

AEW UK Long Lease REIT plc

Annual Report and Financial Statements
for the period from 18 April 2017 to 30 June 2018

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Strategic Report

Financial Highlights

- AEW UK Long Lease REIT plc ('the Company') raised total gross proceeds of £80.50 million during the period.
- Net Asset Value ('NAV') of £76.42 million and of 94.93 pence per share as at 30 June 2018.
- Operating profit before fair value changes is £2.45 million for the period.
- Loss before tax of £0.89 million and of 1.25 pence per share for the period, of which £6.48 million and 8.05 pence per share relate to property acquisition costs written off.
- EPRA Earnings Per Share ('EPRA EPS') for the period were 2.74 pence (see page 8 for definition).
- Total dividends of 3.25 pence per share have been declared for the period in line with the stated dividend target as set out in the Prospectus at its Initial Public Offering ('IPO').
- As at 30 June 2018, the Group had a £30 million loan facility with Canada Life Investments and was geared to 27.7% of the Gross Asset Value ('GAV').

Property Highlights

- Weighted average unexpired lease term ('WAULT') of 21.8 years to the earlier of break and expiry and 24.0 years to expiry.
- The Company acquired 16 properties in the period for a total of £95.46 million (excluding acquisition costs).
- As at 30 June 2018, the Company's property portfolio had a fair value of £99.09 million.
- The portfolio is 99.7% let as at 30 June 2018.
- Rental and other income generated in the period was £3.60 million. The number of tenants as at 30 June 2018 was 21.
- The portfolio has annualised contracted rental income of £5.64 million as at 30 June 2018.
- The portfolio has an average Net Initial Yield ('NIY') of 5.29%.

Chairman's Statement

Overview

I am pleased to present the first annual results of AEW UK Long Lease REIT plc (the 'Company') together with its subsidiaries (the 'Group') for the period from incorporation on 18 April 2017 to 30 June 2018 (the 'period').

On 6 June 2017, the Company's Ordinary Shares were admitted to trading on the Main Market for listed securities of the London Stock Exchange, with gross proceeds of £80.5 million having been raised from the Company's IPO.

In accordance with the investment policy, the net proceeds of the IPO, together with £30 million of debt financing raised during the period, have been invested in a diversified portfolio of commercial investment properties, predominately in the alternative property sectors, throughout the UK.

As at 30 June 2018, the Group had invested £95.46 million (excluding purchase costs) in acquiring a portfolio of 16 properties. At the period end, the Group's property portfolio (the 'Portfolio') has been independently valued by Knight Frank LLP in accordance with the RICS Valuations – Professional Standards (the 'Red Book') at a fair value of £99.09 million, an increase of £3.63 million or 3.80% before considering purchase costs.

To date, the Group has delivered on its targets at the time of the Company's IPO, as set out in the investment strategy section on pages 5 to 7 of the Strategic Report. The portfolio has a NIY of 5.29%, a WAULT to break of 21.8 years and a WAULT to expiry of 24.0 years. Rental and other income generated in the period was £3.60 million and 91% of the income is linked to inflation (RPI or CPI).

Financial Results

	18 April 2017 to 30 June 2018
Operating profit before fair value changes (£'000)	2,445
Operating loss (£'000)	(408)
Loss before tax (£'000)	(895)
Loss per share (basic and diluted) (pence)	(1.25)
EPRA EPS (basic and diluted) (pence)	2.74
Net Asset Value per share (pence)	94.93
EPRA Net Asset Value per share (pence)	94.93

Under International Financial Reporting Standards ('IFRS') as adopted by the European Union, our operating profit before fair value changes for the period was £2.45 million.

The basic loss per share for the period was 1.25 pence. This includes a decrease in the fair value of investment property of £2.85 million (with the Group having incurred £6.48 million of property acquisition costs, offset by unrealised valuation gains of £3.63 million). Under European Public Real Estate Association ('EPRA') methodology, EPS for the period was 2.74 pence. A full list of EPRA performance figures can be found on page 9.

The NAV per share as at 30 June 2018 was 94.93 pence, prior to adjusting for the interim dividend for the period 1 April 2018 to 30 June 2018 of 1.25 pence per Ordinary Share.

The Group has ongoing charges of 1.36% for the period, which is a measure of annualised fund level operating costs for the period as a percentage of NAV (see page 92 for definition).

