. Based on the current profile of the portfolio, the Company expects to pay an annualised dividend of 8.00 pps in respect of the year ending 31 March 2020, subject to market conditions.

Outlook

The Board and the Investment Manager are pleased with the strong income returns delivered to shareholders to date. Based on annualised dividend payments of 8.00 pps, the Company delivered a dividend yield of 8.62% based on the year-end share price of 92.80 pence.

The Company was fully invested at the start of the year and achieved returns during the year which fully covered its dividend payments. The Board expects this level of returns to continue, based on the projected income from the portfolio which had an EPRA NIY of 7.62% and a Reversionary Yield of 7.75% as at 31 March 2019.

Whilst the EPRA Vacancy Rate has been reduced significantly during the year to 2.99% as at 31 March 2019, there is still further value to be gained through asset management initiatives in the short term. The portfolio has a WAULT of 4.9 years to break and 6.1 years to expiry and those lease events arising in the near future will provide the opportunity to increase and extend income streams from certain assets.

In the wider economic environment, it had been hoped that there would be more political certainty by the end of this financial year, however, with the Brexit deadline being extended further to 31 October 2019, we expect investors to remain cautious. We consider the portfolio to be defensively positioned in any outcome, with no exposure to London offices – the sector most likely to be impacted – and broad diversification by sector and region.

Looking forward, our focus remains on continuing to grow the Company with share issues as part of the 12-month Share Issuance Programme, as set out in the Company's Prospectus, subject to market conditions. Subject to future fund raising, the Investment Manager will focus on finding further acquisitions which will deliver an attractive return as part of a well-diversified portfolio.

Annual General Meeting

The Company's Annual General Meeting ('AGM') will be held on Thursday, 12 September 2019 at 12 noon at The Cavendish Hotel, 81 Jermyn Street, St James', London SW1Y 6JF.

You will find enclosed with the Annual Report and Notice of AGM a letter asking if you would prefer to receive future annual and half-yearly reports and other communication from the Company in electronic form rather than in printed form. Further details regarding this are set out in the Notice of AGM.

Board Composition

James Hyslop will retire from the Board at the forthcoming AGM. The Board would very much like to express its appreciation for his contribution to the Company which has been greatly valued since the Company was formed.

Mark Burton
Chairman
21 June 2019

Business Model and Strategy

Introduction

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

Investment Objective

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

Investment Policy

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

Within the scope of restrictions set out below (under the heading 'Investment Restrictions') the Company may invest up to 10.00% of its NAV (at the time of investment) in the AEW UK Core Property Fund (the 'Core Fund') and up to 10.00% of its NAV (measured at the commencement of the project) in development opportunities, with the intention of holding any completed development as an investment.

Investment Restrictions

The Company invests and manages its assets with the objective of spreading risk through the following investment restrictions:

- the value of no single property, at the time of investment, will represent more than 15.00% of GAV;
- the Company may commit up to a maximum of 10.00% of its NAV (measured at the commencement of the project) to development activities;
- the value of properties, measured at the time of each investment, in any one of the following sectors: office properties, retail warehouses, high street retail and industrial/warehouse properties will not exceed 50.00% of GAV. The 50.00% sector limit may be increased to 60.00% as part of the Investment Manager's efficient portfolio management whereby the Investment Manager determines it appropriate to pursue an attractive investment opportunity which could cause the 50.00% sector limit to be exceeded on a short-term basis pending a repositioning of the portfolio through a sale of assets or other means;
- investment in unoccupied and non-income producing assets will, at the time of investment, not exceed 20.00% of NAV;
- the Company may commit up to a maximum of 10.00% of the NAV (at the time of investment) in the Core Fund. The Company disposed of its last remaining units in the Core Fund in May 2017 and it is not the current intention of the Directors to invest in the Core Fund;
- the Company will not invest in other closed-ended investment companies; and
- if the Company invests in derivatives for the purposes of efficient portfolio and cash management, the total notional value of the derivatives at the time of investment will not exceed, in aggregate, 35.00% of GAV.

Business Model and Strategy *(continued)*

***Investment Restrictions** (continued)*

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

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

In the event of a breach of the investment policy and investment restrictions set out above, the Directors upon becoming aware of such breach will consider whether the breach is material, and if it is, notification will be made to a Regulatory Information Service.

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

Our Strategy

The Company exploits what it believes to be the compelling relative value opportunities currently offered by pricing inefficiencies in smaller commercial properties let on shorter occupational leases. The Company supplements this core strategy with asset management initiatives to upgrade buildings and thereby improve the quality of income streams. In the current market environment, the focus is to invest in properties which:

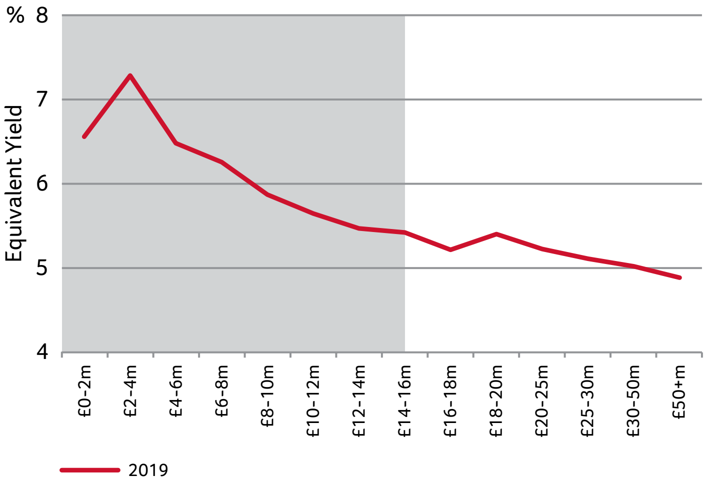
- typically have a value, on investment, of between £2.50 million and £15.00 million;
- have initial net yields, on investment, of typically between 7.5-10%;
- achieve across the whole portfolio an average weighted lease term of between three to six years remaining;
- achieve, across the whole portfolio, a diverse and broad spread of tenants; and
- have potential for asset management initiatives to include refurbishment and re-lettings.

Business Model and Strategy *(continued)*

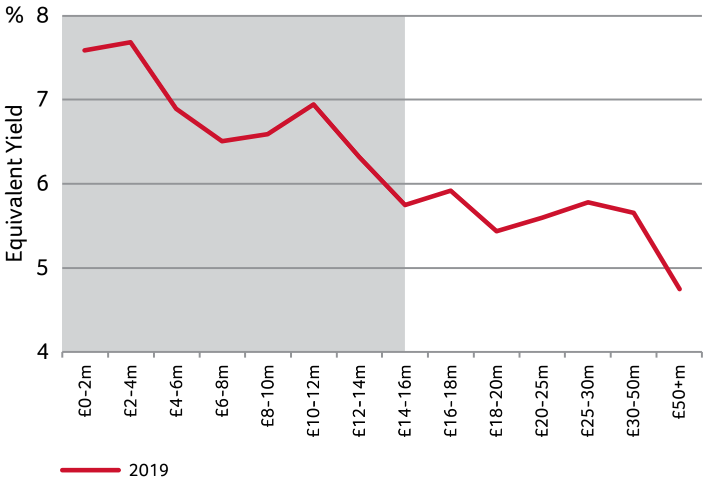
The Company's strategy is focused on delivering enhanced returns from the smaller end (up to £15.00 million) of the UK commercial property market. The Company believes that there are currently pricing inefficiencies in smaller commercial properties relative to the long-term pricing resulting in a significant yield advantage, as demonstrated in the graphs below, which the Company aims to exploit.

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

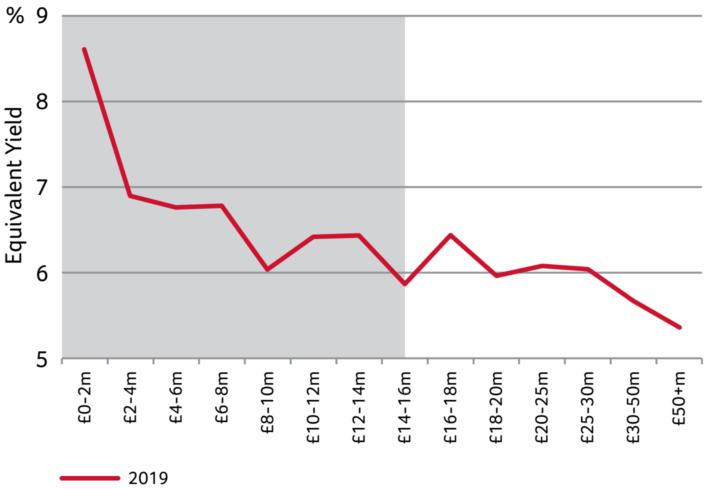
INDUSTRIAL



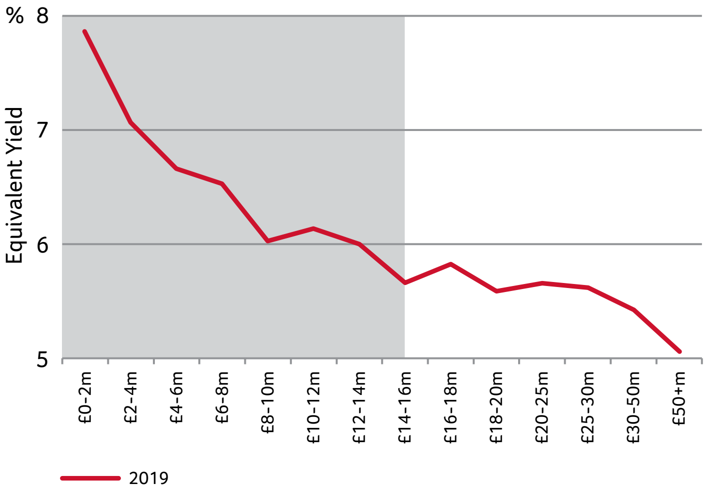
LONDON & SOUTH EAST OFFICES



RETAIL



ALL PROPERTY



Note: Equivalent yield is a weighted average of the initial yield and reversionary yield, and represents the yield which the property will produce based on timing of the income received.

Source: IPD, 31 March 2019

Business Model and Strategy *(continued)*

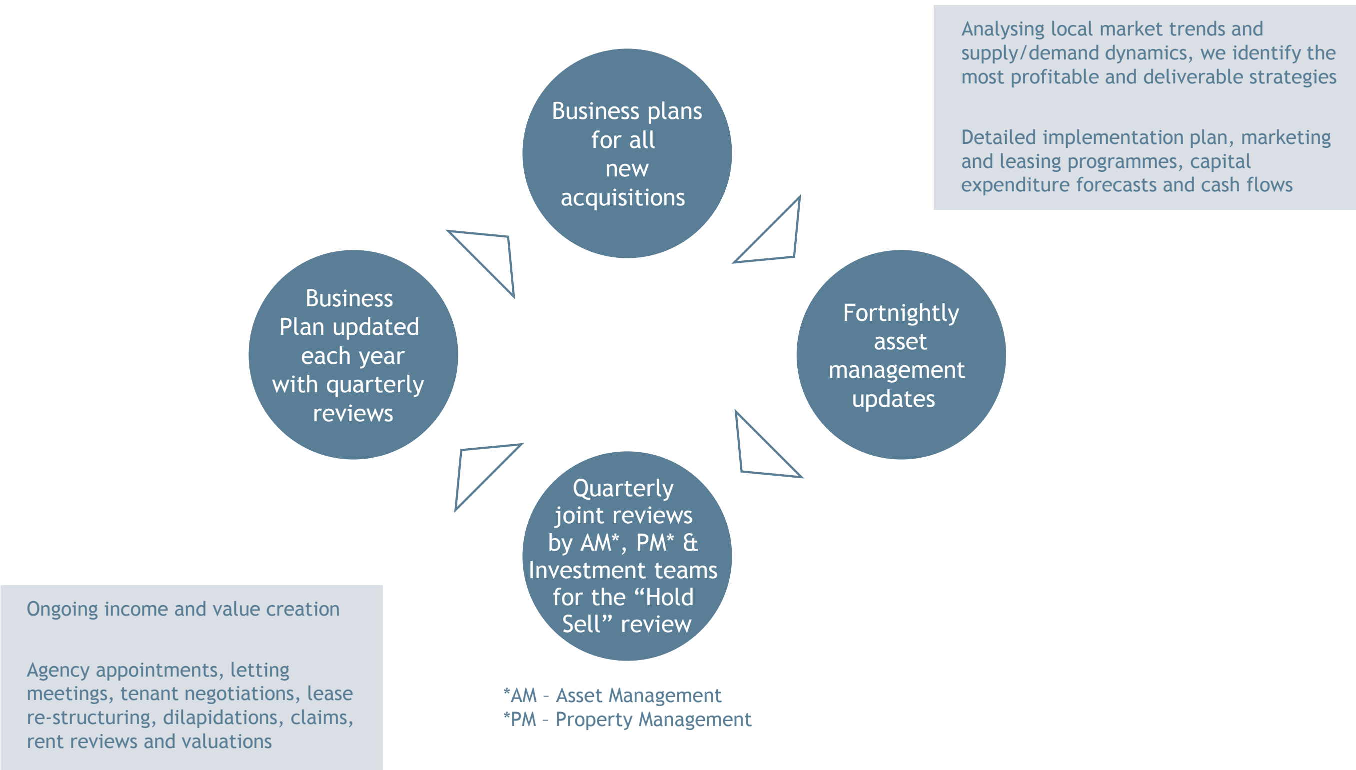
How we add value

An Experienced Team
The investment management team averages 20 years working together, reflecting stability and continuity.

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

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

Our Asset Management Process



Strategy in Action

Acquiring a stable income stream in a location with strong rental growth

Lockwood Court, Leeds

- Acquired February 2019
- Location close to motorway network which is the focus of regional demand and has seen declining availability
- A NIY of 7.7% and WAULT of 10 years to expiry
- Low passing rent of £3.21 per sq ft

Strategy in Action *(continued)*

Active asset management driving value

Eastpoint Business Park, Oxford

- Orion House let in August 2018 at a rent of £179,410 per annum
- 25-year term with five-yearly rent reviews linked to the Retail Price Index
- 27.5% increase in valuation of the property (as provided by the valuers) over the year

Strategy in Action *(continued)*

Extending existing income streams to maximise value
Mangham Road, Rotherham

- Lease renewal completed in October 2018 at c. 80,000 sq ft unit
- 10-year term at a rent of £275,000 per annum, representing an increase of 20% in passing rent
- 30.4% increase in valuation of the property (as provided by the valuer) over the year

Strategy in Action *(continued)*

Minimising risk through divestment opportunities

Stoneferry Retail Park, Hull

- Sold in December 2018 for gross proceeds of £1.80 million
- Over 70% of the passing income due to expire in May 2019
- Helped reduce exposure to the retail sector to 15.3% as at 31 March 2019

Key Performance Indicators

KPI AND DEFINITION	RELEVANCE TO STRATEGY	PERFORMANCE
1. Net Initial Yield A representation to the investor of what their initial net yield would be at a predetermined purchase price after taking account of all associated costs, e.g. void costs and rent free periods.	The NIY is in line with the Company's target dividend yield meaning that, after costs, the Company should have the ability to meet its target dividend through property income.	**7.63%** at 31 March 2019 (31 March 2018: 7.74%)
2. True Equivalent Yield The average weighted return a property will produce according to the present income and ERV assumptions, assuming the income is received quarterly in advance.	A True Equivalent Yield profile in line with the Company's target dividend yield shows that, after costs, the Company should have the ability to meet its proposed dividend through property income.	**7.94%** at 31 March 2019 (31 March 2018: 8.20%)
3. Reversionary Yield The expected return the property will provide once rack-rented.	A Reversionary Yield profile that is in line with an Initial Yield profile shows a potentially sustainable income stream that can be used to meet dividends past the expiry of a property's current leasing arrangements.	**7.75%** at 31 March 2019 (31 March 2018: 8.03%)
4. WAULT to expiry The average lease term remaining to expiry across the portfolio, weighted by contracted rent.	The Investment Manager believes that current market conditions present an opportunity whereby assets with a shorter unexpired lease term are often mispriced. It is also the Investment Manager's view that a shorter WAULT is useful for active asset management as it allows the Investment Manager to engage in direct negotiation with tenants rather than via rent review mechanisms.	**6.10 years** at 31 March 2019 (31 March 2018: 6.16 years)

Key Performance Indicators *(continued)*

KPI AND DEFINITION	RELEVANCE TO STRATEGY	PERFORMANCE
5. WAULT to break The average lease term remaining to break, across the portfolio weighted by contracted rent.	The Investment Manager believes that current market conditions present an opportunity whereby assets with a shorter unexpired lease term are often mispriced. As such, it is in line with the Investment Manager's strategy to acquire properties with a WAULT that is generally shorter than the benchmark. It is also the Investment Manager's view that a shorter WAULT is useful for active asset management as it allows the Investment Manager to engage in direct negotiation with tenants rather than via rent review mechanisms.	**4.87 years** at 31 March 2019 (31 March 2018: 5.08 years)
6. NAV NAV is the value of an entity's assets minus the value of its liabilities.	Provides stakeholders with the most relevant information on the fair value of the assets and liabilities of the Company.	**£149.46 million** at 31 March 2019 (31 March 2018: £146.03 million)
7. Leverage (Loan to GAV) The proportion of our property portfolio that is funded by borrowings.	The Company utilises borrowings to enhance returns over the medium term. Borrowings will not exceed 35% of GAV (measured at drawdown) with a long-term target of 25% or less of GAV.	**25.30%** at 31 March 2019 (31 March 2018: 26.00%)
8. Vacant ERV The space in the property portfolio which is currently unlet, as a percentage of the total ERV of the portfolio.	The Company's aim is to minimise vacancy of the properties. A low level of structural vacancy provides an opportunity for the Company to capture rental uplifts and manage the mix of tenants within a property.	**2.99%** at 31 March 2019 (31 March 2018: 7.10%)
9. Dividend Dividends declared in relation to the year. The Company targets a dividend of 8.00 pence per Ordinary Share per annum.	The dividend reflects the Company's ability to deliver a sustainable income stream from its portfolio.	**8.00 pps** for the year ended 31 March 2019 (11 months ended 31 March 2018: 7.33 pps, equating to an annualised dividend of 8.00 pps)

Key Performance Indicators *(continued)*

KPI AND DEFINITION	RELEVANCE TO STRATEGY	PERFORMANCE
10. Ongoing Charges The ratio of total administration and operating costs expressed as a percentage of average NAV throughout the year.	The Ongoing Charges ratio provides a measure of total costs associated with managing and operating the Company, which includes the management fees due to the Investment Manager. The Investment Manager presents this measure to provide investors with a clear picture of operational costs involved in running the Company.	**1.40%** for the year ended 31 March 2019 (11 months ended 31 March 2018: 1.24%)
11. Profit before tax ('PBT') PBT is a profitability measure which considers the Company's profit before the payment of income tax.	The PBT is an indication of the Company's financial performance for the year in which its strategy is exercised.	**£15.54 million** for the year ended 31 March 2019 (11 months ended 31 March 2018: £9.82 million)
12. Shareholder Total Return The percentage change in the share price assuming dividends are reinvested to purchase additional Ordinary Shares.	This reflects the return seen by shareholders on their shareholdings through share price movements and dividends received.	**5.44%** for the year ended 31 March 2019 (11 months ended 31 March 2018: 3.65%)
13. EPRA EPS Earnings from core operational activities. A key measure of a company's underlying operating results from its property rental business and an indication of the extent to which current dividend payments are supported by earnings. See note 8 of the Financial Statements.	This reflects the Company's ability to generate earnings from the portfolio which underpins dividends.	**8.07 pps** for the year ended 31 March 2019 (11 months ended 31 March 2018: 6.56 pps)

Investment Manager's Report

Alex Short – Portfolio Manager

Market Outlook

UK Economic Outlook

The UK's economy strengthened in the first quarter of 2019, achieving growth of 0.5%. This was due in part to stockpiling by UK manufacturers fearing the impact of a no-deal Brexit. This was an improvement on the Q4 2018 results, which had seen a sharp decline in growth to 0.2% due to Brexit uncertainty. The extension of Article 50 to 31 October 2019, coupled with the arrival of a new Prime Minister in July 2019, will now prolong this uncertainty and could continue to hamper investment. Although investment has remained subdued, private consumption growth has been steady, supported by strong employment figures and real wage growth over the last two quarters.