Chairman's Statement *(continued)*

Financing

On 5 January 2018, the Group entered into a €30 million loan facility with Canada Life Investments, repayable in October 2025 with an all-in fixed rate of 3.05% per annum. The term facility is up to 35% loan to property value, provided on a portfolio basis.

The Group has used this financing to invest in additional commercial properties in line with the investment policy. As at 30 June 2018 the loan was fully drawn, with €1.4 million being held as restricted cash to be used for further acquisitions and €28.6 million utilised for portfolio acquisitions. Since the year end, the remaining €1.4 million has been used to finance a further acquisition (see note 22 for further details).

As at 30 June 2018, the unexpired term of the facility was 7.3 years and the Loan to Value ('LTV') was 27.7% (as calculated on the GAV).

Dividends

Dividends paid and declared by the Company during the period are set out in note 9 to the Consolidated Financial Statements.

In total the Company has declared aggregate dividends of 3.25 pence per share for the period from the date of incorporation to 30 June 2018. This is in line with the stated dividend policy set out in the Company's Prospectus. EPRA EPS of 2.74 pence per share reflects a dividend cover of 84.3% for the period.

The Investment Manager

The Group has appointed AEW UK Investment Management LLP ('AEW UK' and the 'Investment Manager') as the Group's discretionary investment manager. AEW UK is part of the AEW Group, one of the world's largest real estate managers, with €59.3 billion of assets under management as at 31 March 2018. AEW UK has an experienced team with a track record of strong performance in long lease funds and investing through different cycles.

Outlook

During our first period, the Group has achieved its key target of declaring aggregate dividends of 3.25 pence per share.

A strong portfolio of assets has been acquired, diversified by sector, tenants and geographical location, at attractive yields, which generate predictable income streams through long leases. As at the reporting date, over 90% of this income was inflation linked, in line with our investment policy. Details of each property are set out on pages 14 to 19.

Since 30 June 2018, the Group has acquired a further property for €3.9 million (net of purchase costs) that generates a further €0.26 million per annum in passing rent. Following this acquisition, the Group has fully invested the equity raised at the IPO and its €30 million debt facility.

The current focus is to continue to grow the Group initially by increasing the Group's borrowing facility (see page 7) and acquiring additional property and subject to market conditions, look to raise additional equity. Both of these will enable the Group to take advantage of economies of scale in its cost base to close the relatively small gap between Earnings per Share and our target Dividend per Share, and to allow the Investment Manager to capitalise on the attractive market opportunities it sees.

During the Group's initial period, the Group has met its initial objectives and looks forward to reporting significant progress in the future.

I would like to thank our shareholders, my fellow Directors and AEW UK for their support since the inception of the Group.

Steve Smith
Chairman

17 September 2018

Business Model and Strategy

Introduction

AEW UK Long Lease REIT plc is a real estate investment trust listed on the premium segment of the Official List of the UK Listing Authority and traded on the Main Market of the London Stock Exchange. As part of its business model and strategy, the Group has and intends to maintain UK REIT status. HM Revenue and Customs has acknowledged that the Group has met UK REIT Status 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 Group is to generate a secure and predictable income return, sustainable in real terms, whilst at least maintaining capital values, in real terms, through investment in a diversified portfolio of UK properties, in alternative and specialist sectors.

Investment Policy

In order to achieve the investment objective, the Group invests in freehold and long leasehold properties across the whole spectrum of the UK property sector, but with a focus on alternative and specialist real estate sectors. Examples of alternative and specialist real estate sectors include, but are not limited to, leisure, hotels, healthcare, education, logistics, automotive, supported living and student accommodation.

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

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

Investment Strategy

The Group focuses on properties which can deliver a secure income and preserve capital value, with an attractive entry yield. The Group has an emphasis on alternative and specialist property sectors to access the attractive value and capital preservation qualities which such sectors currently offer.

The Group will supplement this core strategy with active asset management initiatives for certain properties.

Subject at all times to the Investment Manager's assessment of their appeal and specific asset investment opportunities, permitted sectors include, but are not limited to the following: Healthcare; Leisure; Hotels and serviced apartments; Education; Automotive; Car parks; Residential; Supported living; Student accommodation; Logistics; Storage; Communications; Supermarkets; and, subject to the limitations on traditional sector exposures below, Offices; Shopping centres; Retail and retail warehouses; and Industrial.

The Group is not permitted to invest in land assets, including development land which does not have a development agreement attached, agriculture or timber.

The focus will be to invest in properties to construct a portfolio with the following minimum targets:

- a WAULT, at the time of investment, in excess of 18 years;
- at least 85% of the gross passing rent will have leases with rent reviews linked to inflation (RPI or CPI) at the time of investment;
- investment in properties which typically have a value, at the time of investment, of between £2 million and £30 million;
- at least 70% of the properties will be in non-traditional sectors;
- less than 30% of the properties will be in the traditional sectors of retail, industrial and offices; and
- over 90% of properties will be freehold or very long leasehold (over 100 years).

Business Model and Strategy *(continued)*

Investment Policy *(continued)*

Once GAV is £250 million or greater, future investments will be made to target a portfolio with at least 80% of the properties in non-traditional sectors and less than 20% of the properties in traditional sectors.

Whilst each acquisition will be made on a case-by-case basis, it is expected that properties will typically offer the following characteristics:

- existing tenants with strong business fundamentals and profitable operations in those locations;
- depth of tenant/operator demand;
- alternative use value;
- current passing rent close to or below rental value; and
- long-term demand drivers, including demographics, use of technology or built-for-purpose real estate.

The Investment Manager has identified a pipeline of opportunities generated by its network of connections across the UK commercial property market. Further details of the pipeline of opportunities for the Group are set out on page 13.

The Group may invest in commercial properties or portfolios of commercial property assets which, in addition, include ancillary or secondary utilisations.

The Group does not intend to spend any more than 5% of the NAV in any rolling twelve month period on (a) the refurbishment of previously occupied space within the existing Portfolio, or (b) the refurbishment of new properties acquired with vacant units.

The Group may invest in corporate and other entities that hold property and the Group may also invest in conjunction with third party investors.

The Group may engage in full or partial interest rate hedging or derivatives to seek to mitigate the risk of interest rate increases as part of the Group's portfolio management.

Business Model and Strategy *(continued)*

Investment Policy *(continued)*

Investment Restrictions

GAV of less than £250 million

Investment in a single property limited to 15% of GAV (measured at the time of investment).

The value of assets in any sub-sector in one geographical region, at the time of investment, shall not exceed 15% of GAV.

The value of assets in any one sector and sub-sector, at the time of investment, shall not exceed 50% of GAV and 25% of GAV respectively.

Exposure to a single tenant covenant will be limited to 15% of GAV.

The Group may commit up to a maximum of 10% of its GAV (measured at the commencement of the project) in development activities.

Investment in unoccupied and non-income producing assets will, at the time of investment, not exceed 5% of Estimated Rental Value ('ERV').

The Group will not invest in other closed-ended investment companies.

If the Group invests in derivatives for the purposes of efficient portfolio and cash management, the total notional value of the derivatives at the time of investment will not exceed, in aggregate, 20% of GAV.

The Group will invest and manage its assets with the objective of spreading risk through the above investment restrictions.

When the measure of GAV is used to calculate the restrictions relating to (i) the value of a single property and (ii) the value of assets in any sub-sector in one geographical region, it will reflect an assumption that the Group has drawdown borrowings such that these borrowings are equal to 30% of GAV.

Borrowings

The Group has utilised borrowings to enhance returns over the medium term. Borrowings have been utilised on a limited recourse basis for each investment on all or part of the total Portfolio and will not exceed 40% of GAV (measured at drawdown) of each relevant investment or of the Portfolio.

At 30 June 2018 the Group's LTV ratio was 27.7%. It is the intention to increase borrowings so that the LTV ratio increases up to 40% and to use the additional funds to purchase suitable assets and so increase the Group's net rental income after interest and thus close the gap between the Group's Earnings per Share and its Dividend per Share.