The Bank of England ("BoE") raised its forecast for GDP growth in 2019 from 1.2% to 1.5% based on a higher level of global GDP growth than had been expected at the start of the year. Despite this improved outlook from the BoE, monetary policy will depend on a number of factors and it is expected that any rises in interest rates will be slow and steady over the next few years.

UK Real Estate Outlook

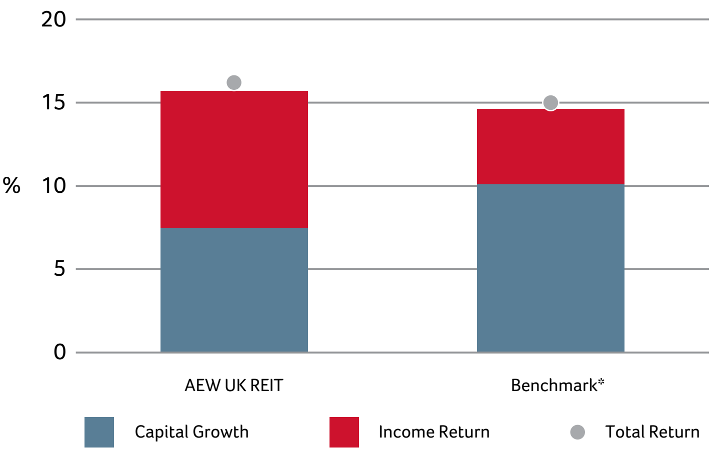
With Brexit dominating the economic outlook, this is taking its toll on the macro-economic picture, including financial and property markets. Given the market uncertainty, rental growth is expected to be fairly subdued during the remainder of 2019. There could be a period of volatility in values ahead as the uncertainty surrounding Brexit intensifies, although property is still expected to deliver a stable income return.

Property appears fairly priced at the current low levels of interest rates, which are expected to rise over time, but in small stages. The scope for further yield compression appears to be limited and a general upward pressure on property yields could occur, depending on the nature of the Brexit transition.

Sector Outlook

Industrial

AEW UK REIT Industrial Performance vs. Benchmark



Source: MSCI 31 March 2019

Standard industrials and distribution are expected to be a major driver of the occupier market with the growth of e-commerce, although it is thought that rental growth in 2019 will not match 2018, as some rents are reaching a ceiling. Annual transaction activity in the industrial sector reached £7.8 billion in 2018, which is the second-highest figure on record.

The industrial sector represents the largest proportion of our portfolio with 48% of the valuation at 31 March 2019. We generally focus on assets with low capital value in locations with good accessibility from the national motorway network.

Our industrial assets achieved a total return of 16.2% for the year, the highest sector return in the portfolio, outperforming the Benchmark by 1.1%.

Investment Manager's Report *(continued)*

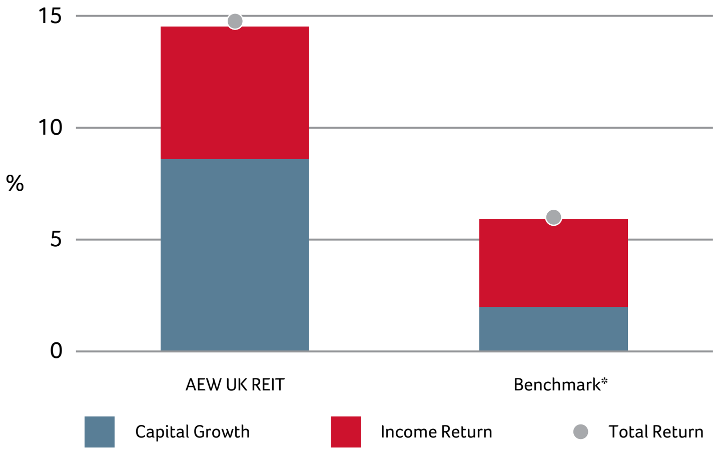
Office

We expect office rents outside London to remain stable for the coming years as development in most cities has already peaked. Some rental growth was seen in regional markets in 2018 and rental rates are expected to remain unchanged for the remainder of 2019.

Offices make up the second largest sector holding in the portfolio, representing 22.0% of the portfolio valuation as at 31 March 2019. Our office holding achieved the greatest performance relative to the Benchmark for the year in terms of total return, outperforming the Benchmark Total Return by 8.4%.

This performance was driven by strong capital growth of 8.6% for the year, which was achieved through significant lettings and lease renewals, as noted in the Asset Management section of the Investment Manager's Report on page 26.

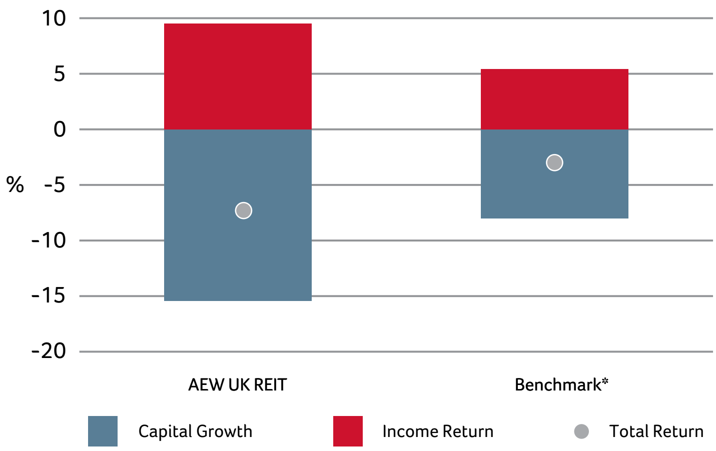
AEW UK REIT Office Performance vs. Benchmark



Source: MSCI 31 March 2019

Retail

AEW UK REIT Retail Performance vs. Benchmark



Source: MSCI 31 March 2019

Growth in household consumption slowed in 2018, despite seeing real wage growth towards the end of the year, as consumers remained cautious with regards to their spending decisions. As such, there is increasing concern around the weakness in the retail market, which is expected to persist during 2019, and headline rents are predicted to continue to fall across all segments except Central London unit shops. In terms of investment, the total number of retail deals in 2018 was at its lowest since 2012.

Retail represented the portfolio's smallest sector holding, with only 15.3% of the valuation as at 31 March 2019, which somewhat mitigates the risk associated with the sector at a portfolio level. Our assets performed poorly in terms of capital return relative to the Benchmark, with a negative 15.4% capital return. However our income streams have remained largely intact, despite the myriad of company voluntary arrangements ('CVAs') and company failures in the retail market, and delivered income returns of 9.5% for the year.

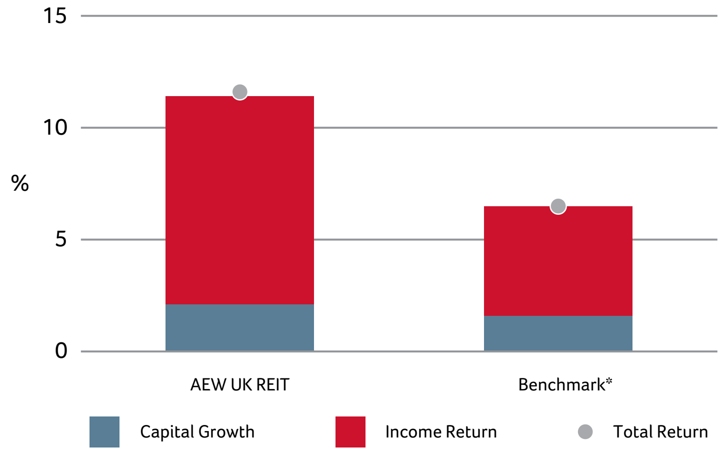
Investment Manager's Report *(continued)*

Alternatives

We think that the Alternatives sector will continue to grow in importance and could begin to outperform other sectors in terms of total returns.

This is a sector in which we have significant expertise and continue to see compelling opportunities. Our alternatives assets, which include leisure and car parking, represent 15.2% of the valuation as at 31 March 2019 and delivered the highest sector income return over the year of 9.3%.

AEW UK REIT Alternatives performance vs. Benchmark



* Benchmark refers to MSCI/AREF UK PFI Balanced Funds Quarterly Property Index

Financial Results

Net rental income for the year was £15.72 million (11 months ended 31 March 2018: £11.22 million), contributing to an operating profit before fair value changes and disposals of £13.52 million (11 months ended 31 March 2018: £9.60 million).

The portfolio saw a gain of £4.18 million on revaluation of investment property over the year (11 months ended 31 March 2018: £1.01 million). This performance was largely driven by valuation gains in the portfolio's office assets resulting from several new lettings and lease renewals during the year. The Company's industrial assets also performed strongly, delivering like-for-like valuation growth. There was a small like-for-like increase in the valuation of the Company's alternative assets and only the Company's retail assets suffered a decrease in valuation, which is in common with the overall market performance of the sector.

The Company reported a loss on disposal of investment properties of £0.48 million (11 months ended 31 March 2018: £0.22 million), having made two part disposals (Floors 1-9, Pearl House, Nottingham and 18-36, Chapel Walk, Sheffield) and two full disposals (Stoneferry Retail Park, Hull and Waggon Road, Mossley) during the year.

Administrative expenses, which include the Investment Manager's fee and other costs attributable to the running of the Company, were £2.20 million (11 months ended 31 March 2018: £1.62 million). Ongoing Charges for the period were 1.40% (11 months ended 31 March 2018: 1.24%) and have increased largely as a result of one-off costs during the year relating to the publication of the Company's Prospectus.

The Company incurred finance costs of £1.68 million (11 months ended 31 March 2018: £0.65 million). This increase compared with the prior period comes as a result of having a higher balance of the loan drawn over the course of the year. The Company also entered into additional interest rate caps on a notional value of £46.51 million during the year, becoming effective in October 2020, which saw a fair value loss of £0.37 million.

The total profit before tax for the year of £15.54 million (11 months ended 31 March 2018: £9.82 million) equates to a basic EPS of 10.26 pence (11 months ended 31 March 2018: 7.17 pence).

EPRA EPS for the year was 8.07 pps which, based on dividends paid of 8.00 pps, reflects a dividend cover of 101% (11 months ended 31 March 2018: EPRA Earnings of 6.56 pps, dividends paid of 7.33 pps and dividend cover of 89.50%).

Investment Manager's Report *(continued)*

The Company's NAV as at 31 March 2019 was £149.46 million or 98.61 pps (31 March 2018: £146.03 million or 96.36 pps). This is an increase of 2.25 pps or 2.33%, with the underlying movement in NAV set out in the table below:

	Pence per share	£ million
NAV as at 1 April 2018	**96.36**	**146.03**
Change in fair value of investment property	2.76	4.18
Change in fair value of derivatives	(0.26)	(0.39)
Loss on disposal of investment property	(0.32)	(0.48)
Income earned for the period	11.33	17.18
Expenses and net finance costs for the period	(3.24)	(4.94)
Dividends paid	(8.00)	(12.12)
NAV as at 31 March 2019	**98.61**	**149.46**

Financing

As at 31 March 2019, the Company had utilised £50.00 million (31 March 2018: £50.00 million) of an available £60.00 million (31 March 2018: £60.00 million) credit facility with RBSi, resulting in gearing of 25.30% loan to property valuation. In October 2018, the Company extended the term of the loan facility by three years to October 2023 to mitigate the financing risk associated with Brexit. The loan incurs interest at three-month LIBOR + 1.4% (2018: LIBOR + 1.4%).

To mitigate the interest rate risk that arises from entering into a variable rate linked loan, as at 31 March 2019, the Company held interest rate caps with a combined notional value of £36.51 million, at strike rates of 2.5% on £26.51 million and 2.0% on £10.00 million (31 March 2018: 2.5% on £26.51 million and 2.0% on £10.00 million), meaning that the loan is 73% hedged (31 March 2018: 73%). In October 2018, the Company entered into interest rate caps on a national value of £46.51 million, effective from 20 October 2020 to 19 October 2023, capping the interest rate at 2.0% per annum, meaning that the current loan drawn down of £50.00 million will become 93% hedged.

Share Issuance Programme

On 1 March 2019, the Company published its Prospectus in relation to a Share Issuance Programme of up to 250 million new Ordinary shares and up to 250 million C shares. No shares have been issued, to date, under the programme.

Portfolio Activity

The Company's objective is to build a diversified portfolio of commercial properties throughout the UK. New acquisitions are selected to provide a sustainable income return and the potential for growth, whilst also limiting downside risk. The majority of the Company's assets are fully let and as at 31 March 2019, the Company had a vacancy rate of 2.99% (31 March 2018: 7.10%). The following significant investment transactions were made during the year:

– In February 2019, the Company acquired Lockwood Court, Parkside Industrial Estate, Leeds for a gross purchase price of £6.93 million. The 187,626 sq ft industrial warehouse is fully let to LWS Yorkshire Limited, a logistics and storage provider for Harrogate Spring Water, on a 10-year lease from October 2018. The lease provides a low passing rent of £3.21 per sq ft which, together with tight supply, forms a strong base for future potential rental growth. Located two miles south of Leeds City Centre and close to J25 of the M62 and J40 of the M1, Parkside Industrial Estate is a well-established industrial and commercial area with a history of attracting regional and national occupiers.

– On 14 March 2019, the Company completed the sale of its industrial asset at Waggon Road, Mossley. The asset was sold at auction for £450,000, ahead of its most recent valuation £350,000.

Investment Manager's Report *(continued)*

Portfolio Activity *(continued)*

- In December 2018, the Company completed the sale of Stoneferry Retail Park, Hull, for gross proceeds of £1.80 million, reducing the Company's exposure to the retail sector.
- On 6 August 2018, the Company completed the sale of 18-36 Chapel Walk, Sheffield, for gross proceeds of £0.90 million. The units sold were 47.10% vacant by floor area. The Company has retained the fully let adjacent units, 11-15 Fargate, totalling 5,495 sq ft.
- On 5 April 2018, the Company completed the sale of its office accommodation at Pearl House, Nottingham, for gross proceeds of £3.65 million. The sale comprised the first to ninth floors, a ground floor reception and car parking spaces, providing a total area of 41,262 sq ft. The Company retained the ground floor accommodation in the busy city centre location, totalling 28,432 sq ft, let to national retail operators including Costa Coffee, Poundland and Lakeland.

Acquisition during the year

Lockwood Court, Leeds

Purchase Price (£m):	**6.93**
Sector:	**Industrial**
Area (sq ft):	**187,626**
NIY at acquisition (%):	**7.7**
WAULT to break as at 31 March 2019 (years):	**9.5**
Occupancy by ERV (%):	**100**
Constructed:	**1970s**

Investment Manager's Report *(continued)*

Property Portfolio

Summary by Sector as at 31 March 2019

Sector	Number of Properties	Valuation (£m)	Area ('000 sq ft)	Occupancy by ERV (%)	WAULT to break (years)	Gross Passing Rental Income (£m)	ERV (£m)
Industrial	20	94.1	2335	99.4	4.9	7.3	8.3
Offices	6	43.2	287	88.9	3.7	3.2	4.2
Alternatives	3	30.0	165	100.0	6.1	2.8	2.3
Standard Retail	5	23.6	169	99.9	3.6	2.7	2.1
Retail Warehouse	1	6.7	51	100.0	5.0	0.6	0.6
Portfolio	**35**	**197.6**	**3,007**	**97.0**	**4.9**	**16.6**	**17.5**

Summary by Geographical Area as at 31 March 2019

Geographical Area	Number of Properties	Valuation (£m)	Area ('000 sq ft)	Occupancy by ERV (%)	WAULT to break (years)	Gross Passing Rental Income (£m)	ERV (£m)
Yorkshire and Humberside	8	35.2	1,028	98.5	3.6	2.8	3.4
South East	5	29.8	195	97.0	4.1	2.5	2.5
Eastern	5	22.9	345	100.0	3.8	1.7	2.0
South West	3	22.7	125	100.0	3.8	1.7	1.7
West Midlands	4	17.9	397	100.0	3.7	1.7	1.8
East Midlands	2	17.9	81	100.0	3.0	1.9	1.4
North West	4	15.8	302	98.8	4.2	1.4	1.3
Wales	2	14.8	376	100.0	10.0	1.2	1.3
Greater London	1	12.0	72	100.0	12.6	1.0	0.9
Scotland	1	8.6	86	65.8	2.3	0.7	1.2
Portfolio	**35**	**197.6**	**3,007**	**97.0**	**4.9**	**16.6**	**17.5**

Investment Manager’s Report *(continued)*

Property Portfolio *(continued)*

UK property locations as at 31 March 2019

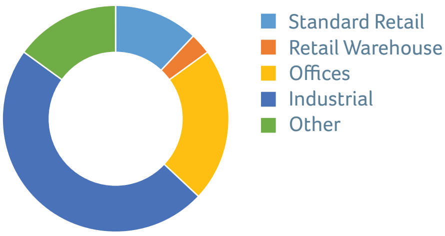
Industrial 20	Office 6	Retail 6	Alternatives 3

Investment Manager's Report *(continued)*

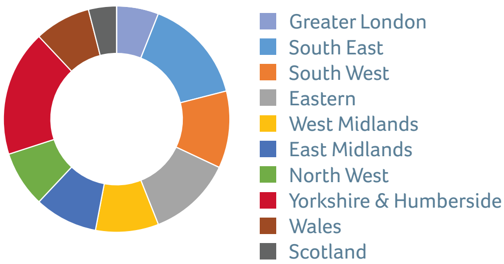
Property Portfolio *(continued)*

Properties by Market Value as at 31 March 2019

Sector Allocation by Market Value



Geographical Allocation by Market Value



	Property	Sector	Region	Market Value Range (£m)
	Top 10:			
1.	2 Geddington Road, Corby	Other (Car parking)	East Midlands	10.0 – 15.0
2.	40 Queen Square, Bristol	Offices	South West	10.0 – 15.0
3.	London East Leisure Park, Dagenham	Other (Leisure)	Greater London	10.0 – 15.0
4.	Eastpoint Business Park, Oxford	Offices	South East	10.0 – 15.0
5.	Gresford Industrial Estate, Wrexham	Industrial	Wales	7.5 – 10.0
6.	225 Bath Street, Glasgow	Offices	Scotland	7.5 – 10.0
7.	Lockwood Court, Leeds	Industrial	Yorkshire and Humberside	5.0 – 7.5
8.	Above Bar Street, Southampton	Standard Retail	South East	5.0 – 7.5
9.	Langthwaite Grange Industrial Estate, South Kirkby	Industrial	Yorkshire and Humberside	5.0 – 7.5
10.	Barnstaple Retail Park	Retail Warehouse	South West	5.0 – 7.5

The Company's top 10 properties listed above comprise 47.7% of the total value of the portfolio.