Key Performance Indicators

KPI AND DEFINITION	RELEVANCE TO STRATEGY	PERFORMANCE
<p>1. Net Initial Yield ('NIY') A representation to the investor of what its 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).</p>	<p>The NIY is an indicator of the ability of the Company to meet its target dividend after adjusting for the upward impacts of leverage and deducting operating costs.</p>	<p>5.29% At 30 June 2018</p>
<p>2. Weighted Average Unexpired Lease Term ('WAULT') to break and expiry The average lease term remaining to expiry across the portfolio, weighted by contracted rent.</p>	<p>The WAULT is a key measure of the quality of our portfolio. Long leases underpin the security of our future income.</p>	<p>21.8 years to break and 24.0 years to expiry At 30 June 2018</p>
<p>3. NAV NAV is the value of an entity's assets minus the value of its liabilities.</p>	<p>Provides stakeholders with the most relevant information on the fair value of the assets and liabilities of the Group.</p>	<p>£76.42 million At 30 June 2018</p>
<p>4. Dividend Dividends declared in relation to the period are in line with the stated dividend target as set out in the Prospectus at IPO. The Company targets a dividend of 5.50 pence per Ordinary Share per annum once fully invested and leveraged.</p>	<p>The dividend reflects the Company's ability to deliver a sustainable income stream from its portfolio.</p>	<p>3.25 pence per share For the period from incorporation to 30 June 2018</p>
<p>5. 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 to the Consolidated Financial Statements.</p>	<p>This reflects the Company's ability to generate earnings from the portfolio which underpins dividends.</p>	<p>2.74 pence per share For the period from incorporation to 30 June 2018</p>

EPRA Unaudited Performance Measures

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

MEASURE AND DEFINITION	PURPOSE	PERFORMANCE
<p>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.</p>	<p>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.</p>	<p>5.28% EPRA NIY as at 30 June 2018</p>
<p>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).</p>	<p>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.</p>	<p>6.50% EPRA 'Topped-Up' NIY as at 30 June 2018</p>
<p>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.</p>	<p>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.</p>	<p>£76.42 million/94.93 pence per share EPRA NAV as at 30 June 2018</p>
<p>EPRA NNNAV EPRA NAV adjusted to include the fair values of: (i) financial instruments; (ii) debt; and (iii) deferred taxes.</p>	<p>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.</p>	<p>£76.42 million/94.93 pence per share EPRA NNNAV as at 30 June 2018</p>
<p>EPRA Earnings Earnings from operational activities.</p>	<p>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.</p>	<p>£1.96 million/2.74 pence per share EPRA earnings for the period 18 April 2017 to 30 June 2018</p>
<p>EPRA Vacancy Estimated Rental Value ('ERV') of vacant space divided by ERV of the whole portfolio.</p>	<p>A "pure" (%) measure of investment property space that is vacant, based on ERV.</p>	<p>0.27% EPRA Vacancy as at 30 June 2018</p>
<p>EPRA Cost Ratio Administrative and operating costs (including and excluding costs of direct vacancy) divided by gross rental income.</p>	<p>A key measure to enable meaningful measurement of the changes in a company's operating costs.</p>	<p>35.80% EPRA Cost Ratio for the period 18 April 2017 to 30 June 2018</p>

Calculations of the above EPRA measures are presented on pages 69, 87 and 88.

Investment Manager's Report



Alex Short – Portfolio Manager

Market Outlook

UK Economic Outlook

In the first half of 2018 CPI inflation stood at 2.4% amid import cost-linked inflation and oil price appreciation. Higher levels of inflation can be beneficial for our income streams, as 91% of the portfolio's passing rent as at 30 June 2018 was inflation-linked, with 66% linked to RPI and 25% linked to CPI. We expect inflation to gradually move towards the Bank of England inflation target of 2% in the long-term.

UK GDP growth for Q2 2018 is now expected at 0.4%, rebounding from a disappointing 0.1% in Q1 2018. This triggered a downward revision of the full year 2018 GDP growth forecast to 1.3%, from 1.8% forecast earlier this year. GDP growth is still forecast to be 2% by 2021, implicitly assuming a successful EU exit transition. However, this outlook seems less and less certain as the latest news on Brexit developments are increasingly difficult to interpret. In fact, the UK's majority Conservative government looks increasingly unstable as it attempts to formulate its withdrawal proposal to the EU. Negotiations are ramping up and most forecasters remain optimistic on a final deal being reached. However, there is more focus on a potential "no-deal" scenario, which could have unappealing consequences for consumers and business alike.

The UK labour market remains strong with unemployment remaining at a more than 40-year low of 4.2% in May. Despite this tight labour market, annual pay growth actually slowed to 2.5% in May. Combined with 2.4% inflation for 2018, this is leaving no room for real pay improvement. As a result, consumer spending is expected to further slow to 0.7% in 2019 from 1.1% projected for full year 2018.

UK Real Estate Outlook

The UK property market continues to deliver healthy spreads over 10 year government bond yields, both in absolute terms and relative to other markets. We expect property yields to increase against bond yields going forward and therefore reflect a lower yield premium amid bond yield normalisation. However, negative occupier news builds pressure on the retail sector pricing whilst the other traditional sectors remain stable or even stronger. Any future rise in interest rates could see the yield gap start to close and relative value investors reduce their allocations to real estate.

We are conscious that there is strong competition amongst investors looking to invest in the limited supply of long-let inflation-linked income properties. We have seen this first hand when acquiring properties and this has led to yield compression and increasing prices of available stock. Furthermore, we have seen a couple of higher profile REIT IPO's being cancelled during the reporting period, which highlights the difficulty in raising and deploying capital in the current UK market. Nevertheless, we are optimistic that, subject to raising new capital, we can continue to build an attractive portfolio with the properties in our pipeline and deliver compelling returns to our shareholders.

Financial Results

The Group has acquired a diversified portfolio of properties since inception and as at 30 June 2018 held 16 investment properties. Net rental and other income earned from the portfolio for the period since inception was £3.60 million, contributing to an operating profit before fair value changes of £2.45 million.

The portfolio has seen a write-off of £6.48 million of acquisition costs during the period, which, when offset by valuation uplifts of £3.63 million, has resulted in a £2.85 million loss in fair value of investment property in the Consolidated Statement of Comprehensive Income.

Operating expenses, which include the Investment Manager's fee and other costs attributable to the running of the Group, were £1.15 million for the period and ongoing charges for the period are 1.36 % of NAV.

The Group incurred finance costs of £0.49 million during the period.

The total loss before tax for the period of £0.89 million equates to a basic loss per share of 1.25 pence.

Investment Manager's Report *(continued)*

The Group's NAV as at 30 June 2018 was £76.42 million or 94.93 pence per share. This is a decrease of 3.11 pence per share or 3.17% since IPO. This fall is mainly due to the acquisition costs incurred on purchasing the properties within the portfolio. The movement in NAV is set out in the table below:

	Pence per share	£ million
NAV at IPO	100.00	80.50
IPO Costs	(1.96)	(1.58)
	98.04	78.92
Portfolio acquisition costs	(8.05)	(6.48)
Change in fair value of investment property	4.51	3.63
Income earned for the period	4.47	3.60
Expenses for the period	(2.04)	(1.64)
Dividends paid during the period	(2.00)	(1.61)
NAV at 30 June 2018	94.93	76.42

Dividends

Dividends paid and declared by the Company are set out in note 9 to the Consolidated Financial Statements.

Financing

On 5 January 2018, the Company entered into a £30 million loan facility with Canada Life Investments. This term facility, which expires in October 2025, allows up to 35% loan to property value, provided on a portfolio basis. The loan bears interest at a margin of 1.9% plus the gross redemption yield of a reference gilt rate, being the UK Treasury 2% 2025.

As at 30 June 2018, the Group had fully drawn the facility of £30.0 million for property acquisitions.

Portfolio Activity during the Period

The Group invested £101.59 million (including acquisition costs) in a diversified portfolio of 16 properties throughout the UK.

The following investment transactions were made during the period:

Details of each property are set out on pages 14 to 19.

- The Group acquired its first property, Princes Street, Swindon on 6 September 2017. Purchased for £6.3 million providing a 5.5% NIY, the property comprises a Travelodge Hotel and Salvation Army retail store. The lease to Travelodge, which accounts for 95% of the income stream, provides a WAULT of 23 years to expiry, with 5 yearly rental uplifts linked to RPI. This property has an ERV of £388,358 and a reversionary yield of 5.8%.
- The Group acquired its second property, the Premier Inn Hotel at 12-16 Park Street, Camberley on 15 September 2017. Purchased for £8.5 million with a 5.0% NIY, the hotel is fully let to Premier Inn and provides an unexpired lease term of 15 years to break and 20 years to expiry, with five yearly CPI-linked reviews. This property has an ERV of £448,767 and a reversionary yield of 5.0%.
- The acquisition of Wet 'n' Wild Water Park in Royal Quays, Newcastle-upon-Tyne completed on 22 September 2017 for a purchase price of £2.9 million. This property comprises a purpose built indoor water park totalling 37,131 sq ft and is let to Serco Leisure Operating Ltd, a wholly owned subsidiary of Serco plc, for an unexpired term of 22 years, with annual rental uplifts linked to RPI. The acquisition reflects a NIY of 6.1%, has an ERV of £187,960 and a reversionary yield of 6.05%.