Investment Manager's Report *(continued)*

Property Portfolio *(continued)*

	Property	Sector	Region	Market Value Range (£m)
11.	Storeys Bar Road, Peterborough	Industrial	Eastern	5.0 – 7.5
12.	Sarus Court Industrial Estate, Runcorn	Industrial	North West	5.0 – 7.5
13.	Apollo Business Park, Basildon	Industrial	Eastern	5.0 – 7.5
14.	Commercial Road, Portsmouth	Standard Retail	South East	5.0 – 7.5
15.	Euroway Trading Estate, Bradford	Industrial	Yorkshire and Humberside	5.0 – 7.5
16.	Oak Park, Droitwich	Industrial	West Midlands	5.0 – 7.5
17.	Odeon Cinema, Southend	Other (Leisure)	Eastern	5.0 – 7.5
18.	Brockhurst Crescent, Walsall	Industrial	West Midlands	5.0 – 7.5
19.	Pearl Assurance House, Nottingham	Standard Retail	East Midlands	5.0 – 7.5
20.	Sandford House, Solihull	Offices	West Midlands	< 5.0
21.	Excel 95, Deeside	Industrial	Wales	< 5.0
22.	Diamond Business Park, Wakefield	Industrial	Yorkshire and Humberside	< 5.0
23.	Bank Hey Street, Blackpool	Standard Retail	North West	< 5.0
24.	Walkers Lane, St. Helens	Industrial	North West	< 5.0
25.	Brightside Lane, Sheffield	Industrial	Yorkshire and Humberside	< 5.0
26.	Cedar House, Gloucester	Offices	South West	< 5.0
27.	Wella Warehouse, Basingstoke	Industrial	South East	< 5.0
28.	Magham Road, Rotherham	Industrial	Yorkshire and Humberside	< 5.0
29.	Pipps Hill Industrial Estate, Basildon	Industrial	Eastern	< 5.0
30.	Eagle Road, Redditch	Industrial	West Midlands	< 5.0
31.	Vantage Point, Hemel Hempstead	Offices	Eastern	< 5.0
32.	Clarke Road, Milton Keynes	Industrial	South East	< 5.0
33.	Knowles Lane, Bradford	Industrial	Yorkshire and Humberside	< 5.0
34.	Fargate, Sheffield	Standard Retail	Yorkshire and Humberside	< 5.0
35.	Moorside Road, Salford	Industrial	North West	< 5.0

Investment Manager's Report *(continued)*

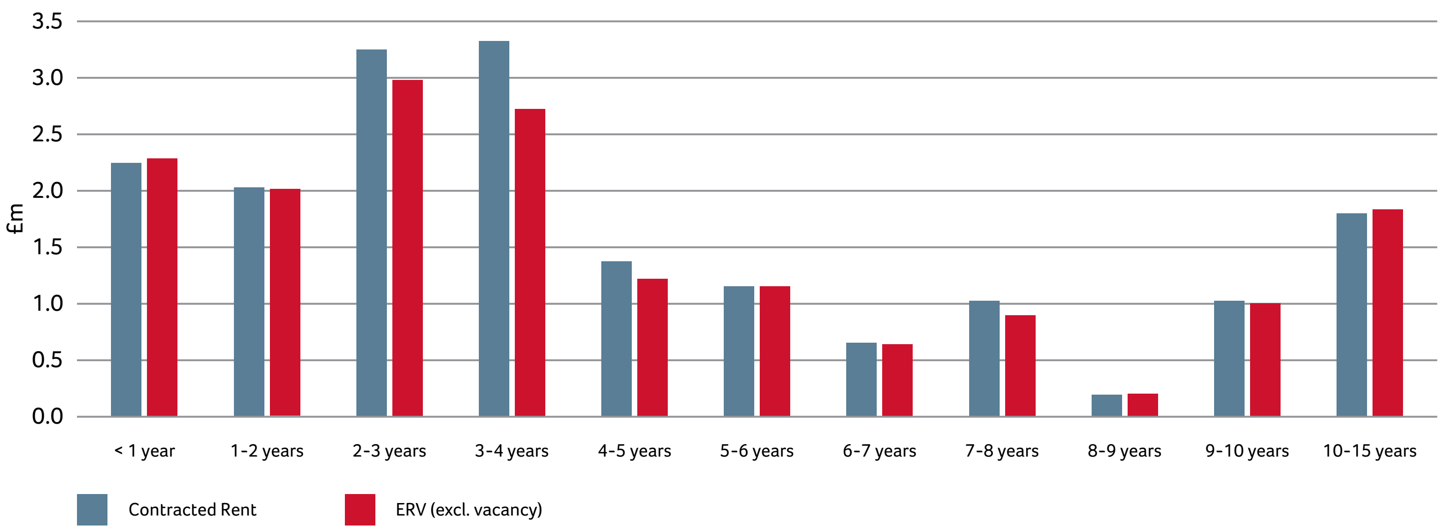
Top 10 Tenants

	Tenant	Sector	Property	Passing Rental Income (£'000)	% of Portfolio Total Passing Rental Income
1.	GEFCO UK Limited	Logistics	2 Geddington Road, Corby	1,320	7.9
2.	Plastipak UK Limited	Manufacturing	Gresford Industrial Estate, Wrexham	883	5.3
3.	The Secretary of State	Government body	Sandford House, Solihull and Cedar House, Gloucester	832	5.0
4.	Ardagh Glass Limited	Manufacturing	Langthwaite Grange Industrial Estate, South Kirkby	676	4.0
5.	Mecca Bingo Limited	Leisure	London East Leisure Park, Dagenham	625	3.7
6.	Egbert H Taylor & Company Limited	Manufacturing	Oak Park, Droitwich	620	3.7
7.	Odeon Cinemas	Leisure	Odeon Cinema, Southend	535	3.2
8.	Sports Direct	Retail	Barnstaple Retail Park and Bank Hey Street, Blackpool	525	3.1
9.	Wyndeham Peterborough Limited	Manufacturing	Storeys Bar Road, Peterborough	525	3.1
10.	Advanced Supply Chain (BFD) Limited	Logistics	Euroway Trading Estate, Bradford	428	2.6

The Company's top 10 tenants, listed above, represent 41.6% of the total passing rental income of the portfolio.

Lease Expiry Profile

AEW UK REIT Lease Income to Break



Investment Manager’s Report *(continued)*

Asset Management

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

- Orion House, Oxford – In August 2018, the Company completed the letting of Orion House, Oxford, to Genesis Cancer Care UK Limited. The lease is for a term of 25 years, at a rent of £179,410 per annum. There are five-yearly, upward-only rent reviews linked to the Retail Price Index (“RPI”) measure of inflation and the tenant benefits from a 12-month rent free period, followed by six years at half rent. The valuation of the property increased by 27.8% over the year, thanks largely to this transaction.
- 225 Bath Street, Glasgow – In July 2018, the Company completed the letting of Third Floor East, 225 Bath Street, Glasgow, to International Correspondence Schools Limited. The lease is for a term of five years, with a tenant break option at the end of the third year, at a rent of £88,608 per annum. The tenant benefits from a 10-month rent free period.
- Cedar House, Gloucester – In June 2018, the Company completed a lease renewal to the Secretary of State for Communities and Local Government at its Cedar House office building in Gloucester. The property was acquired in December 2017 with the expectation of achieving a new three-year lease at the passing rent of £300,000 per annum and this was significantly exceeded with a 10-year lease at a rent of £321,000 per annum. No rent free incentive was offered to the tenant.
- 40 Queen Square, Bristol – In June 2018, the Company completed a reversionary lease renewal at 40 Queen Square, Bristol, with tenant Ramboll Whitbybird Ltd. A 10-year lease commenced in November 2018 and the tenant has the option to break at the end of the fifth year. The letting at a rent of £94,500 per annum proved a new high rental tone for unrefurbished space within the building at £23.00 per sq ft, as compared to a passing rent of £16.84 per sq ft.
- Diamond Business Park, Wakefield – During June 2018, a new letting was completed at Diamond Business Park, Wakefield, which had been acquired by the Company in February 2018. Unit 7, totalling c.13,700 sq ft, was let to Wow Interiors Yorkshire Ltd for a six year term with tenant break options in years two and four. Stepped rental increases have been agreed so that, if the tenant remains in occupation for the full term, the average rent received equates to £3.30 per sq ft as compared to an ERV of £3.00 per sq ft.
- Sarus Court, Runcorn – In April 2018, the Company documented two rent reviews with CJ Services, its largest tenant at Sarus Court, Runcorn. The rent reviews at Units 1 and 2 date back to January 2017 and result in a combined rate of £5.25 per sq ft net effective. This supports a headline rent of c.£5.75 per sq ft which was £0.25 per sq ft ahead of the property’s ERV at the time of the letting.
- Commercial Road, Portsmouth – the Company has completed a 10-year lease renewal with Greggs plc at its retail property located on Commercial Road, Portsmouth. The new rent of £20,500 per annum exceeded the unit’s ERV at the time of letting by 11%. Greggs have been in occupation of the unit for 10 years and have the option to break the lease after five years.

Investment Manager's Report *(continued)*

Alternative Investment Fund Manager ('AIFM')

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

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

Information Disclosures under the AIFM Directive

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

Leverage

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

	31 March 2019		31 March 2018	
Leverage Exposure	**Gross Method**	**Commitment Method**	**Gross Method**	**Commitment Method**
Maximum Limit	140%	140%	140%	140%
Actual	132%	134%	131%	134%

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

Remuneration

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

AIFMD Remuneration Code Staff includes the members of the AIFM's Management Committee, those performing control functions, department heads, risk takers and other members of staff that exert material influence on the AIFM's risk profile or the AIFs it manages.

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

As required under section 'Fund 3.3.5.R(5)' of the Investment Fund Sourcebook, the following information is provided in respect of remuneration paid by the AIFM to its staff. The information provided on page 28 is provided for the year from 1 January 2018 to 31 December 2018, which is in line with the most recent financial reporting period of the AIFM, and relates to the total remuneration of the entire staff of the AIFM.

Investment Manager's Report *(continued)*

	Year ended 31 December 2018
Total remuneration paid to employees during financial year:	
a) remuneration, including, where relevant, any carried interest paid by the AIFM	£2,665,423
b) the number of beneficiaries	24
The aggregate amount of remuneration, broken down by:	
a) senior management	£809,561
b) other staff	£1,855,862

	Fixed remuneration	Variable remuneration	Total remuneration
Senior management	£759,561	£50,000	£809,561
Other staff	£1,419,441	£436,421	£1,855,862
Total	**£2,179,002**	**£486,421**	**£2,665,423**

AEW UK Investment Management LLP
21 June 2019

Principal Risks and Uncertainties

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

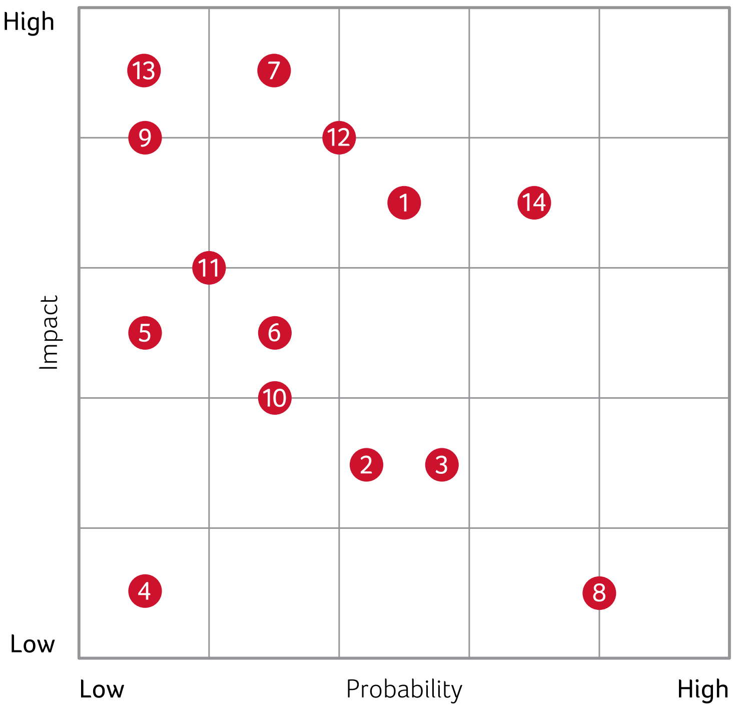
The Board has overall responsibility for reviewing the effectiveness of the system of risk management and internal control which is operated by the Investment Manager. The Company's ongoing risk management process is designed to identify, evaluate and mitigate the significant risks the Company faces.

Twice each year, the Board undertakes a risk review with the assistance of the Audit Committee, to assess the adequacy and effectiveness of the Investment Manager and other service providers' risk management and internal control processes.

The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

An analysis of the principal risks and uncertainties is set out below. This does not purport to be exhaustive as some risks are not yet known and some risks are currently not deemed material but could turn out to be material in the future.

Principal Risks



Key

1. Property market
2. Property valuation
3. Tenant default
4. Asset management initiatives
5. Due diligence
6. Fall in rental rates
7. Breach of borrowing covenants
8. Interest rate rises
9. Availability and cost of debt
10. Use of service providers
11. Dependence on the Investment Manager
12. Ability to meet objectives
13. Company REIT status
14. Political/economic risks

The matrix above illustrates the Company's assessment of the impact and probability of the principal risks identified.

Principal Risks and Uncertainties *(continued)*

Principal risks and their potential impact	How risk is managed	Risk assessment
REAL ESTATE RISKS		
1. Property market		
Any property market recession or future deterioration in the property market could, inter alia, (i) cause the Company to realise its investments at lower valuations; and (ii) delay the timings of the Company's realisations. These risks could have a material adverse effect on the ability of the Company to achieve its investment objective.	The Company has investment restrictions in place to invest and manage its assets with the objective of spreading and mitigating risk.	**Probability:** Moderate **Impact:** Moderate to High **Movement:** Increase
2. Property valuation		
Property and property-related assets are inherently difficult to value due to the individual nature of each property. There may be an adverse effect on the Company's profitability, the NAV and the price of Ordinary Shares in cases where properties are sold whose valuations have previously been materially overstated.	The Company uses an independent external valuer (Knight Frank LLP) to value the properties at fair value in accordance with accepted RICS appraisal and valuation standards.	**Probability:** Moderate **Impact:** Low to Moderate **Movement:** No change
3. Tenant default		
Failure by tenants to fulfill their rental obligations could affect the income that the properties earn and the ability of the Company to pay dividends to its shareholders.	Comprehensive due diligence is undertaken on all new tenants. Tenant covenant checks are carried out on all new tenants where a default would have a significant impact. Asset management team conducts ongoing monitoring and liaison with tenants to manage potential bad debt risk.	**Probability:** Moderate **Impact:** Low to Moderate **Movement:** Increase
4. Asset management initiatives		
Asset management initiatives, such as refurbishment works, may prove to be more extensive, expensive and take longer than anticipated. Cost overruns may have a material adverse effect on the Company's profitability, the NAV and the share price.	Costs incurred on asset management initiatives are closely monitored against budgets and reviewed in regular presentations to the Investment Management Committee of the Investment Manager.	**Probability:** Low **Impact:** Low **Movement:** No change

Principal Risks and Uncertainties *(continued)*

Principal risks and their potential impact	How risk is managed	Risk assessment
REAL ESTATE RISKS *(continued)*		
5. Due diligence		
Due diligence may not identify all the risks and liabilities in respect of an acquisition (including any environmental, structural or operational defects) that may lead to a material adverse effect on the Company's profitability, the NAV and the price of the Company's Ordinary Shares.	The Company's due diligence relies on work (such as legal reports on title, property valuations, environmental and building surveys) outsourced to third parties who have expertise in their areas. Such third parties have professional indemnity cover in place.	**Probability:** Low **Impact:** Moderate **Movement:** No change
6. Fall in rental rates		
Rental rates may be adversely affected by general UK economic conditions and other factors that depress rental rates, including local factors relating to particular properties/locations (such as increased competition). Any fall in the rental rates for the Company's properties may have a material adverse effect on the Company's profitability, the NAV, the price of the Ordinary Shares and the Company's ability to meet interest and capital repayments on any debt facilities.	The Company builds a diversified property and tenant base with subsequent monitoring of concentration to individual occupiers (top 10 tenants) and sectors (geographical and sector exposure). The Investment Manager holds quarterly meetings with its Investment Strategy Committee and regularly meets the Board of Directors to assess whether any changes in the market present risks that should be addressed in the Company's strategy.	**Probability:** Low to Moderate **Impact:** Moderate **Movement:** Increase
FINANCIAL RISKS		
7. Breach of borrowing covenants		
The Company has entered into a term credit facility. Material adverse changes in valuations and net income may lead to breaches in the LTV and interest cover ratio covenants.	The Company monitors the use of borrowings on an ongoing basis through weekly cash flow forecasting and quarterly risk monitoring to monitor financial covenants.	**Probability:** Low to Moderate **Impact:** High **Movement:** Increase
8. Interest rate rises		
The Company's borrowings through a term credit facility are subject to interest rate risk through changing LIBOR rates. Any increases in LIBOR rates may have an adverse effect on the Company's ability to pay dividends.	The Company uses interest caps on a significant notional value of the loan to mitigate the adverse impact of possible interest rate rises. The Investment Manager and Board of Directors monitor the level of hedging and interest rate movements to ensure that the risk is managed appropriately.	**Probability:** High **Impact:** Low **Movement:** No change

Principal Risks and Uncertainties *(continued)*

Principal risks and their potential impact	How risk is managed	Risk assessment
FINANCIAL RISKS *(continued)*		
9. Availability and cost of debt The term credit facility expires in October 2023. In the event that RBSi does not renew the facility, the Company may need to sell assets to repay the outstanding loan. Any increase in the financing costs of the facility on renewal would adversely impact on the Company's profitability.	The Company maintains a good relationship with the bank providing the term credit facility. The Company monitors the projected usage and covenants of the credit facility on a quarterly basis.	**Probability:** Low **Impact:** High **Movement:** No change
CORPORATE RISKS		
10. Use of service providers The Company has no employees and is reliant upon the performance of third party service providers. Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Company.	The performance of service providers in conjunction with their service level agreements is monitored via regular calls and face-to-face meetings and the use of key performance indicators, where relevant.	**Probability:** Low to Moderate **Impact:** Moderate **Movement:** No change
11. Dependence on the Investment Manager The Investment Manager is responsible for providing investment management services to the Company. The future ability of the Company to successfully pursue its investment objective and investment policy may, among other things, depend on the ability of the Investment Manager to retain its existing staff and/or to recruit individuals of similar experience and calibre.	The Investment Manager has endeavoured to ensure that the principal members of its management team are suitably incentivised.	**Probability:** Low to Moderate **Impact:** Moderate **Movement:** Decrease

Principal Risks and Uncertainties *(continued)*

Principal risks and their potential impact	How risk is managed	Risk assessment
CORPORATE RISKS *(continued)*		
12. Ability to meet objectives The Company may not meet its investment objective to deliver an attractive total return to shareholders from investing predominantly in a portfolio of smaller commercial properties in the United Kingdom. Poor relative total return performance may lead to an adverse reputational impact that affects the Company's ability to raise new capital.	The Company has an investment policy to achieve a balanced portfolio with a diversified asset and tenant base. The Company also has investment restrictions in place to limit exposure to potential risk factors. These factors mitigate the risk of fluctuations in returns.	**Probability:** Moderate **Impact:** High **Movement:** Increase
TAXATION RISKS		
13. Company REIT status The Company has a UK REIT status that provides a tax-efficient corporate structure. If the Company fails to remain a REIT for UK tax purposes, its profits and gains will be subject to UK corporation tax. Any change to the tax status or UK tax legislation could impact on the Company's ability to achieve its investment objectives and provide attractive returns to shareholders.	The Company monitors REIT compliance through the Investment Manager on acquisitions; the Administrator on asset and distribution levels; the Registrar and Broker on shareholdings and the use of third-party tax advisers to monitor REIT compliance requirements.	**Probability:** Low **Impact:** High **Movement:** No change

Principal Risks and Uncertainties *(continued)*

Principal risks and their potential impact	How risk is managed	Risk assessment
14. POLITICAL/ECONOMIC RISKS		
Political and macroeconomic events present risks to the real estate and financial markets that affect the Company and the business of its tenants. The level of uncertainty that such events bring has been highlighted in recent times, most pertinently following the EU referendum vote (Brexit) in June 2016.	The Board considers the impact of political and macroeconomic events when reviewing strategy.	**Probability:** Moderate to High **Impact:** Moderate to High **Movement:** Increase

Approval

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

Mark Burton
Chairman

21 June 2019

Governance

Board of Directors

Mark Burton, non-executive Chairman
(aged 70)

Mr Burton currently serves as a board member of Value Retail plc. He also sits on the real estate advisory boards for Norges Bank Investment Management and is a member of the investment advisory council of Real Tech Ventures 1 and acts as an advisor to Citic Capital Real Estate. Mr Burton qualified as a Chartered Surveyor, has been a member of the UK Government Property Advisory Group and was formerly chairman of The Investment Property Forum and Urban Land Institute UK. In 2001, Mr Burton became chief investment officer of the real estate department at Abu Dhabi Investment Authority, subsequently performing the same role at Abu Dhabi Investment Council in 2007 from where he retired in 2010.