Investment Manager's Report *(continued)*

- 212 Wandsworth Road, London was purchased on 11 October 2017 for £4.4 million. The property, which is fully let to Pure Gym Limited at a low passing rent of £11.60 per sq ft, provides an unexpired lease term of 10.2 years to break and 15.1 years to expiry from the date of acquisition, with five yearly RPI-linked reviews. The acquisition price reflects a NIY of 5.1%. The property, constructed in 2012, is situated within close proximity to the new Nine Elms Northern Line London Underground station, which is planned to open in 2020.
- Pocket Nook Industrial Estate, St Helens was purchased on 25 October 2017 for £9.0 million. The 16.1 acre site is let to three tenants and provides a WAULT of 66 years to expiry, with 49% of the income let to Biffa Waste Services Ltd until 2134. The acquisition price reflects a NIY of 5.4%. The estate comprises two industrial units, a small office with a large yard and an area of storage land, with an additional unit currently under construction by the vendor and pre-let to Biffa. 76% of the income is backed by the strong covenants of Biffa and the Driving Standards Agency on uncapped RPI-linked leases that are reviewed 5 yearly. The Merseyside site is located 0.8 miles away from St Helens town centre and benefits from its proximity to the M57, M6 and M62.
- The Group acquired two residential care home properties in the West Midlands and East Riding for £10.3 million on 30 October 2017. Both were acquired from 90 North Real Estate Partners LLP ("90 North") and are let to Prime Life Limited, a care services provider operating a total of 57 care homes, based mainly in Lincolnshire and the East Midlands.
 - The Lyndon Croft Care Centre, located on Ulleries Road, Solihull, was acquired for £6.2 million. It provides 52 beds for those with needs associated with old age and dementia. The property provides an unexpired lease term of 31 years. The acquisition price reflects a NIY of 5.5%.
 - Westerlands Care Village, located on Elloughton Road, Brough, was purchased for £4.1 million and comprises 62 beds in two adjacent homes. Elloughton House provides residential and nursing care as well as care of those with dementia needs. Brough House provides specialist memory care for high dependency residents. The acquisition price reflects a NIY of 6.0% and the properties have an unexpired lease term of 31 years.
- Motorpoint, Birmingham was purchased on 14 December 2017 for £8.0 million. The showroom is located on Lichfield Road, 2 miles north of Birmingham City Centre. The prominent 68,002 sq ft site is let to Motorpoint, the UK's largest independent used vehicle retailer. It comprises a modern, detached two-storey vehicle dealership with three large showrooms, as well as a 1.69 acre compound to store 350 cars. The property provides a WAULT of 19.6 years to expiry and has RPI-linked reviews. The acquisition reflects a NIY of 5.85%.
- Audi showroom, Huddersfield was purchased on 22 December 2017 for £6.3 million. This Audi dealership is located in the Trident Business Park in Huddersfield, a prime motor retail location. This 29,345 sq ft purpose built facility includes a showroom, offices, workshop and valeting facilities. The recently refurbished property is let to VW Group UK and provides a WAULT of 7.7 years to expiry. The acquisition reflects a NIY of 5.89%.

Investment Manager's Report *(continued)*

- Bramall Court, Salford, a 94,290 sq ft student accommodation block, was purchased for £10.9 million on 22 December 2017. The asset is located on Cannon Street, 0.8 miles east of the main campus of the University of Salford and one mile from Manchester City Centre. The asset is let to Mears Group plc on a 24 year lease with annual rent reviews linked to CPI. The acquisition reflects a NIY of 5.35%.
- Hoddesdon, Herfordshire was purchased on 28 December 2017 for £4.8 million. This 47,350 sq ft industrial property is fully let to Hoddesdon Energy Ltd who occupy the building for use as a thermal treatment, waste to energy power plant. Hoddesdon Energy received investment of £60 million from the Green Investment Bank, the Noy Fund and P3P Partners for the construction of the plant which is designed to produce energy from the combustion of dry commercial waste. When running, it will be able to provide power to over 7,000 homes using about 90,000 tonnes of feedstock each year, supplied by two waste management companies. The plant will be operated by Bouygues Energies and Services, a leading global contractor specialising in energy sectors. The energy plant is located in the commuter town of Hoddesdon, with convenient links to the M1, M11, M25 and two mainline train stations. The area has successfully established itself as a hub for power stations, with Rye House Power Station run by Scottish Power located adjacently. The property is let at a passing rent equating to £6.30 per sq ft compared to nearby standard industrial accommodation which is currently attracting rents in excess of £8 per sq ft. The acquisition reflects a NIY of 5.9% and provides a lease term of 32 years to expiry and 14 years to break.
- A set of two industrial units in Dudley and Sheffield were purchased on 23 January 2018 for a combined total of £10.1 million. Both properties are let to Meridian Metal Trading Ltd and subject to five-yearly rent reviews linked to RPI, with annual uplifts between 1% and 4%. Together, the properties have a WAULT of 15 years to expiry and the acquisition price reflects a NIY of 6.0%.
- Mercure City Hotel on Ingram Street, Glasgow was purchased on 23 January 2018 for £8.0 million. This asset is let to Jupiter Hotels Limited, with annual rent reviews linked to RPI. This property has a WAULT of 18.5 years and the acquisition price reflects a NIY of 6.5%.
- Applegreen Petrol Filling Station, Crawley was purchased on 20 February 2018 for £3.8 million. This property has an unexpired lease term of 15 years with no breaks. It also has a three-yearly rental uplift linked to RPI and the acquisition price reflects a NIY of 5.3%.
- Snap Fitness, Chiswick, was purchased on 3 April 2018 for £2.2 million. This 5,918 sq ft gymnasium forms part of a larger residential-based development at 500 Chiswick High Road. The gym is held on a virtual freehold basis and is currently leased to health and fitness chain Snap Fitness on a 15 year term.

Pipeline

The Group made one further acquisition totalling £3.9 million (net of acquisition costs) on 13 September 2018. With this acquisition complete, the Group has invested all of the IPO money raised in June 2017 and has fully utilised its £30 million loan facility.

The Investment Manager continues to monitor investment opportunities with the intention of investing the £11 million of additional financing (note 22) in the near future.

Investment Manager's Report *(continued)*

Acquisitions during the period

Hotel

Travelodge, Swindon

Purchase price (£m):	6.3
Sector:	Hotel
Rent review	RPI
NIY at acquisition (%):	5.5
WAULT to break as at 30 June 2018 (years):	22.4
Date of acquisition:	September 2017



Premier Inn, Camberley

Purchase price (£m):	8.5
Sector:	Hotel
Rent review	CPI
NIY at acquisition (%):	5.0
WAULT to break as at 30 June 2018 (years):	13.7
Date of acquisition:	September 2017

Mercure City Hotel, Glasgow

Purchase price (£m):	8.0
Sector:	Hotel
Rent review	RPI
NIY at acquisition (%):	6.5
WAULT to break as at 30 June 2018 (years):	18.3
Date of acquisition:	January 2018



Investment Manager's Report *(continued)*

Acquisitions during the period *(continued)*

Industrial



Pocket Nook Industrial Estate, St Helens

Purchase price (£m):	9.0
Sector:	Industrial
Rent review	RPI and open market
NIY at acquisition (%):	5.4
WAULT to break as at 30 June 2018 (years):	56.3
Date of acquisition:	October 2017

Grazebrook Industrial Estate, Dudley

Purchase price (£m):	8.3
Sector:	Industrial
Rent review	RPI
NIY at acquisition (%):	6.0
WAULT to break as at 30 June 2018 (years):	14.6
Date of acquisition:	January 2018



Provincial Park, Sheffield

Purchase price (£m):	1.9
Sector:	Industrial
Rent review	RPI
NIY at acquisition (%):	6.2
WAULT to break as at 30 June 2018 (years):	14.6
Date of acquisition:	January 2018

Investment Manager's Report *(continued)*

Acquisitions during the period *(continued)*

Car Showroom

Trident Business Park, Huddersfield

Purchase price (£m):	6.3
Sector:	Car Showroom
Rent review	Open Market
NIY at acquisition (%):	5.9
WAULT to break as at 30 June 2018 (years):	7.0
Date of acquisition:	December 2017



Motorpoint, Birmingham

Purchase price (£m):	8.0
Sector:	Car Showroom
Rent review	RPI
NIY at acquisition (%):	5.85
WAULT to break as at 30 June 2018 (years):	19.0
Date of acquisition:	December 2017