Appointed: 9 April 2015

James Hyslop, non-executive non-independent Director
(aged 73)

Mr Hyslop has 52 years of investment industry experience. He is currently a member of the investment committee of Paloma Real Estate Fund I LP and is a property consultant to AEW UK Investment Management LLP. He was until recently a member of the investment committees of Columbus UK Real Estate Fund LP and was on the investment committees of Gresham Real Estate Fund I & II and Columbus UK Real Estate Fund II (all Schroders funds). He was also previously a member of the investment committee of ING Lionbrook Property Partnership and CBRE Investors and a consultant to UBS Global Asset Management Limited. He also served as a non-executive director of Raven Mount plc, including being chairman of their main subsidiary's pension fund. From 1998 to 2002, he served as a non-executive director at Saville Gordon Estates plc, latterly as chairman. From 1990 to 1998, Mr Hyslop was head of property at PDFM Limited (now UBS Global Asset Management Limited). From 1986 to 1990, he was a director of property corporate finance at UBS Phillips & Drew. He joined Phillips & Drew in 1967 where he held various sales and research positions before being appointed a partner in 1981.

Appointed: 9 April 2015

Board of Directors *(continued)*

Bimaljit ("Bim") Sandhu, non-executive Director
(aged 57)

Mr Sandhu is chief executive officer and owner of The Santon Group which has developed over £1.4 billion of property. He is an independent non-executive director and chairman of the audit committee of Africa Logistics Properties Holdings Limited. Mr Sandhu was a founder and chief executive officer of Raven Mount plc, a co-founder of Raven Property Group Limited (formerly Raven Russia Limited), which he helped to list on AIM raising over £450 million, and chief executive officer of the external fund manager to that company. He was chairman and a co-founder of Audley, an assisted living business operating retirement villages. Mr. Sandhu was a non-executive director of Oriel Securities Limited and chairman of the audit committee.

In the 1990s, Mr Sandhu was managing director of the UK operations of the then publicly listed Australian developer Hudson Conway and represented their 50% interest as a director of a 5,000 strong pub unit, The Courage Pub Company plc. Mr Sandhu is a Fellow of the Institute of Chartered Accountants, having qualified as a Chartered Accountant with KPMG in London. Following qualification, he became secretary of the KPMG UK Property & Construction Group.

Appointed: 9 April 2015

Katrina Hart, non-executive Director
(aged 45)

Mrs Hart spent her executive career in corporate finance and equity research advising, analysing and commenting on a broad range of businesses operating in the wealth and asset management sectors. During this period, she accumulated an in-depth understanding of the dynamics and operational drivers of fund management and worked very closely with some of the most respected companies in the sector. Latterly, she was a highly rated financials analyst at HSBC, Bridgewell Group Plc and headed up the financials research team at Canaccord Genuity Inc. Mrs Hart is a non-executive director of Miton Group plc, Polar Capital Global Financials Trust plc and Keystone Investment Trust plc.

Appointed: 5 June 2017

Corporate Governance Statement

This Corporate Governance Statement comprises pages 37 to 41 and forms part of the Directors' Report.

Statement of Compliance

The Board has considered the principles and recommendations of the 2016 edition of the AIC Code of Corporate Governance ('AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code ('UK Code'), as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company as a REIT. The Financial Reporting Council ('FRC') has confirmed that AIC member companies who report against the AIC Code and who follow the AIC Guide will meet the obligations in relation to the UK Code and associated disclosure requirements of the Listing Rules and the Disclosure Guidance and Transparency Rules.

The AIC Code can be viewed at: https://www.theaic.co.uk.

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

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

The UK Code includes provisions relating to:

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

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

The Board has reviewed the principles and recommendations of the AIC Code by reference to the AIC Guide, and considers that the Company has complied with these throughout the year, except as disclosed below:

- Directors are not appointed for a specific term as all Directors are non-executive and continuity and experience are considered to add significantly to the strength of the Board.
- Given the structure and size of the Board, the Board does not consider it necessary to appoint a separate nomination committee. The roles and responsibilities normally reserved for this committee are matters for the independent members of the Board.
- Given the size of the Board, it is not considered necessary to appoint a senior independent director.

The Board of Directors

The Board of Directors is collectively responsible for the long-term success of the Company. It provides overall leadership, sets the strategic aims of the Company and ensures that the necessary resources are in place for the Company to meet its objectives and fulfil its obligations to shareholders within a framework of high standards of corporate governance and effective internal controls. The Directors are responsible for the determination of the Company's investment policy and investment strategy and have overall responsibility for the Company's activities, including the review of investment activity and performance, and the control and supervision of the Investment Manager.

The Board consists of four non-executive Directors. It seeks to ensure that it has an appropriate balance of skills and experience, and considers that, collectively, the Directors have substantial recent and relevant experience of the property sector, investment trusts, and financial and public company management.

Corporate Governance Statement *(continued)*

The terms and conditions of the appointment of Directors are formalised in letters of appointment, copies of which are available for inspection from the Company's registered office. None of the Directors has a contract of service with the Company. On appointment, non-executive Directors undertake that they will have sufficient time to meet the expectations of the role. Directors are not entitled to any compensation for loss of office.

Chairman

The Chairman is deemed by his fellow Board members to be independent in character and judgement and free of any conflicts of interest. He considers himself to have sufficient time to spend on the affairs of the Company. Mr Burton has no significant commitments other than those disclosed in his biography on page 35.

Board Operation

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

Board Meetings

The Company has four scheduled Board meetings a year with additional meetings arranged as necessary.

At each Board meeting, the Directors follow a formal agenda which is circulated in advance by the Company Secretary. The Company Secretary, the Administrator and the Investment Manager regularly provide the Board with financial information, together with briefing notes and papers in relation to changes in the Company's economic and financial environment, statutory and regulatory changes and corporate governance best practice. A description of the Company's risk management and internal control systems is set out on pages 40 and 41.

The Company's main functions are delegated to a number of service providers, each engaged under separate contracts. The management of the Company's portfolio is delegated to the Investment Manager, who manages the assets in accordance with the Company's objective and policies. At each Board meeting, representatives from the Investment Manager attend to present reports to the Directors covering the Company's current and future activities, portfolio of assets and its investment performance over the preceding period. The Board and the Investment Manager operate in a fully supportive, co-operative and open environment and communication with the Board is maintained between scheduled meetings.

Board Committees

The Company has two committees, the Audit Committee and the Management Engagement and Remuneration Committee. The Committees' delegated responsibilities are clearly defined in formal terms of reference, which are available on the Company's website.

The Audit Committee comprises the independent non-executive Directors and is chaired by Mr Sandhu, who has recent and relevant financial experience. Given the size and nature of the Board, it is felt appropriate that all independent Directors are members of the Audit Committee. The Board is satisfied that the combined knowledge and experience of its members is such that the Committee discharges its responsibilities in an effective, informed and challenging manner. The Committee as a whole has competence relevant to the investment trust sector. Further details about this Committee and its activities can be found on pages 42 to 45.

The Management Engagement and Remuneration Committee comprises the independent non-executive Directors and is chaired by Mr Burton. Having taken account of the size of the Board and the remit of the Management Engagement and Remuneration Committee, the Board believes that Mr Burton remains the most suitable Director to chair the Management Engagement and Remuneration Committee. Further details about this Committee and its activities can be found on page 46.

Corporate Governance Statement *(continued)*

Meeting Attendance
The Board has four scheduled meetings a year, with additional meetings held to approve NAVs and dividends. During the year ended 31 March 2019, extra meetings were held to discuss the Company's strategy.

The number of scheduled Board and Committee meetings attended by each Director during the year were as follows:

	Board meetings		Audit Committee meetings		Management Engagement and Remuneration Committee meeting	
	Number of meetings	Number attended	Number of meetings	Number attended	Number of meetings	Number attended
Mark Burton	4	4	2	2	1	1
Bim Sandhu	4	4	2	2	1	1
James Hyslop	4	4	N/A	N/A	N/A	N/A
Katrina Hart	4	4	2	2	1	1

Performance Evaluation
The Board has a formal process to evaluate its performance annually. This involves a series of appraisal meetings and discussions with the Chairman and other Directors. The evaluation of the Chairman is carried out by the other Directors of the Company, led by the Audit Committee Chairman. The evaluation covers:

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

The Board seeks to ensure that it has an appropriate balance of skills and experience, and considers that, collectively, it has substantial recent and relevant experience of investment trusts, the UK real estate sector, and financial and capital markets.

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

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

Diversity
The Board acknowledges the importance of diversity, including but not limited to gender diversity, for the Company and has established the following objectives for achieving diversity:

- All Board appointments will be made on merit, in the context of the skills, knowledge and experience that are needed for the Board to be effective.
- Long lists of potential directors will include diverse candidates of appropriate merit.

Corporate Governance Statement *(continued)*

- When engaging with executive search firms, the Company will only engage with those firms who have signed up to the Voluntary Code of Conduct on gender diversity and best practice.

The Directors in office at 31 March 2019 and the date of this report are set out on pages 35 and 36.

Director Induction and Training

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

Directors' Conflicts of Interest

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

A register of conflicts is maintained by the Company Secretary and is reviewed at Board meetings to ensure that any authorised conflicts remain appropriate. The Directors are required to confirm at these meetings whether there has been any change to their position.

Election and Re-election of Directors

Under the Company's Articles and in accordance with the AIC Code, Directors are subject to election by shareholders at the first Annual General Meeting ('AGM') after their appointment. Thereafter, at each AGM, any Director who has not stood for re-election at either of the two preceding AGMs shall retire. In addition, one-third of the Directors eligible to retire by rotation shall retire from office at each AGM. Beyond these requirements, the Board has agreed a policy whereby all Directors will seek annual re-election at the Company's AGMs, with the exception of James Hyslop who is stepping down from the Board at the forthcoming AGM.

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

Relations with Shareholders

Communication with shareholders is given high priority by both the Board and the Investment Manager. The Investment Manager and the Company's Broker are in regular contact with major shareholders and report the results of meetings and the views of those shareholders to the Board on a regular basis.

All shareholders are encouraged to attend and vote at AGMs, at which the Board and the Investment Manager are available to discuss issues affecting the Company and answer any questions. Any shareholder wishing to contact the Company should address their query to the Company Secretary at the registered office address on page 101.

Internal Control Review

The Board is responsible for the systems of internal controls relating to the Company, including the reliability of the financial reporting process, and for reviewing the systems' effectiveness. The Directors have reviewed and considered the guidance supplied by the FRC on risk management, internal control and related finance and business reporting and an ongoing process is in place for identifying, evaluating and managing the risks faced by the Company. This process, together with key procedures established with a view to providing effective financial control, was in place during the year under review and at the date of this report.

The internal control systems are designed to ensure that proper accounting records are maintained, that the financial information on which business decisions are made and which is issued for publication is reliable, and that the assets of the Company are safeguarded.

Corporate Governance Statement *(continued)*

The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Company's objectives. It should be recognised that such systems can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Directors have carried out a review of the effectiveness of the systems of internal control as they have operated over the period and up to the date of approval of the Annual Report and Financial Statements. There were no matters arising from this review that required further investigation and no significant failings or weaknesses were identified. The internal control systems do not eliminate risk and can only provide reasonable assurance against misstatement or loss.

Internal Control Assessment Process

Robust risk assessments and reviews of internal controls are undertaken regularly in the context of the Company's overall investment objective.

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

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

The risks of any failure of internal controls are identified in the risk register, which is regularly reviewed by the Board through the Audit Committee and which also assesses the impact of such risks. The principal risks and uncertainties identified from the risk register can be found in the Strategic Report on pages 29 to 34.

Over and above the ongoing process, as part of the year end reporting process, the Board receives letters of comfort from the Investment Manager, Company Secretary and Administrator regarding their internal controls, accompanied by their ISAE 3402, or equivalent reports, if available. Following the review of these submissions from service providers, the Board has determined that the effectiveness of the systems of internal control was satisfactory.

AGM

The Company's fourth AGM will take place at 12 noon on 12 September 2019 at The Cavendish Hotel, 81 Jermyn Street, St. James', London SW1Y 6JF. All shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. The Notice of AGM can be found on the Company's website and in a booklet which is being mailed out at the same time as this Annual Report. The Notice of AGM sets out the business of the meeting and explanatory notes on all resolutions to be proposed at the AGM. Separate resolutions are proposed in respect of each substantive issue. The AGM is the Company's principal forum for communication with private shareholders. The Board looks forward to welcoming shareholders to the AGM and will be available to answer their questions at that meeting.

Report of the Audit Committee

I am pleased to present the Audit Committee Report for the year ended 31 March 2019.

Meetings

The Audit Committee met twice during the year and once following the year end. Details of the composition of the Audit Committee are set out in the Corporate Governance Statement on page 38.

Role of the Audit Committee

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

- monitoring the integrity of the financial statements of the Company, including its annual and half-yearly reports, and reviewing significant financial reporting issues and judgements which they contain;
- keeping under review the adequacy and effectiveness of the Company's risk management systems; and reviewing and approving the statements to be included in the annual report concerning internal controls and risk management;
- reviewing the scope and effectiveness of the audit process undertaken by the Auditor;
- making recommendations to the Board in relation to the re-appointment or removal of the Auditor and approving its remuneration and terms of engagement;
- reviewing and monitoring the Auditor's independence, objectivity and effectiveness; and
- approving any non-audit services to be provided by the Auditor and monitoring the level of fees payable in that respect.

Matters Considered During the Year

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

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

- reviewed the internal controls and risk management systems of the Company and its third party service providers;
- agreed the plan and fees with the Auditor in respect of the review of the half-yearly report for the six months ended 30 September 2018 and the statutory audit of the annual report for the year ended 31 March 2019, including the principal areas of focus;
- considered the impact of Brexit on the Company and its tenant-base;
- received and discussed with the Auditor its report on the results of the review of the half-yearly financial statements and the year-end audit;
- reviewed the annual and half-yearly financial statements and recommended these to the Board for approval;
- reviewed the performance and effectiveness of the Auditor and considered its re-appointment and fees; and
- reviewed the non-audit services provided by the Auditor and the associated fees incurred.

Report of the Audit Committee *(continued)*

Significant Issues Considered by the Audit Committee

Valuation of Investment Properties
The Audit Committee determined that the key area of risk in relation to the financial statements of the Company was the valuation of the investment properties. The 35 properties in the portfolio as at 31 March 2019 are externally valued by qualified independent valuers, using the internationally accepted Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standards, and whilst comparable market transactions provide valuation evidence, there are assumptions which involve significant levels of judgement. The Audit Committee considered the quarterly and year-end valuations of the Company's portfolio which were discussed with the Investment Manager and Auditor during the audit of the financial statements. The Audit Committee members and the remaining Director, Mr Hyslop, also discussed market conditions and the year-end valuations with Knight Frank, the Independent Valuer. Details of the valuation methodology are contained in note 10 to the Financial Statements.

In addition, the Audit Committee considered the Company's short and medium-term cash flows, dividend cover and PID and non-PID distributions.

Internal Controls
The Audit Committee carefully considers the internal control systems by continually monitoring the services and controls of its third party service providers.

The Audit Committee reviewed and, where appropriate, updated the risk matrix during the year. It received reports on internal control and compliance from the Investment Manager and the Company's other service providers and no significant matters of concern were identified.

Internal Audit
The Company does not have an internal audit function. During the year, the Audit Committee reviewed whether an internal audit function would be of value and concluded that this would provide minimal additional comfort at considerable extra cost to the Company. While the Audit Committee believes that the existing system of monitoring and reporting by third parties remains appropriate and adequate, it will actively continue, on an annual basis, to consider possible areas within the Company's control environment which may need to be reviewed in detail.

Maintenance of REIT Status
The Audit Committee monitored the compliance status of the Company and considered the requirements for the maintenance of REIT status.

Going Concern and Long-term Viability of the Company
The Audit Committee considered the Company's financial requirements for the next 12 months and concluded that it has sufficient resources to meet its commitments. Consequently, the Financial Statements have been prepared on a going concern basis.

The Audit Committee also considered the longer-term viability statement covering a five-year period, and the underlying factors and assumptions which contributed to the Committee deciding that this was an appropriate length of time to consider the Company's long-term viability. The Company's viability statement can be found on pages 50 and 51.

Audit Fees and Non-audit Services

The Audit Committee has sole responsibility for agreeing the audit fee in consultation with the Investment Manager, based on the scope of the audit. During the year ended 31 March 2019, the Audit Committee reviewed the policy on the engagement of the Auditor to supply non-audit services, taking into account the recommendations of the FRC. All non-audit services are reviewed by the Audit Committee, which makes recommendations to the Board for the provision of each non-audit service and ensures that the statutory auditor is not engaged to perform work that is prohibited under EU law.

Report of the Audit Committee *(continued)*

The Auditor is permitted to provide audit-related services where the work involved is closely related to the work performed in the audit. These include:

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

The policy was reviewed and its application monitored by the Audit Committee during the year and it was agreed that the policy remained appropriate for the Company.

	Year ended 31 March 2019	Period ended 31 March 2018
Audit		
Statutory audit of Annual Report and Financial Statements	£79,000	£65,000
Over accrual 2018	(£4,000)	–
	£75,000	**£65,000**
Non-audit		
Review of Interim Report	£23,500	£23,000
Renewal of Company's Prospectus 2017	–	£30,000
Renewal of Company's Prospectus 2019	£30,750	–
	£54,250	**£53,000**
Total fees paid to KPMG LLP	**£129,250**	**£118,000**
Percentage of total fees attributed to non-audit services	**42%**	**45%**

Independence and Objectivity of the Auditor

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

Having carried out the above review the Audit Committee is satisfied with the Auditor's performance and that the engagement of KPMG LLP to provide the non-audit services were appropriate, and did not compromise its objectivity and independence.

External Audit Process

The Audit Committee reviews the effectiveness of the external audit carried out by the Auditor on an annual basis. At least twice a year, the Audit Committee meets with the Auditor, once at the planning stage before the audit and once after the audit at the reporting stage. The Auditor provides a planning report in advance of the annual audit, a report on the annual audit and a report on its review of the interim financial statements. The Audit Committee has an opportunity to question and challenge the Auditor in respect of each of these reports.

The Chairman of the Audit Committee maintained regular contact with the audit partner throughout the year and met with him prior to the finalisation of the 2019 audit to discuss how the external was carried out and the audit findings. In addition, at least once a year, the Audit Committee has an opportunity to discuss any aspect of the Auditor's work with the Auditor in the absence of the Investment Manager. After each audit, the Audit Committee reviews the audit process and considers its effectiveness. The review of the 2019 audit concluded that the audit process had worked well, and no significant issues were identified.

Report of the Audit Committee *(continued)*

Re-appointment of the Auditor

Following the completion of the annual review of the performance of the Auditor, the Audit Committee has recommended to the Board that the re-appointment of KPMG LLP as the Company's Auditor be proposed to shareholders at the forthcoming AGM. KPMG LLP was first appointed as the Auditor in respect of the Company's first financial period ended 30 April 2016 and has completed four annual audits. In accordance with the EU Audit Regulation, the Company will be required to conduct a tender for audit services following the statutory audit for the year ended 31 March 2025 at the latest.

Bim Sandhu
Audit Committee Chairman

21 June 2019

Report of the Management Engagement and Remuneration Committee

I am pleased to present the Management Engagement and Remuneration Committee (the 'Committee') Report for the year ended 31 March 2019.

Meetings

The Management Engagement and Remuneration Committee met once during the year and once following the year end. Details of the composition of the Committee are set out in the Corporate Governance Statement on page 38.

Role of the Management Engagement and Remuneration Committee

The Committee is responsible for:

- reviewing the appropriateness of the continuing appointment of the Investment Manager, ensuring the terms and conditions of the Investment Management Agreement align with the investment policy and investment objective of the Company;
- reviewing the appropriateness of the continuing appointment of other service providers; and
- reviewing Directors' remuneration.

Matters Considered in the Year

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

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

- considered the Directors' remuneration and agreed that the current level remained appropriate;
- reviewed the Directors' Remuneration Policy and agreed that it remained appropriate;
- satisfied itself that the Investment Management Agreement and its terms remained fair and competitive, and in the best interests of shareholders; and
- considered the continuing appointment of the Investment Manager and made recommendations to the Board thereon.

Review of Service Providers

The Committee reviews the ongoing performance and the continuing appointment of all service providers of the Company, including the Investment Manager, on an annual basis. The Committee also considers any variation required to the terms of all service providers' agreements and reports its findings to the Board.

A review of all the other service providers was undertaken during the year which concluded that the services provided to the Company were satisfactory and that their continued appointments were in the best interests of the shareholders.

Continuing Appointment of the Investment Manager

In the opinion of the Directors, the continuing appointment of the Investment Manager is in the interests of shareholders as a whole. This is due to the Investment Manager successfully managing the Company's portfolio, and continuing to apply the Company's investment policy, thereby allowing the Company to continue paying dividends in accordance with the targeted investment objective.

Mark Burton
Management Engagement and Remuneration Committee Chairman

21 June 2019

Directors' Remuneration Report

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

Statement from the Chairman

The remuneration of the Board is determined by the Management Engagement and Remuneration Committee and each Director abstains from voting on their own individual remuneration. Directors fees from 1 April to 30 June 2018 were at a level of £25,000 per annum for the Chairman, £24,000 per annum for the Audit Committee Chairman and £20,000 per annum for the other Directors. Following a review in June 2018, Directors' fees from 1 July 2018 to 31 March 2019 were at a level of £35,000 per annum for the Chairman, £32,500 per annum for the Audit Committee Chairman and £27,500 per annum for the other Directors. No changes to the Directors' fees are proposed for the year ending 31 March 2020. Future increases to Directors' fees are currently limited to the prevailing Consumer Price Index ('CPI') as at the date of any decision.

The Company's Articles permit the Company to provide pensions or similar benefits for Directors and employees of the Company. However, no pension schemes or other similar arrangements have been established and no Director is entitled to any pension or similar benefits. No Director is entitled to any other monetary payment or any assets of the Company. Accordingly, the Single Total Figure table on page 48 does not include columns for any of these items or their monetary equivalents.

The Directors' Remuneration Policy was last approved by shareholders at the AGM in 2017 and is available on the Company's website. There will be no significant change in the way the current approved Remuneration Policy will be implemented during the course of the next financial year.

An ordinary resolution will be put to shareholders at the forthcoming AGM to be held on 12 September 2019 to receive and approve the Directors' Remuneration Report.

Voting at AGM

The Directors' remuneration report for the period ended 31 March 2018 and the Directors' remuneration policy were approved by shareholders at the AGMs held on 12 September 2018 and 12 September 2017, respectively. The results taken on a poll were as follows:

Remuneration Report 2018	
For – number of votes cast	18,782,438
Against – number of votes cast	26,406
Total votes cast	18,808,844
Number of votes withheld	1,492

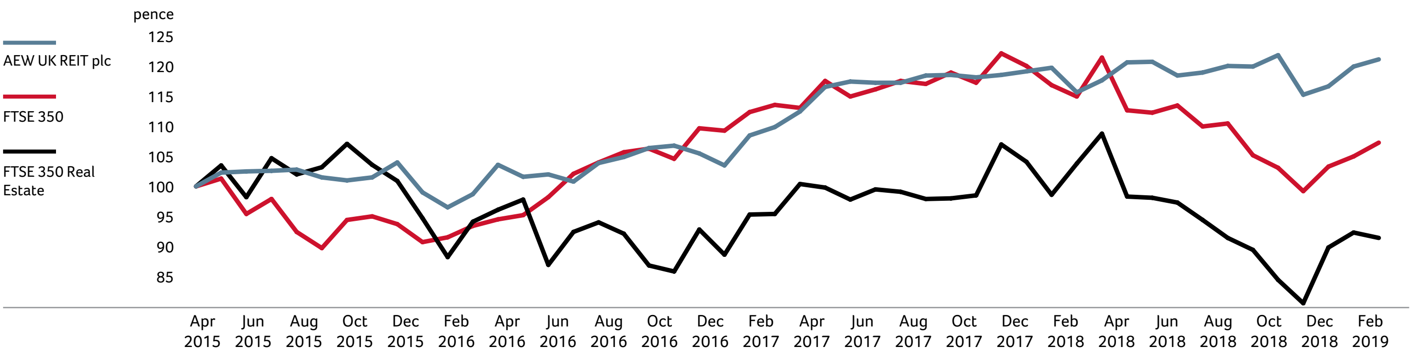
Remuneration Policy 2017	
For – number of votes cast	45,329,580
Against – number of votes cast	1,000
Total votes cast	45,330,580
Number of votes withheld	–

Directors' Remuneration Report *(continued)*

Performance of the Company

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

Cumulative Share Price Total Return



Directors' Remuneration for the Year Ended 31 March 2019 (audited)

Name of Director	Fees paid **12 months ended 31 March 2019***	Fees paid 11 months ended 31 March 2018	Total **12 months ended 31 March 2019***	Total 11 months ended 31 March 2018
Mark Burton	£32,500	£22,917	£32,500	£22,917
James Hyslop	£25,625	£18,333	£25,625	£18,333
Bim Sandhu	£30,375	£22,000	£30,375	£22,000
Katrina Hart (appointed 5 June 2017)	£25,625	£16,538	£25,625	£16,538
	£114,125	**£79,788**	**£114,125**	**£79,788**

* Directors fees were increased with effect from 1 July 2018.

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

Relative Importance of Spend on Pay

The table on page 49 sets out, in respect of the year ended 31 March 2019:

(a) the remuneration paid to the Directors;

(b) the management fee and expenses which have been included to give shareholders a greater understanding of the relative importance of spend on pay; and

(c) distributions to shareholders by way of dividend.

Directors' Remuneration Report *(continued)*

	Year ended 31 March 2019	Period ended 31 March 2018
Directors' fees*	£114,125	£79,788
Management fee and expenses	£1,302,153	£988,612
Dividends paid	£12,124,660	£9,992,780

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

Statement of Directors' Shareholdings and Share Interests (audited)

Neither the Company's Articles of Association nor the Directors' Letters of Appointment require a Director to own shares in the Company. The interests of the Directors and their persons closely associated in the equity of the Company at 31 March 2019 are shown in the table below.

	Number of Ordinary Shares		**% of Total Voting Rights**	
Director	**2019**	2018	**2019**	2018
Mark Burton	75,000	75,000	0.05	0.05
James Hyslop	250,000	150,000	0.16	0.10
Bim Sandhu	650,000*	650,000*	0.43	0.43
Katrina Hart	19,145	19,145	0.01	0.01

* 100,000 Ordinary Shares held in Mr Sandhu's spouse's name, Mrs Pardeep Sandhu, 175,000 Ordinary Shares held in The Santon Pension Fund (a small self-administered pension scheme ('SSAS') for him and his spouse), 250,000 Ordinary Shares held in The Sandhu Charitable Foundation and 125,000 Ordinary Shares held in his own name.

On 12 April 2019, Mr Sandhu purchased 100,000 Ordinary Shares, of which 50,000 were acquired for The Santon Pension Fund and 50,000 were acquired for The Sandhu Charitable Foundation. There have been no other changes to Directors' interests between 31 March 2019 and the date of this report.

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

Approval

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

Mark Burton
Management Engagement and Remuneration Committee Chairman

21 June 2019

Directors' Report

The Directors' Report, prepared in accordance with the requirements of the Companies Act 2006 and the FCA's Listing Rules and Disclosure Guidance and Transparency Rules, comprises pages 50 to 55, and incorporates the Corporate Governance Statement on pages 37 to 41.

Results and Dividends

The interim dividends paid by the Company are set out in Note 9 of the Financial Statements. A summary of the Company's performance during the year and significant events following the year end and future developments is set out in the Strategic Report on pages 1 to 34.

Directors

The Directors in office at 31 March 2019 and the date of this report are shown on pages 35 and 36.

Power of Directors

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

Indemnity Provisions

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

Going Concern

The Company has considered its cash flows, financial position, liquidity position and borrowing facilities. The Company's cash balance as at 31 March 2019 was £2.13 million. The Company can draw a further £2.31 million (31 March 2018: £1.11 million) of its debt facility up to the maximum 35% loan to NAV at drawdown.

As at 31 March 2019, the Company had sufficient headroom against its borrowing covenants. The Company has the ability to utilise up to 35% of NAV measured at drawdown under the current borrowing facility limits with a Company loan to NAV of 33.5% as at 31 March 2019.

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

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

Viability Statement

In accordance with the principle 21 of the AIC Code, the Directors have assessed the prospects of the Company over a period longer than the 12 months required by the 'Going Concern' provisions. The Board has considered the nature of the Company's assets, liabilities and associated cash flows, and has determined that five years, up to 31 March 2024, is the maximum timescale over which the performance of the Company can be forecast with a material degree of accuracy and so is an appropriate period over which to consider the Company's viability.

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

- The current unexpired term under the Company's debt facilities stands at 4.56 years;

Directors' Report *(continued)*

- The Company's property portfolio has a WAULT of 6.10 years to expiry, representing a secure income stream for the period under consideration;
- The Company's portfolio reflects a diversified strategy that has invested across a broad spectrum of real estate sectors returning a diversified income stream, which should spread the risk of any default; and
- Most leases contain a five-year rent review pattern and, therefore, five years allow for the forecasts to include the reversion arising from those reviews. The five-year review considers the Company's cash flows, dividend cover, REIT compliance and other key financial ratios over the period.

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

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

The following scenarios were tested, both individually and combined, in an effort to represent a severe but plausible scenario, which might reasonably be expected to arise as a result of a 'No Deal' Brexit outcome, amongst other factors:

- An increase in financing costs;
- Default of the three highest risk tenants within the Company's top 20 tenants (as rated by Coface); and
- A fall in portfolio valuation.

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

Subsidiary Company

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

Management Arrangements

AEW UK Investment Management LLP is the Company's Investment Manager and has been appointed as the AIFM. Under the terms of the Investment Management Agreement, the Investment Manager is responsible for the day-to-day discretionary management of the Company's investments subject to the investment objective and policy of the Company and the overall supervision of the Directors. The Investment Manager is entitled to receive a quarterly management fee in respect of its services calculated at the rate of one-quarter of 0.9% of the prevailing NAV (excluding uninvested proceeds from fundraisings). There is no performance fee. Any investment by the Company into the Core Fund is not subject to management fees or performance fees otherwise charged to investors in the Core Fund by the Investment Manager. The Investment Management Agreement may be terminated by the Company or the Investment Manager giving 12 months' notice.

Financial Risk Management

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

Directors' Report *(continued)*

Greenhouse Gas Emissions

The Company has followed UK Government environmental reporting guidelines and used the UK Government 2017 greenhouse gas reporting conversion factors for company reporting to identify and report relevant GHG emissions over which it has operational control for the 12-month period to 31 March 2019, namely:

- Scope 1 – including direct emissions from owned vehicles, controlled boilers and fugitive emissions from air conditioning systems under landlord control.
- Scope 2 – including indirect emissions from electricity purchased by the Company and consumed within real estate assets owned by the Company.

The table below shows relevant GHG emissions (in tonnes carbon dioxide equivalent) that the Company was responsible for in the 12-month period to 31 March 2019.

		Absolute Tonnes of Carbon Dioxide Equivalent (tCO^2e)		Like-for-like / Degree Day ADJ Tonnes of Carbon Dioxide Equivalent (tCO^2e)		Change	Like-for-like / Degree Day ADJ Carbon Intensity		Change
Sector	**Scope**	**2018/ 2019**	2017/ 2018**	**2018/ 2019**	2017/ 2018**	**%**	**2018/ 2019**	2017/ 2018**	**%**
Office*	Scope 1 – Gas	**106**	92	**77**	80	-4	**48**	60	-20
	Scope 2 – Elec	**607**	796	**553**	703	-21			
Retail, High Street	Scope 1 – Gas	**N/A**	N/A	**N/A**	N/A	N/A	**N/A**	N/A	N/A
	Scope 2 – Elec	**35**	69	**35**	69	-49			
Retail, Warehouse*	Scope 1 – Gas	**N/A**	N/A	**N/A**	N/A	N/A	**10**	12	-17
	Scope 2 – Elec	**4**	13	**4**	5	-17			
Industrial, Business Parks	Scope 1 – Gas	**196**	N/A	**N/A**	N/A	N/A	**N/A**	N/A	N/A
	Scope 2 – Elec	**182**	N/A	**N/A**	N/A	N/A			
Total	Scope 1 – Gas	**302**	92	**77**	80	-4	**N/A**	N/A	N/A
	Scope 2 – Elec	**828**	877	**592**	777	-24			

* Offices is calculated on a $kgCO^2e/m^2$ basis. Retail, Warehouse is calculated based on a $kgCO^2e$/car park spaces/year basis.

** Comparative numbers for 2017/2018 may have changed from those disclosed in the 2018 Directors' Report, as more data has become available since that report was published.

Directors' Report *(continued)*

In addition to reporting relevant absolute GHG emissions (per scope and per sector), the Company has chosen to report intensity ratios, where appropriate.

The denominator determined to be most relevant to the business is metres squared of net lettable area. The intensity ratio is expressed as kilograms carbon dioxide equivalent per metre square (net lettable area) per year, or, kWh $CO^2e/m^2/yr$.

Intensity ratios have only been determined on relevant emissions, where each of the following conditions is met:

- No major renovation or refurbishment has taken place i.e. affecting more than 50% of the building by area or number of occupants;
- Occupancy is at least 75%;
- At least 12 months data is available; and
- Meters serve the following areas:
  - Offices – Whole building energy consumption (divided by net lettable area (NLA m^2));
  - Retail Warehouse – External areas energy consumption (divided by no. car park spaces);
  - Industrial, Business Park – Whole building energy consumption (divided by net lettable area (NLA m^2)); and
  - Retail, High Street – Common area energy consumption (divided by net lettable area (NLA m^2)).

Intensities have not been completed on Retail, High Street or Industrial, Business Park as no assets meet the requirements.

Assurance Statement

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

Social, Community and Employee Responsibility

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

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

The Company is not within the scope of the Modern Slavery Act 2015 because it has not exceeded the turnover threshold and, therefore, no further disclosure is required in this regard.

Environmental Policy

The Investment Manager acquires and manages properties on behalf of the Company. It is recognised that these activities have both direct and indirect environmental impacts. The Investment Manager has a Sustainable and Responsible Investment ('SRI') policy. This can be found on the Investment Manager's website www.aewuk.co.uk.

The Investment Manager believes environmentally responsible fund management means being active. As part of this process, the Investment Manager submits disclosures to GRESB, the Global Real Estate Sustainability Benchmark. GRESB is an industry driven organisation committed to assessing the sustainability of real estate portfolios (public, private and direct) around the globe. The Investment Manager is in the process of submitting the Company's GRESB assessment for the year from 1 April 2018 to 31 March 2019 and will receive the results of this assessment in September 2019 when it will be made available on the Company's website.

As an investment company, the Company's own direct environmental impact is minimal and greenhouse gas ('GHG') emissions are therefore negligible. Information on the GHG emissions in relation to the Company's property portfolio are disclosed on page 52 of the Directors' Report.

Directors' Report *(continued)*

Share Capital

Share Issues

At the AGM held on 12 September 2018, the Company was granted the authority to allot Ordinary Shares up to an aggregate nominal amount of £151,558 on a non pre-emptive basis. No Ordinary Shares have been allotted under this authority and the authority will expire at the conclusion of the 2019 AGM.

At a general meeting held on 12 September 2018, the Company was granted authority to allot up to (i) 250 million Ordinary Shares of £0.01 each in the capital of the Company and/or (ii) 250 million convertible redeemable preference shares ('C Shares') of £0.01 each in the capital of the Company pursuant to a potential Share Issuance Programme. The Company published its Prospectus in relation to the Share Issuance Programme on 1 March 2019. No Ordinary Shares have been allotted under this authority which will expire on the earlier of the close of the Share Issuance Programme and 30 June 2020.

As at 31 March 2019, the Company had 151,558,251 Ordinary Shares in issue.

Purchase of Own Shares

At the Company's AGM on 12 September 2018, the Company was granted authority to purchase up to 14.99% of the Company's Ordinary Shares in issue. No shares have been bought back under this authority during the year, which expires at the conclusion of the Company's 2019 AGM. A resolution to renew the Company's authority to purchase (either for cancellation or for placing into Treasury) up to 22,718,581 Ordinary Shares (being 14.99% of the issued Ordinary Share capital as at the date of this report), will be put to shareholders at the 2019 AGM. Any purchase will be made in the market and prices will be in accordance with the terms laid out in the Notice of AGM (enclosed separately and available on the Company's website). The authority will be used where the Directors consider it to be in the best interests of shareholders.

Income Entitlement

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

Capital Entitlement

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

Voting Entitlement

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

There are no restrictions concerning the transfer of securities in the Company or on voting rights; no special rights with regard to control attached to securities; no agreements between holders of securities regarding restrictions on the transfer of securities or voting rights known to the Company; and no agreements which the Company is party to that might affect its control following a successful takeover bid.

Requirements of the Listing Rules

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

Directors' Report *(continued)*

Substantial Shareholdings

As at 31 March 2019, the Company had been notified under Disclosure Guidance and Transparency Rule ('DTR') 5 of the following significant holdings of voting rights in its Ordinary Shares. These holdings may have changed since notification, however notification of any change is not required until the next applicable threshold is crossed.

Shareholder	Number of Ordinary Shares held	% of total voting rights
The Royal Bank of Scotland Group plc	15,762,994	10.40
Schroders plc	14,981,358	9.88
Close Asset Management Limited	13,448,090	8.87
Old Mutual plc	11,087,801	7.32
Seneca IM Limited	7,602,200	5.02
Investec Wealth & Investment Limited	4,813,400	3.18

The Directors have not been informed of any changes to the above interests between 31 March 2019 and the date of this Report.

Related Party Transactions

Related party transactions during the year ended 31 March 2019 can be found in Note 22 to the Financial Statements.

Post Year-End Events

Post balance sheet events can be found in Note 24 to the Financial Statements.

Statement of Disclosure of Information to Auditor

So far as each Director is aware, there is no relevant audit information, which would be needed by the Company's Auditor in connection with preparing its audit report (on pages 57 to 64), of which the Auditor is not aware; and each Director, in accordance with section 418(2) of the Companies Act 2006, has taken all reasonable steps that they ought to have taken as a Director to make themselves aware of any such information and to ensure that the Auditor is aware of such information.

Auditor

KPMG LLP has expressed its willingness to continue as the Company's Auditor. As outlined in the Report of the Audit Committee on page 45, resolutions proposing the Auditor's re-appointment and to authorise the Audit Committee to determine its remuneration will be proposed at the forthcoming AGM.

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

Mark Burton
Chairman

21 June 2019

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, they are required to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU) and applicable law.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

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

We confirm that to the best of our knowledge:

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

We consider the Annual Report and the Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

On behalf of the Board

Mark Burton
Chairman

21 June 2019

Independent Auditor's Report

to the members of AEW UK REIT plc

1. Our opinion is unmodified

We have audited the financial statements of AEW UK REIT plc ('the Company") for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position and Statement of Cash Flows, and the related notes, including the accounting policies in note 2.

In our opinion, the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as Auditor by the Directors on 4 August 2015. The period of total uninterrupted engagement is for the four financial years ended 31 March 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality:	£2.0m (2018: £1.8m)
Financial statements as a whole	1% (2018: 1%) of total assets
Lower materiality applied to certain items	£0.55m (2018: £0.47m) Applied to rental income, property and other operating expenses and finance expense

Key audit matters	**vs 2018**
Recurring: Valuation of Investment Properties	◀▶
New: The impact of uncertainties due to Britain exiting the European Union on our audit	▲
New: Going Concern	▲

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including 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. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 42 (Audit Committee Report)	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described in the key audit matters on the valuation of investment properties, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see page 50). All of these depend on assessments of the future economic environment and the Company's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the Directors' statement that the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: 1. **Our Brexit knowledge:** We considered the Directors' assessment of Brexit-related sources of risk for the Company's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. 2. **Sensitivity analysis:** When addressing the valuation of investment properties and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. 3. **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on the valuation of investment properties, we considered all of the Brexit related disclosures together, including those in the Strategic Report, comparing the overall picture against our understanding of the risks. **Our results** As reported on page 59, we found the resulting estimates and related disclosures of the valuation of investment properties and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

2. Key audit matters: including our assessment of risks of material misstatement *continued*

	The risk	Our response
Valuation of investment properties (£196 million (2018: £191 million)) Refer to page 43 (Audit Committee Report), page 72 (accounting policy) and pages 81 to 85 (financial disclosures).	**Subjective valuation:** Investment properties represent 97% (2018: 96%) of the gross assets of the Company. The portfolio comprises 35 (2018: 36) properties which are externally valued by a qualified independent valuer and held at fair value at the balance sheet date. Each property's fair value will be impacted by a number of factors including location, future rental income, quality and condition of the building, tenant covenant and market yields. Whilst comparable market transactions provide good valuation evidence, the individual nature of each property means that a key factor in the property valuations are assumptions which involve significant levels of judgement. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of investment properties has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements note 10.c) discloses the sensitivity estimated by the Company.	Our procedures, assisted by our own property valuation specialist (for procedures 1, 2 and 3), included: 1. **Assessing valuer's credentials:** assessing the Company's external property valuer's objectivity, professional qualifications and capabilities through discussions with the valuer and reading their valuation report and terms of engagement. 2. **Methodology choice:** critically assessing whether the valuation report and the valuation methodology adopted is in accordance with the RICS Valuation Professional Standards 'the Red Book' and IFRS and that the methodology adopted was appropriate by reference to acceptable valuation practice. 3. **Benchmarking assumptions:** assessing movements in property values by holding discussions with the valuer. For a sample of properties selected using various criteria including analysis of the size of a property as well as correlation with movements in market rent, challenging the key assumptions upon which these valuations were based, including those relating to forecast rents and yields, by making a comparison to our own understanding of the market and to industry benchmarks. 4. **Assessing transparency:** considering the adequacy of the Company's disclosures about the degree of estimation and sensitivity to key assumptions made when valuing properties. **Our results** We found the valuation of investment properties to be acceptable (2018: acceptable).

2. Key audit matters: including our assessment of risks of material misstatement *continued*

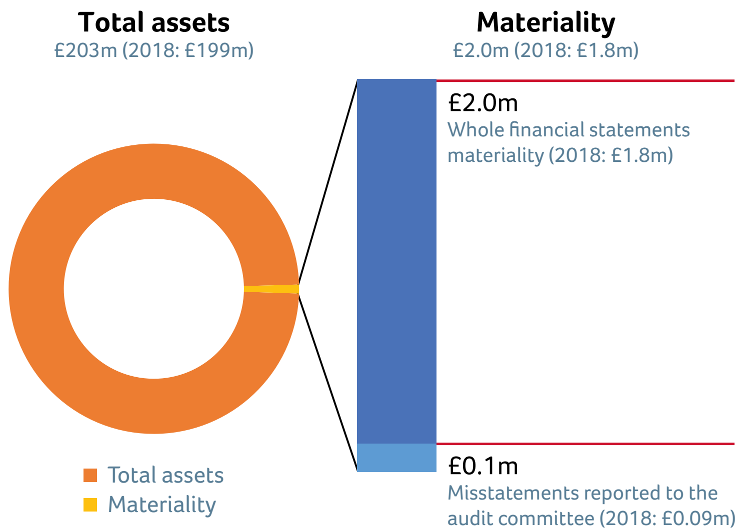
	The risk	Our response
Going concern Refer to page 43 (Audit Committee Report) and page 71 (accounting policy)	**Disclosure quality:** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Company. That judgement is based on an evaluation of the inherent risks to the Company's business model, in particular, risks associated with Brexit, and how those risks might affect the Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Company's available financial resources over this period were mainly driven by Brexit and were: – Significant fall in real estate value; – Tenant default impacting cash flow; and – Increased cost of debt. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: 1. **Funding assessment:** Analysing the Company's financing terms and reviewing Directors' forecasts and assumptions for ongoing covenant compliance and available headroom; 2. **Benchmarking assumptions:** Comparing the Company's assumptions used in the cash flow projections to externally derived data in relation to key inputs such as property market valuation and cost inflation; 3. **Sensitivity analysis:** Considering sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively, such as a fall in property values as a result of Brexit; 4. **Assessing transparency:** Assessing the completeness and accuracy of the disclosures in the Annual Report and ensuring that they reflect the position of the Company's financing and the risks associated with the Company's ability to continue as a going concern. **Our results** We found the going concern disclosure without any material uncertainty to be acceptable.

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

Materiality for the financial statements as a whole was set at £2.0 million (2018: £1.8 million), determined with reference to a benchmark of total assets, of which it represents 1% (2018: 1%).

In addition, we applied a lower materiality of £0.55 million (2018: £0.47 million) to rental income, property and other operating expenses and finance expenses, for which we believe misstatement of lesser amounts than materiality for the financial statements as a whole can be reasonably expected to influence the Company's members' assessment of the financial performance of the Company.

We reported to the Audit Committee any corrected or uncorrected misstatements exceeding £100,000 (2018: £91,000) or £27,500 (2018: £23,000) for misstatements relating to procedures performed to the lower materiality, in addition to other identified misstatements that warranted reporting on qualitative grounds.



Our audit of the Company was undertaken to the materiality level specified above and was performed at the offices in London.

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

– we have anything material to add or draw attention to in relation to the Directors' statement in Note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or

– the related statement under the Listing Rules set out on page 50 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

5. We have nothing to report on the other information in the Annual Report *continued*

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion, the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

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

Disclosures of principal risks and longer-term viability

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

- the Directors' confirmation within the viability statement on pages 50 and 51 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company 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.

Under the Listing Rules, we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

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

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 56, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

7. Respective responsibilities *continued*

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, REIT legislation and certain aspects of company legislation recognising the financial nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

21 June 2019

Financial Statements

Statement of Comprehensive Income
for the year ended 31 March 2019

	Notes	Year ended 31 March 2019 £'000	For the period 1 May 2017 to 31 March 2018 £'000
Income			
Rental and other income	3	17,183	12,330
Property operating expenses	4	(1,462)	(1,106)
Net rental and other income		**15,721**	**11,224**
Other operating expenses	4	(2,075)	(1,539)
Directors' remuneration	5	(122)	(84)
Operating profit before fair value changes		**13,524**	**9,601**
Change in fair value of investment properties	10	4,184	1,014
Realised loss on disposal of investment properties	10	(482)	(216)
Realised gains on disposal of investments		–	73
Operating profit		**17,226**	**10,472**
Finance expense	6	(1,682)	(652)
Profit before tax		**15,544**	**9,820**
Taxation	7	–	–
Profit after tax		**15,544**	**9,820**
Other comprehensive income		–	–
Total comprehensive income for the year		**15,544**	**9,820**
Earnings per share (pps) (basic and diluted)	8	**10.26**	**7.17**

The notes on pages 69 to 96 form an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 March 2019

For the year ended 31 March 2019	Notes	**Share capital £'000**	**Share premium account £'000**	**Capital reserve and retained earnings £'000**	**Total capital and reserves attributable to owners of the Company £'000**
Balance at 1 April 2018		**1,515**	**49,768**	**94,751**	**146,034**
Total comprehensive income		–	–	15,544	15,544
Share issue costs	19	–	2	–	2
Dividends paid	9	–	–	(12,124)	(12,124)
Balance at 31 March 2019		**1,515**	**49,770**	**98,171**	**149,456**

For the period 1 May 2017 to 31 March 2018	Notes	Share capital £'000	Share premium account £'000	Capital reserve and retained earnings £'000	Total capital and reserves attributable to owners of the Company £'000
Balance at 1 May 2017		**1,236**	**22,514**	**94,924**	**118,674**
Total comprehensive income		–	–	9,820	9,820
Ordinary Shares issued	18/19	279	27,771	–	28,050
Share issue costs	19	–	(517)	–	(517)
Dividends paid	9	–	–	(9,993)	(9,993)
Balance at 31 March 2018		**1,515**	**49,768**	**94,751**	**146,034**

The notes on pages 69 to 96 form an integral part of these financial statements.

Statement of Financial Position

as at 31 March 2019

	Notes	31 March 2019 £'000	31 March 2018 £'000
Assets			
Non-Current Assets			
Investment property	10	196,129	187,751
		196,129	**187,751**
Current Assets			
Investment property held for sale	10	–	3,650
Receivables and prepayments	11	4,469	2,938
Other financial assets held at fair value	12	162	26
Cash and cash equivalents		2,131	4,711
		6,762	**11,325**
Total Assets		**202,891**	**199,076**
Non-Current Liabilities			
Interest bearing loans and borrowings	13	(49,476)	(49,643)
Finance lease obligations	15	(636)	(573)
		(50,112)	**(50,216)**
Current Liabilities			
Payables and accrued expenses	14	(3,275)	(2,779)
Finance lease obligations	15	(48)	(47)
		(3,323)	**(2,826)**
Total Liabilities		**(53,435)**	**(53,042)**
Net Assets		**149,456**	**146,034**
Equity			
Share capital	18	1,515	1,515
Share premium account	19	49,770	49,768
Capital reserve and retained earnings		98,171	94,751
Total capital and reserves attributable to equity holders of the Company		**149,456**	**146,034**
Net Asset Value per share (pps)	8	**98.61 pps**	**96.36 pps**

The financial statements were approved by the Board of Directors on 21 June 2019 and were signed on its behalf by:

Mark Burton
Chairman
AEW UK REIT plc (Company number: 09522515)

The notes on pages 69 to 96 form an integral part of these financial statements.

Statement of Cash Flows
for the year ended 31 March 2019

	Year ended 31 March 2019 £'000	For the period 1 May 2017 to 31 March 2018 £'000
Cash flows from operating activities		
Profit before tax	15,544	9,820
Adjustment for non-cash items:		
Finance expenses	1,682	652
Gain from change in fair value of investment property	(4,184)	(1,014)
Realised loss on disposal of investment properties	482	216
Realised gain on disposal of investments	–	(73)
Increase in other receivables and prepayments	(1,318)	(701)
Increase/(decrease) in other payables and accrued expenses	587	(409)
Net cash flow generated from operating activities	**12,793**	**8,491**
Cash flows from investing activities		
Purchase of investment properties	(7,945)	(63,896)
Disposal of investment properties	6,629	10,856
Disposal of investments	–	7,667
Net cash used in investing activities	**(1,316)**	**(45,373)**
Cash flows from financing activities		
Proceeds from issue of ordinary share capital	–	28,050
Share issue costs	(32)	(483)
Loan draw down	–	20,990
Arrangement loan facility fee paid	(294)	(166)
Premiums for interest rate caps	(531)	(19)
Finance costs	(1,076)	(439)
Dividends paid	(12,124)	(9,993)
Net cash (used in)/generated from financing activities	**(14,057)**	**37,940**
Net (decrease)/increase in cash and cash equivalents	(2,580)	1,058
Cash and cash equivalents at start of the year/period	**4,711**	**3,653**
Cash and cash equivalents at end of the year/period	**2,131**	**4,711**

The notes on pages 69 to 96 form an integral part of these financial statements.

Notes to the Financial Statements
for the year ended 31 March 2019

1. Corporate information

AEW UK REIT plc (the 'Company') is a closed ended Real Estate Investment Trust ('REIT') incorporated on 1 April 2015 and domiciled in the UK. The registered office of the Company is 6th Floor, 65 Gresham Street, London, EC2V 7NQ.

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

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 to 34.

2. Accounting policies

2.1 Basis of preparation

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

The current period is for a period of 12 months from 1 April 2018 to 31 March 2019. The comparative period is for a period of 11 months from 1 May 2017 to 31 March 2018.

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

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

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

New standards, amendments and interpretations

The following new standards and amendments to existing standards have been published and approved by the EU. The Company has applied the following standards from 1 April 2018, with the year ended 31 March 2019 being the first year end reported under the standards:

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018). The IFRS 9 requirements represent a change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset is measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

2. Accounting policies *(continued)*

Interest rate derivatives

IFRS 9 requires that all derivative financial instruments are recognised at fair value in the statement of financial position. Changes in fair value are recognised in profit or loss unless the contract is designated in an effective hedging relationship.

Trade and other receivables

Under IFRS 9 there is no change to the classification and measurement of trade and other receivables, however, there is a requirement to carry out an ongoing assessment of expected credit losses using a general approach. The Company has made an assessment of expected credit losses at each period end, using the simplified approach where a lifetime expected loss allowance is always recognised over the expected life of the financial instrument. Any adjustment is recognised in profit or loss as an impairment gain or loss. Following the adoption of IFRS 9, there is no material impact on the Company financial statements.

- IFRS 15 Revenue from contracts with customers. IFRS 15 establishes a new framework for revenue recognition and replaces all existing standards and interpretations. IFRS 15 does not apply to lease contracts within the scope of IAS 17 Leases or, from its date of application, IFRS 16 Leases. This standard does not have a material impact on the Company's financial statements as presented for the current year as the majority of the Company's revenue consists of rental income from the Company's investment properties, which is outside the scope of IFRS 15.

- IFRS 7 Financial Instruments: Disclosures – amendments regarding additional hedge accounting disclosures (applies when IFRS 9 is applied). The changes did not have a material impact on the financial statements of the Company as hedge accounting is not applied.

The following new standards and amendments to existing standards have been published and approved by the EU, and are mandatory for the Company's accounting periods beginning after 1 April 2019 or later periods:

- IFRS 16 Leases. In January 2016, the IASB published the final version of IFRS 16 Leases. IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leasing arrangements. The Company has decided against early adoption of IFRS 16 Leases.

The Company does not expect the adoption of new accounting standards issued but not yet effective to have a significant impact on its financial statements. The right of use finance lease asset relating to head leases will be required to be measured at the present value of future cash flows, however, the difference from the IAS 17 carrying value is expected to be insignificant in the context of the Company's financial statements.

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2019

2. Accounting policies *(continued)*

2.2 Significant accounting judgements and estimates

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

There are not considered to be any judgements which have a significant effect on the amounts recognised in the financial statements.

i) Valuation of investment property

The Company's investment property is held at fair value as determined by the independent valuer on the basis of fair value in accordance with the internationally accepted RICS Appraisal and Valuation Standards.

2.3 Segmental information

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

2.4 Going concern

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

2.5 Summary of significant accounting policies

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

a) Presentation currency

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

b) Revenue recognition

i) Rental income

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

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

2. Accounting policies *(continued)*

2.5 Summary of significant accounting policies *(continued)*

b) Revenue recognition *(continued)*

ii) Deferred income

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

c) Dividend income

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

d) Financing income and expenses

Financing income comprises interest receivable on funds invested. Financing expenses comprise interest and other costs incurred in connection with the borrowing of funds. Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

e) Investment property

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

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

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

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

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

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

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

The profit on disposal is determined as the difference between the net sales proceeds and the carrying amount of the asset at the commencement of the accounting period plus capital expenditure in the period.

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

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2019

2. Accounting policies *(continued)*

2.5 Summary of significant accounting policies *(continued)*

f) Investments in subsidiaries

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

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

g) Investment property held for sale

Investment property is classified as held for sale when it is being actively marketed at year end and it is highly probable that the carrying amount will be recovered principally through a sale transaction within 12 months.

Investment property classified as held for sale is included within current assets within the Statement of Financial Position and measured at fair value.

h) Derivative financial instruments

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

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

i) Cash and cash equivalents

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

j) Receivables

Rent and other receivables are initially recognised at fair value and subsequently at amortised cost. Impairment provisions are recognised based upon an expected credit loss model. The Company has made an assessment of expected credit losses at each period end, using the simplified approach where a lifetime expected loss allowance is always recognised over the expected life of the financial instrument. Any adjustment is recognised in profit or loss as an impairment gain or loss.

2. Accounting policies *(continued)*

2.5 Summary of significant accounting policies *(continued)*

k) Capital prepayments

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

l) Other payables and accrued expenses

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

m) Rent deposits

Rent deposits represent cash received from tenants at inception of a lease and are subsequently transferred to the rent agent to hold on behalf of the Company.

n) Interest bearing loans and borrowings

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

When the lifetime of a floating rate facility is extended, and this is considered to be a non-substantial modification, the effective interest rate is revised to reflect changes in market rates of interest.

o) Provisions

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

p) Dividend payable to shareholders

Equity dividends are recognised when they become legally payable.

q) Share issue costs

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

r) Finance leases

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

2. Accounting policies *(continued)*

2.5 Summary of significant accounting policies *(continued)*

s) Taxes

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

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

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

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

t) European Public Real Estate Association

The Company has adopted European Public Real Estate Association ('EPRA') best practice recommendations, which it expects to broaden the range of potential institutional investors able to invest in the Company's Ordinary Shares. For the year to 31 March 2019, audited EPS and NAV calculations under EPRA's methodology are included in note 8 and further unaudited measures are included on pages 97 to 99.

3. Revenue

	Year ended 31 March 2019 £'000	For the period 1 May 2017 to 31 March 2018 £'000
Gross rental income received	17,179	12,330
Other property income	4	–
Total revenue	**17,183**	**12,330**

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

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2019

4. Expenses

	Year ended 31 March 2019 £'000	For the period 1 May 2017 to 31 March 2018 £'000
Property operating expenses	**1,462**	**1,106**
Other operating expenses		
Investment management fee	1,302	989
Auditor remuneration	98	88
Costs associated with the drafting of a Prospectus*	181	–
Other operating costs	494	462
Total other operating expenses	**2,075**	**1,539**
Total operating expenses	**3,537**	**2,645**

* During the year, costs were incurred in order to update the Prospectus of the Company. As no shares were issued in the year, these costs have been expensed in the year.

	Year ended 31 March 2019 £'000	For the period 1 May 2017 to 31 March 2018 £'000
Audit		
Statutory audit of Annual Report and Financial Statements	79	65
Over accrual 2018	(4)	–
	75	**65**
Non-audit		
Review of Interim Report	23	23
Renewal of Company's Prospectus 2017*	–	30
Renewal of Company's Prospectus 2019*	31	–
	54	**53**
Total fees paid to KPMG LLP	**129**	**118**
Percentage of total fees attributed to non-audit services	**42%**	**45%**

* Charged to share premium account in 11 months ended 31 March 2018. Charged to Statement of Comprehensive Income in year ended 31 March 2019.

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2019

5. Directors' remuneration

	Year ended 31 March 2019 £'000	For the period 1 May 2017 to 31 March 2018 £'000
Directors' fees	114	80
Tax and social security	8	4
Total remuneration	**122**	**84**

A summary of the Directors' remuneration is set out in the Directors' Remuneration Report on page 48.

The Company had no employees in either period.

6. Finance expenses

	Year ended 31 March 2019 £'000	For the period 1 May 2017 to 31 March 2018 £'000
Interest payable on loan borrowings	1,103	540
Amortisation of loan arrangement fee	127	79
Agency fee payable on loan borrowings	3	(11)
Commitment fees payable on loan borrowings	54	20
	1,287	628
Change in fair value of interest rate derivatives	395	24
Total	**1,682**	**652**

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2019

7. Taxation

	Year ended 31 March 2019 £'000	For the period 1 May 2017 to 31 March 2018 £'000
Tax charge comprises:		
Analysis of tax charge in the year/period		
Profit before tax	15,544	9,820
Theoretical tax at UK corporation tax standard rate of 19% (2018: 19.00%)[1]	2,953	1,866
Adjusted for:		
Exempt REIT income	(2,249)	(1,700)
Non taxable investment profit	(704)	(166)
Total tax charge	–	–

[1] Standard rate of corporation tax was 19% to 31 March 2019. The corporation tax rate is to reduce to 17% with effect from 1 April 2020.

Factors that may affect future tax charges

At 31 March 2019, the Company had unrelieved management expenses of £8,405 (31 March 2018: £8,056). It is unlikely that the Company will generate sufficient taxable income in the future to use these expenses to reduce future tax charges and therefore no deferred tax asset has been recognised.

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

8. Earnings per share and NAV per share

	Year ended 31 March 2019	For the period 1 May 2017 to 31 March 2018
Earnings per share:		
Total comprehensive income (£'000)	15,544	9,820
Weighted average number of shares	151,558,251	136,894,561
Earnings per share (basic and diluted) (pence)	**10.26**	**7.17**
EPRA earnings per share:		
Total comprehensive income (£'000)	15,544	9,820
Adjustment to total comprehensive income:		
Change in fair value of investment properties (£'000)	(4,184)	(1,014)
Realised loss on disposal of investment properties (£'000)	482	216
Realised gain on disposal of investments (£'000)	–	(73)
Change in fair value of interest rate derivatives (£'000)	395	24
Total EPRA Earnings (£'000)	12,237	8,973
EPRA earnings per share (basic and diluted) (pence)	**8.07**	**6.56**
NAV per share:		
Net assets (£'000)	149,456	146,034
Ordinary Shares	151,558,251	151,558,251
NAV per share (pence)	**98.61**	**96.36**
EPRA NAV per share:		
Net assets (£'000)	149,456	146,034
Adjustments to net assets:		
Other financial assets held at fair value (£'000)	(162)	(26)
EPRA NAV (£'000)	149,294	146,008
EPRA NAV per share (pence)	**98.51**	**96.34**

Earnings per share (EPS) amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period. As at 31 March 2019, EPRA NNNAV was equal to IFRS NAV and, as such, a reconciliation between the two measures has not been presented.

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2019

9. Dividends paid

	Year ended 31 March 2019 £'000	Period from 1 May 2017 to 31 March 2018 £'000
Fourth interim dividend paid in respect of the period 1 January 2018 to 31 March 2018 at 2.00p per Ordinary Share	3,031	–
First interim dividend paid in respect of the period 1 April 2018 to 30 June 2018 at 2.00p per Ordinary Share	3,031	–
Second interim dividend paid in respect of the period 1 July 2018 to 30 September 2018 at 2.00p per Ordinary Share	3,031	–
Third interim dividend paid in respect of the period 1 October 2018 to 31 December 2018 at 2.00p per Ordinary Share	3,031	–
Fourth interim dividend paid in respect of the period 1 February 2017 to 30 April 2017 at 2.00p per Ordinary Share	–	2,473
First interim dividend paid in respect of the period 1 May 2017 to 31 July 2017 at 2.00p per Ordinary Share	–	2,473
Second interim dividend paid in respect of the period 1 August 2017 to 31 October 2017 at 2.00p per Ordinary Share	–	3,031
Third interim dividend paid in respect of the period 1 November 2017 to 31 December 2017 at 1.33p per Ordinary Share	–	2,016
Total dividends paid during the year/period	**12,124**	**9,993**
Fourth interim dividend declared in respect of the period 1 January 2019 to 31 March 2019 at 2.00p per Ordinary Share*	3,031	–
Fourth interim dividend declared in respect of the period 1 January 2018 to 31 March 2018 at 2.00p per Ordinary Share	(3,031)	–
Fourth interim dividend declared in respect of the period 1 January 2018 to 31 March 2018 at 2.00p per Ordinary Share**	–	3,031
Fourth interim dividend declared in respect of the period 1 February 2017 to 30 April 2017 at 2.00p per Ordinary Share	–	(2,473)
Total dividends in respect of the year/period	**12,124**	**10,551**

* The fourth interim dividend declared is not included in the financial statements as a liability as at year end 31 March 2019.

** The fourth interim dividend declared is not included in the financial statements as a liability as at period ended 31 March 2018.

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2019

10. Investments

10.a) Investment property

	31 March 2019 Investment property freehold £'000	31 March 2019 Investment property leasehold £'000	31 March 2019 Total £'000	31 March 2018 Total £'000
UK investment property				
As at beginning of the year/period	155,517	36,825	192,342	137,820
Purchases in the year/period	7,590	–	7,590	64,186
Disposals in the year/period	(7,053)	–	(7,053)	(11,050)
Revaluation of investment properties	3,026	1,700	4,726	1,386
Valuation provided by Knight Frank	**159,080**	**38,525**	**197,605**	**192,342**
Adjustment to fair value for lease incentive debtor			(2,160)	(1,561)
Adjustment for finance lease obligations*			684	620
Total investment property			**196,129**	**191,401**
Classified as:				
Investment properties			196,129	187,751
Investment properties held for sale			–	3,650
			196,129	**191,401**
Loss on disposal of the investment property				
Net proceeds from disposals of investment property during the year/period			6,629	10,856
Carrying value at date of sale			(7,053)	(11,050)
Lease incentives amortised in current year/period			(58)	(22)
Loss realised on disposal of investment property			**(482)**	**(216)**
Change in fair value of investment property				
Change in fair value before adjustments for lease incentives			4,726	1,386
Adjustment for movement in the year/period:				
in value of lease incentive debtor			(542)	(452)
in value of rent guarantee debtor			–	80
			4,184	**1,014**

* Adjustment in respect of minimum payment under head leases separately included as a liability within the Statement of Financial Position.

10. Investments *(continued)*

10.a) Investment property *(continued)*

Valuation of investment property

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

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

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

10.b) Investment

	Year ended 31 March 2019 £'000	For the period 1 May 2017 to 31 March 2018 £'000
Investment in AEW UK Core Property Fund		
As at beginning of the year/period	–	7,594
Disposals in the year/period	–	(7,594)
Total investment in AEW UK Core Property Fund	**–**	**–**
Profit on disposal of the investment in AEW UK Core Property Fund		
Proceeds from disposals of investments during the year/period	–	7,667
Cost of disposal	–	(7,594)
Profit on disposal of investment	**–**	**73**

Valuation of investment

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

As at 31 March 2019, the Company had no investment in the AEW UK Core Property Fund (31 March 2018: Nil).

10. Investments *(continued)*

10.c) Fair value measurement hierarchy

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

	31 March 2019 Quoted prices in active markets (Level 1) £'000	Significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	Total £'000
Assets measured at fair value				
Investment property	–	–	196,129	196,129
	–	**–**	**196,129**	**196,129**

	31 March 2018 Quoted prices in active markets (Level 1) £'000	Significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	Total £'000
Assets measured at fair value				
Investment property	–	–	191,401	191,401
	–	**–**	**191,401**	**191,401**

Explanation of the fair value hierarchy:

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

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

Level 3 – Valuation techniques using non-observable data.

There have been no transfers between Level 1 and Level 2 during either period, nor have there been any transfers in or out of Level 3.

10. Investments *(continued)*

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

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

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

1) ERV

2) Equivalent yield

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

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

Class	Fair Value £'000	Valuation Technique	Significant Unobservable Inputs	Range
31 March 2019				
Investment property*	197,605	Income capitalisation	ERV Equivalent yield	£1.00 – £127.00 5.87% – 10.25%
31 March 2018				
Investment property*	192,342	Income capitalisation	ERV Equivalent yield	£1.00 – £145.00 3.14% – 10.72%

* Valuation per Knight Frank LLP.

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

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

10. Investments *(continued)*

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

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

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

31 March 2019

	Change in ERV		Change in equivalent yield	
Sensitivity analysis	**£'000 +5%**	**£'000 -5%**	**£'000 +5%**	**£'000 -5%**
Resulting fair value of investment property	205,803	189,720	187,352	208,707

31 March 2018

	Change in ERV		Change in equivalent yield	
Sensitivity analysis	£'000 +5%	£'000 -5%	£'000 +5%	£'000 -5%
Resulting fair value of investment property	203,903	188,297	185,985	206,943

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2019

11. Receivables and prepayments

	31 March 2019 £'000	31 March 2018 £'000
Receivables		
Rent debtor	1,438	1,074
Allowance for expected credit losses	(39)	–
Rent agent float account	92	81
Other receivables	420	179
	1,911	1,334
Lease incentive debtor	2,160	1,561
	4,071	**2,895**
Prepayments		
Property related prepayments	4	13
Listing fees	–	16
Other prepayments	394	14
	398	**43**
Total	**4,469**	**2,938**

The aged debtor analysis of receivables is as follows:

	31 March 2019 £'000	31 March 2018 £'000
Less than three months	1,911	1,334
Between three and six months	–	–
Between six and twelve months	–	–
Total	**1,911**	**1,334**

12. Interest rate derivatives

	31 March 2019 £'000	31 March 2018 £'000
At the beginning of the year/period	26	31
Interest rate cap premium paid	531	19
Changes in fair value of interest rate derivatives	(395)	(24)
At the end of the year/period	**162**	**26**

The Company is protected from a significant rise in interest rates as it has interest rate caps with a combined notional value of £36.51 million (31 March 2018: £36.51 million), resulting in the loan being 73% hedged (31 March 2018: 73%). These interest rate caps are effective until 19 October 2020. The Company has entered into additional interest rate caps on a notional value of £46.51 million at 2.00% covering the extension period of the loan from 20 October 2020 to 19 October 2023.

Fair value hierarchy

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

Valuation date	**Quoted prices in active markets (Level 1) £'000**	**Significant observable input (Level 2) £'000**	**Significant unobservable inputs (Level 3) £'000**	**Total £'000**
31 March 2019	–	162	–	162
31 March 2018	–	26	–	26

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

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

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

13. Interest bearing loans and borrowings

	Bank borrowings	
	31 March 2019 £'000	31 March 2018 £'000
At the beginning of the year/period	50,000	29,010
Bank borrowings drawn in the year/period	–	20,990
Interest bearing loans and borrowings	**50,000**	**50,000**
Unamortised loan arrangement fees	524	357
At the end of the year/period	**49,476**	**49,643**
Repayable between 2 and 5 years	50,000	50,000
Undrawn facility at the year/period end	10,000	10,000
Total facility	**60,000**	**60,000**

The Company has a £60.00 million (31 March 2018: £60.00 million) credit facility with RBSi of which £50.00 million (31 March 2018: £50.00 million) has been utilised as at 31 March 2019.

Under the terms of the Prospectus, the Company has a target gearing of 25% Loan to GAV, but can borrow up to 35% Loan to GAV in advance of a capital raise or asset disposal. As at 31 March 2019, the Company's gearing was 25.30% Loan to GAV (31 March 2018: 26.00%).

Under the terms of the loan facility, the Company can draw up to 35% Loan to NAV at drawdown. As at 31 March 2019, the Company could draw a further £2.31 million up to the maximum 35% (31 March 2018: £1.11 million).

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

On 22 October 2018, the Company extended the term of the facility by three years up to 22 October 2023, to mitigate the financing risk associated with Brexit. The margin remains unchanged, with the loan incurring interest at three month LIBOR +1.4%, which equated to an all-in rate of 2.32% as at 31 March 2019 (31 March 2018: 2.11%).

13. Interest bearing loans and borrowings *(continued)*

Reconciliation to cash flows from financing activities

	Bank borrowings	
	31 March 2019 £'000	31 March 2018 £'000
Balance at the beginning of the year/period	**49,643**	**28,740**
Changes from financing cash flows		
Loan drawdown	–	20,990
Loan arrangement fees	(294)	(166)
Total changes from financing cash flows	**(294)**	**20,824**
Other changes		
Amortisation of loan arrangement fees	127	79
Total other changes	**127**	**79**
Balance at the end of the year/period	**49,476**	**49,643**

14. Payables and accrued expenses

	31 March 2019 £'000	31 March 2018 £'000
Deferred income	1,137	993
Accruals	1,189	831
Other creditors	949	955
Total	**3,275**	**2,779**

15. Finance lease obligations

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

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

	31 March 2019 £'000	31 March 2018 £'000
Within one year	48	47
After one year but not more than five years	160	152
More than five years	476	421
	636	573
Total	**684**	**620**

16. Guarantees and commitments

As at 31 March 2019, there were capital commitments of £210,588 relating to works in Apollo Business Park, Basildon (31 March 2018: £nil).

Operating lease commitments – as lessor

The Company has entered into commercial property leases on its investment property portfolio. These non-cancellable leases have a remaining term of between zero and 24 years.

Future minimum rentals receivable under non-cancellable operating leases as at 31 March 2019 are as follows:

	31 March 2019 £'000	31 March 2018 £'000
Within one year	16,387	16,932
After one year but not more than five years	41,304	47,858
More than five years	29,513	37,574
Total	**87,204**	**102,364**

During the year ended 31 March 2019, there were contingent rents totalling £67,591 (11 month period to 31 March 2018: £149,192) recognised as income.

17. Investment in subsidiary

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

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

AEW UK REIT 2015 Limited is a subsidiary of the Company incorporated in the UK on 2 April 2015. At 31 March 2019, the Company held one share, being 100% of the issued share capital. AEW UK REIT 2015 Limited is dormant and the cost of the subsidiary is £0.01 (31 March 2018: £0.01). The registered office of AEW UK REIT 2015 Limited is 6th Floor, 65 Gresham Street, London, EC2V 7NQ.

18. Issued share capital

	31 March 2019		31 March 2018	
	£'000	**Number of Ordinary Shares**	£'000	Number of Ordinary Shares
Ordinary Shares (nominal value £0.01 per share) authorised, issued and fully paid				
At the beginning of the year/period	1,515	151,558,251	1,236	123,647,250
Issued on admission to trading on the London Stock Exchange on 24 October 2017	–	–	279	27,911,001
At the end of the year/period	**1,515**	**151,558,251**	**1,515**	**151,558,251**

On 24 October 2017, the Company issued 27,911,001 Ordinary Shares at a price of 100.5 pps, pursuant to the Initial Placing, Initial Offer for Subscription and Intermediaries Offer of the Share Issuance Programme, as described in the prospectus published by the Company on 28 September 2017.

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2019

19. Share premium account

	31 March 2019 £'000	31 March 2018 £'000
The share premium relates to amounts subscribed for share capital in excess of nominal value:		
Balance at the beginning of the year/period	49,768	22,514
Issued on admission to trading on the London Stock Exchange on 24 October 2017	–	27,771
Share issue cost (paid and accrued)	2	(517)
Balance at the end of the year/period	**49,770**	**49,768**

20. Financial risk management objectives and policies

20.1 Financial assets and liabilities

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

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

	31 March 2019		31 March 2018	
	Book Value £'000	**Fair Value £'000**	Book Value £'000	Fair Value £'000
Financial assets				
Receivables[1]	1,911	1,911	1,334	1,334
Cash and cash equivalents	2,131	2,131	4,711	4,711
Other financial assets held at fair value	162	162	26	26
Financial liabilities				
Interest bearing loans and borrowings	49,476	50,000	49,643	50,000
Payables and accrued expenses[2]	1,923	1,923	1,638	1,638
Finance lease obligations	684	684	620	620

1 Excludes lease incentive debtor and prepayments

2 Excludes tax, VAT liabilities and deferred income

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

20.1 Financial assets and liabilities *(continued)*

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

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

20.2 Financing management

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

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

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

Market price risk

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

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

Real estate risk

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

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

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

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

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

Real estate risk *(continued)*

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

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

Credit risk

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

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

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

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

	As at 31 March 2019 £'000	As at 31 March 2018 £'000
Debtors (excluding incentives and prepayments)	1,911	1,334
Cash and cash equivalents	2,131	4,711
Total	**4,042**	**6,045**

Liquidity risk

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

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

Liquidity risk *(continued)*

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

31 March 2019	**On demand £'000**	**< 3 months £'000**	**3–12 months £'000**	**1–5 years £'000**	**> 5 years £'000**	**Total £'000**
Interest bearing loans and borrowings	–	290	877	54,145	–	55,312
Payables and accrued expenses	–	1,923	–	–	–	1,923
Finance lease obligation	–	–	51	205	4,307	4,563
	–	**2,213**	**928**	**54,350**	**4,307**	**61,798**

31 March 2018	On demand £'000	< 3 months £'000	3–12 months £'000	1–5 years £'000	> 5 years £'000	Total £'000
Interest bearing loans and borrowings	–	228	678	51,422	–	52,328
Payables and accrued expenses	–	1,638	–	–	–	1,638
Finance lease obligation	–	–	51	205	3,128	3,384
	–	**1,866**	**729**	**51,627**	**3,128**	**57,350**

21. Capital management

The primary objectives of the Company's capital management are to ensure that it continues to qualify for UK REIT status and complies with its banking covenants.

To enhance returns over the medium term, the Company utilises borrowings on a limited recourse basis for each investment or all or part of the total portfolio. The Company's policy is to target a borrowing level of 25% loan to GAV and it can borrow up to a maximum of 35% loan to GAV in advance of a capital raise or asset disposal. It is currently anticipated that the level of total borrowings will typically be at the level of 25% of GAV (measured at drawdown).

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

21. Capital management *(continued)*

The monitoring of the Company's level of borrowing is performed primarily using a Loan to GAV ratio, which is calculated as the amount of outstanding debt divided by the total valuation of investment property. The Company Loan to GAV ratio at the year end was 25.30% (31 March 2018: 26.00%).

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

22. Transactions with related parties

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

For the year ended 31 March 2019, the Directors of the Company are considered to be the key management personnel. Details of amounts paid to Directors for their services can be found within note 5, Directors' remuneration.

AEW UK Investment Management LLP is the Company's Investment Manager and has been appointed as AIFM. Under the terms of the Investment Management Agreement, the Investment Manager is responsible for the day-to-day discretionary management of the Company's investments subject to the investment objective and investment policy of the Company and the overall supervision of the Directors.

The Investment Manager is entitled to receive a quarterly management fee in respect of its services calculated at the rate of one-quarter of 0.9% of the prevailing NAV (excluding uninvested proceeds from fundraisings).

During the year, the Company incurred £1,302,153 (31 March 2018: £988,612) in respect of investment management fees and expenses, of which £328,323 (31 March 2018: £469,239) was outstanding as at 31 March 2019.

23. Segmental information

Management has considered the requirements of IFRS 8 `operating segments'. The source of the Company's diversified revenue is from the ownership of investment properties across the UK. Financial information on a portfolio basis is provided to senior management of the Investment Manager and the Directors, which collectively comprise the chief operating decision maker. The properties are managed on a portfolio basis and the chief operating decision maker assesses performance and makes resource allocation decisions at the portfolio level (being the total investment property portfolio held by the company). Therefore, the Company is considered to be engaged in a single segment of business, being property investment and in one geographical area, United Kingdom.

24. Events after reporting date

Dividend

On 26 April 2019, the Board declared its fourth interim dividend of 2.00 pps in respect of the period from 1 January 2019 to 31 March 2019. This was paid on 31 May 2019, to shareholders on the register as at 10 May 2019. The ex-dividend date was 9 May 2019.

EPRA Unaudited Performance Measures

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

All EPRA performance measures have been calculated in line with EPRA Best Practices Recommendations Guidelines which can be found at www.epra.com.

MEASURE AND DEFINITION	PURPOSE	PERFORMANCE
1. EPRA Earnings Earnings from operational activities.	A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.	£12.24 million/8.07 pps EPRA earnings for year to 31 March 2019 (11 month period to 31 March 2018: £8.97 million/6.56 pps)
2. EPRA NAV Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business.	Makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long-term investment strategy.	£149.29 million/98.51 pps EPRA NAV as at 31 March 2019 (31 March 2018: £146.01 million/96.34 pps)
3. EPRA NNNAV EPRA NAV adjusted to include the fair values of: (i) financial instruments; (ii) debt; and (iii) deferred taxes.	Makes adjustments to EPRA NAV to provide stakeholders with the most relevant information on the current fair value of all the assets and liabilities within a real estate company.	£149.46 million/98.61 pps EPRA NNNAV as at 31 March 2019 (31 March 2018: £146.03 million/96.36 pps)
4.1 EPRA NIY Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.	A comparable measure for portfolio valuations. This measure should make it easier for investors to judge themselves, how the valuation of portfolio X compares with portfolio Y.	7.62% EPRA NIY as at 31 March 2019 (31 March 2018: 7.73%)
4.2 EPRA 'Topped-Up' NIY This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).	A comparable measure for portfolio valuations. This measure should make it easier for investors to judge themselves, how the valuation of portfolio X compares with portfolio Y.	8.58% EPRA 'Topped-Up' NIY as at 31 March 2019 (31 March 2018: 8.52%)
5. EPRA Vacancy ERV of vacant space divided by ERV of the whole portfolio.	A 'pure' (%) measure of investment property space that is vacant, based on ERV.	2.99% EPRA ERV as at 31 March 2019 (31 March 2018: 7.10%)
6. EPRA Cost Ratio Administrative and operating costs (including and excluding costs of direct vacancy) divided by gross rental income.	A key measure to enable meaningful measurement of the changes in a company's operating costs.	21.04% EPRA Cost Ratio (including direct vacancy costs) as at 31 March 2019 (31 March 2018: 21.89%) 15.81% EPRA Cost Ratio (excluding direct vacancy costs) as at 31 March 2019 (31 March 2018: 14.89%)

EPRA Unaudited Performance Measures *(continued)*

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

	Year ended 31 March 2019 £'000	For the period 1 May 2017 to 31 March 2018 £'000
Investment property – wholly-owned	197,605	192,342
Allowance for estimated purchasers' costs	13,437	13,079
Grossed-up completed property portfolio valuation	**211,042**	**205,421**
Annualised cash passing rental income	16,725	17,046
Property outgoings	(651)	(1,174)
Annualised net rents	**16,074**	**15,872**
Rent from expiry of rent-free periods and fixed uplifts	2,023	1,626
'Topped-up' net annualised rent	**18,097**	**17,498**
EPRA NIY	7.62%	7.73%
EPRA 'topped-up' NIY	8.58%	8.52%

EPRA NIY basis of calculation

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

The valuation of grossed-up completed property portfolio is determined by the Company's external valuers as at 31 March 2019, plus an allowance for estimated purchaser's costs. Estimated purchaser's costs are determined by the relevant stamp duty liability, plus an estimate by our valuers of agent and legal fees on notional acquisition. The net rent deduction allowed for property outgoings is based on the Company's valuers' assumptions on future recurring non-recoverable revenue expenditure.

In calculating the EPRA 'topped-up' NIY, the annualised net rent is increased by the total contracted rent from expiry of rent-free periods and future contracted rental uplifts.

EPRA Unaudited Performance Measures *(continued)*

Calculation of EPRA Vacancy Rate

	Year ended 31 March 2019 £'000	For the period 1 May 2017 to 31 March 2018 £'000
Annualised potential rental value of vacant premises	522	1,254
Annualised potential rental value for the complete property portfolio	17,484	17,677
EPRA Vacancy Rate	**2.99%**	**7.10%**

Calculation of EPRA Cost Ratios

	Year ended 31 March 2019 £'000	For the period 1 May 2017 to 31 March 2018 £'000
Administrative/operating expense per IFRS income statement	3,660	2,729
Less: ground rent costs	(58)	(38)
EPRA costs (including direct vacancy costs)	**3,602**	**2,691**
Direct vacancy costs (see Glossary on page 102 for further details)	(895)	(861)
EPRA costs (excluding direct vacancy costs)	**2,707**	**1,830**
Gross rental income less ground rent costs	**17,121**	**12,292**
EPRA Cost Ratio (including direct vacancy costs)	**21.04%**	**21.89%**
EPRA Cost Ratio (excluding direct vacancy costs)	**15.81%**	**14.89%**

Company Information

Share Register Enquiries
The register for the Company's Ordinary Shares is maintained by Computershare Investor Services PLC. In the event of queries regarding your holding, please contact the Registrar on +44 (0) 370 707 1341 or email: web.queries@computershare.co.uk.

Changes of name and/or address must be notified in writing to the Registrar, at the address shown on page 101. You can check your shareholding and find practical help on transferring shares or updating your details at www.investorcentre.co.uk. Shareholders eligible to receive dividend payments gross of tax may also download declaration forms from that website.

Share Information

Ordinary £0.01 Shares	151,558,251
SEDOL Number	BWD2415
ISIN Number	GB00BWD24154
Ticker/TIDM	AEWU

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

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

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

Financial Calendar

12 September 2019	Annual General Meeting
30 September 2019	Half-year end
November/December 2019	Announcement of half-yearly results
31 March 2020	Year end
June 2020	Announcement of annual results

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

	£
Interim dividend for the period 1 April 2018 to 30 June 2018 (payment made on 31 August 2018)	3,031,165
Interim dividend for the period 1 July 2018 to 30 September 2018 (payment made on 30 November 2018)	3,031,165
Interim dividend for the period 1 October 2018 to 31 December 2018 (payment made on 28 February 2019)	3,031,165
Interim dividend for the period 1 January 2019 to 31 March 2019 (payment made on 31 May 2019)	3,031,165
Total	**12,124,660**

Company Information *(continued)*

Directors
Mark Burton* (Non-executive Chairman)
Katrina Hart* (Non-executive Director)
James Hyslop (Non-executive Director)
Bimaljit ("Bim") Sandhu* (Non-executive Director)

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Glossary

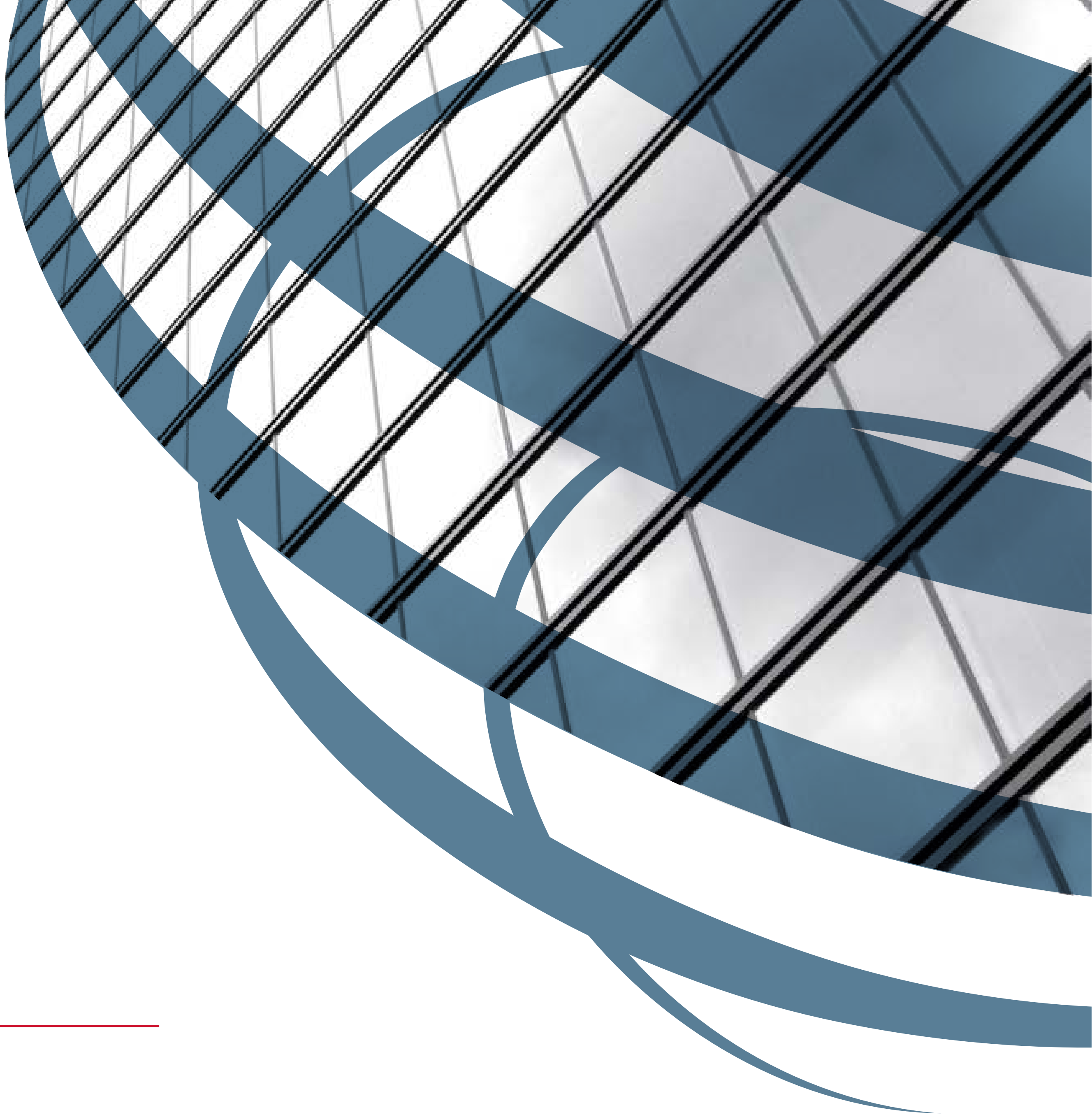
AEW UK Core Property Fund (the 'Core Fund')	AEW UK Core Property Fund, a property authorised investment fund ('PAIF') and a sub-fund of the AEW UK Real Estate Fund, an open-ended investment company.
AIC	Association of Investment Companies. This is the trade body for closed-ended Investment companies (www.theaic.co.uk).
AIC Code	The AIC Code of Corporate Governance, as published in July 2016. A framework of best practice guidance for investment companies.
AIFMD	Alternative Investment Fund Managers Directive.
AIFM	Alternative Investment Fund Manager. The entity that provides portfolio management and risk management services to the Company and which ensures the Company complies with the AIFMD. The Company's AIFM is AEW UK Investment Management LLP.
AIF	Alternative Investment Fund. Alternative Investment Funds are funds that are not regulated at EU level by the UCITS Directive.
Company	AEW UK REIT plc.
Company Secretary	Link Company Matters Limited.
Company website	www.aewukreit.com
Contracted rent	The annualised rent adjusting for the inclusion of rent subject to rent-free periods.
Covenant strength	The strength of a tenant's financial status and its ability to perform the covenants in the lease.
Direct vacancy costs	Property expenses that are directly related to the property including the following: rates/property taxes; service charge; insurance premiums; carbon tax; any other costs directly billed to the unit.
DTR	Disclosure Guidance and Transparency Rules, issued by the FCA.
Earnings Per Share ('EPS')	Profit for the period attributable to equity shareholders divided by the weighted average number of Ordinary Shares in issue during the period.
EPC	Energy Performance Certificate.
EPRA	European Public Real Estate Association, the industry body representing listed companies in the real estate sector.
EPRA cost ratio (including direct vacancy costs)	The ratio of net overheads and operating expenses against gross rental income (with both amounts excluding ground rents payable). Net overheads and operating expenses relate to all administrative and operating expenses.
EPRA cost ratio (excluding direct vacancy costs)	The ratio calculated above, but with direct vacancy costs removed from net overheads and operating expenses balance.
EPRA Earnings Per Share	Recurring earnings from core operational activities. A key measure of a company's underlying operating results from its property rental business and an indication of the extent to which current dividend payments are supported by earnings.
EPRA NAV	Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business.
EPRA NNNAV	EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation on revaluations.
EPRA Net Initial Yield ('EPRA NIY')	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the fair value of the property, increased with (estimated) purchasers' costs.

Glossary *(continued)*

EPRA Topped-Up Net Initial Yield	This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).
EPRA Vacancy Rate	Estimated Rental Value ('ERV') of vacant space as a percentage of the ERV of the whole portfolio.
Equivalent Yield	The internal rate of return of the cash flow from the property, assuming a rise to ERV at the next review or lease expiry. No future growth is allowed for.
Estimated Rental Value ('ERV')	The external valuers' opinion as to the open market rent which, on the date of the valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.
External Valuer	An independent external valuer of a property. The Company's External Valuer is Knight Frank LLP.
Fair Value	The estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where parties had each acted knowledgeably, prudently and without compulsion.
Fair value movement	An accounting adjustment to change the book value of an asset or liability to its fair value.
FCA	The Financial Conduct Authority.
FRI lease	A lease which imposes full repairing and insuring obligations on the tenant, relieving the landlord from all liability for the cost of insurance and repairs.
Gross Asset Value	The aggregate value of the total assets of the Company as determined in accordance with IFRS.
IASB	International Accounting Standards Board.
IFRS	International Financial Reporting Standards, as adopted by the European Union.
Investment Manager	The Company's Investment Manager is AEW UK Investment Management LLP.
IPD	Investment Property Databank. An organisation supplying independent market indices and portfolio benchmarks to the property industry.
IPO	The admission to trading on the London Stock Exchange's Main Market of the share capital of the Company and listing of Ordinary Shares to the premium segment of the Official List of the FCA, on 12 May 2015.
Lease incentives	Incentives offered to occupiers to enter into a lease. Typically this will be an initial rent-free period, or a cash contribution to fit-out. Under accounting rules, the value of the lease incentive is amortised through the Statement of Comprehensive Income on a straight-line basis until the lease expiry.
Lease surrender	An agreement whereby the landlord and tenant bring a lease to an end other than by contractual expiry or the exercise of a break option. This will frequently involve the negotiation of a surrender premium by one party to the other.
LIBOR	The London Interbank Offered Rate, a globally accepted key benchmark interest rate that indicates borrowing between banks.
Like-for-Like	The like-for-like valuation movement compares the valuation (as provided by the external valuer and before adjustments for lease incentives) of properties at the end of the period in question with the valuation at the start of the period. This measure only compares movements for those properties which were held at both the start and end of the period, so excludes the effects of acquisitions and disposals.
Loan-to-Value ('LTV')	The value of outstanding loans and borrowings (before adjustments for issue costs) expressed as a percentage of the combined valuation of the property portfolio (as provided by the External Valuer) and the fair value of other investments.
Net Asset Value ('NAV')	Net Asset Value is the equity attributable to shareholders calculated under IFRS.
NAV per share	Equity shareholders' funds divided by the number of Ordinary Shares in issue.
NAV Total Return	The percentage change in NAV, assuming that dividends paid to shareholders are reinvested at NAV to purchase additional Ordinary Shares

Glossary *(continued)*

Net equivalent yield	Calculated by the Company's External Valuers, net equivalent yield is the internal rate of return from an investment property, based on the gross outlays for the purchase of a property (including purchase costs), reflecting reversions to current market rent and items as voids and non-recoverable expenditure but ignoring future changes in capital value. The calculation assumes rent is received annually in arrears.
Net initial yield ('NIY')	The initial net rental income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase.
Net rental income	Rental income receivable in the period after payment of ground rents and net property outgoings.
Non-PID	Non-Property Income Distribution. The dividend received by a shareholder of the Company arising from any source other than profits and gains of the Tax Exempt Business of the Company.
Ongoing charges	A measure, expressed as a percentage of NAV, of the regular, recurring costs of running an investment company which is calculated in line with AIC methodology.
Ordinary Shares	Ordinary Shares of £0.01 each in the capital of the Company. Ordinary Shares are the main type of equity capital issued by conventional Investment Companies. Shareholders are entitled to their share of both income, in the form of dividends paid by the Company, and any capital growth.
Over-rented	Space where the passing rent is above the ERV.
Passing rent	The gross rent, less any ground rent payable under head leases.
PID	Property Income Distribution. A dividend received by a shareholder of the Company in respect of profits and gains of the tax exempt business of the Company.
Rack-rented	Space where passing rent is the same as the ERV.
REIT	A Real Estate Investment Trust. A company which complies with Part 12 of the Corporation tax Act 2010. Subject to the relevant UK REIT criteria being met continually, the profits from the property business of a REIT, arising from both income and capital gains, are exempt from corporation tax.
Reversion	Increase in rent estimated by the Company's External Valuer, where the passing rent is below the ERV.
Reversionary Yield	The anticipated yield, which the initial yield will rise (or fall) to once the rent reaches the ERV.
Share price	The value of a share at a point in time as quoted on a stock exchange. The Company's Ordinary Shares are quoted on the Main Market of the London Stock Exchange.
Total returns	The returns to shareholders calculated on a per share basis by adding dividend paid in the period to the increase or decrease in the share price or NAV. The dividends are assumed to have been reinvested in the form of Ordinary Shares or net assets.
Shareholder Total Return	The percentage change in the share price assuming dividends are reinvested to purchase additional Ordinary Shares.
Under-rented	Space where the passing rent is below the ERV.
UK Corporate Governance Code	A code issued by the Financial Reporting Council which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. All companies with a premium listing of equity shares in the UK are required under the Listing Rules to report on how they have applied the Code in their annual report and accounts.
Voids	The amount of rent relating to properties which are unoccupied and generating no rental income. Stated as a percentage of ERV.
Weighted Average Unexpired Lease Term ('WAULT')	The average lease term remaining for first break, or expiry, across the portfolio weighted by contracted rental income.
Yield compression	Occurs when the net equivalent yield of a property decreases, measured in basis points.



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