Petrol Station

Applegreen Petrol Filling Station, Crawley

Purchase price (£m):	3.8
Sector:	Petrol Station
Rent review	RPI
NIY at acquisition (%):	5.3
WAULT to break as at 30 June 2018 (years):	15.0
Date of acquisition:	February 2018



Investment Manager's Report *(continued)*

Acquisitions during the period *(continued)*

Student Housing



Bramall Court, Salford

Purchase price (£m):	10.9
Sector:	Student Accommodation
Rent review	CPI
NIY at acquisition (%):	5.4
WAULT to break as at 30 June 2018 (years):	23.1
Date of acquisition:	December 2017

Care Home

Lyndon Croft Care Centre, Solihull

Purchase price (£m):	6.2
Sector:	Medical/Care
Rent review	RPI
NIY at acquisition (%):	5.5
WAULT to break as at 30 June 2018 (years):	30.3
Date of acquisition:	October 2017



Westerlands Care Village, Brough

Purchase price (£m):	4.1
Sector:	Medical/Care
Rent review	RPI
NIY at acquisition (%):	6.0
WAULT to break as at 30 June 2018 (years):	30.4
Date of acquisition:	October 2017

Investment Manager's Report *(continued)*

Acquisitions during the period *(continued)*

Leisure

Wet 'n' Wild Water Park, North Shields

Purchase price (£m):	2.9
Sector:	Leisure
Rent review	RPI
NIY at acquisition (%):	6.1
WAULT to break as at 30 June 2018 (years):	18.7
Date of acquisition:	September 2017



Pure Gym, Wandsworth Road

Purchase price (£m):	4.4
Sector:	Leisure
Rent review	RPI
NIY at acquisition (%):	5.1
WAULT to break as at 30 June 2018 (years):	9.5
Date of acquisition:	October 2017

Snap Fitness, London

Purchase price (£m):	2.2
Sector:	Leisure
Rent review	RPI
NIY at acquisition (%):	5.5
WAULT to break as at 30 June 2018 (years):	14.8
Date of acquisition:	April 2018



Investment Manager's Report *(continued)*

Acquisitions during the period *(continued)*

Power Station



Hoddesdon Energy, Hoddesdon

Purchase price (£m):	4.8
Sector:	Power Station
Rent review	CPI
NIY at acquisition (%):	5.9
WAULT to break as at 30 June 2018 (years):	13.7
Date of acquisition:	December 2017

Investment Manager's Report *(continued)*

Property Portfolio *(continued)*

UK property locations as at 30 June 2018



Investment Manager's Report *(continued)*

Property Portfolio *(continued)*

Summary by Sector as at 30 June 2018

Sector	Number of Properties	Valuation (£m)	Occupancy by ERV (%)	WAULT to break (years)	Gross Passing Rental Income (£m)	ERV (£m)
Hotel	3	23.75	100.0	17.9	1.41	1.42
Industrial	3	20.00	98.6	33.2	1.19	1.17
Car showroom	2	14.59	100.0	13.4	0.85	0.90
Petrol filling station	1	4.00	100.0	15.0	0.21	0.21
Student Housing	1	11.30	100.0	23.1	0.62	0.62
Care Home	2	11.00	100.0	30.4	0.63	0.64
Leisure	3	9.55	100.0	13.6	0.43	0.58
Power Station	1	4.90	100.0	13.7	0.30	0.30
Total	16	99.09	99.7	21.8	5.64	5.84

Summary by Geographical Area as at 30 June 2018

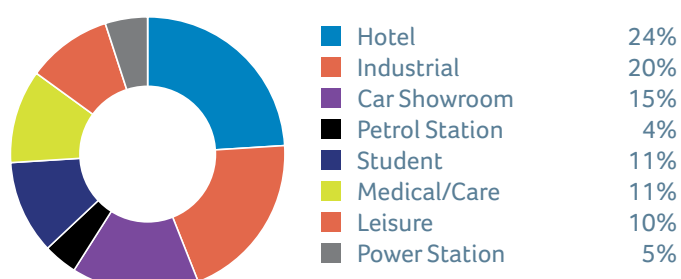
Geographical Area	Number of Properties	Valuation (£m)	Occupancy by ERV (%)	WAULT to break (years)	Gross Passing Rental Income (£m)	ERV (£m)
West Midlands	3	23.55	100.0	20.3	1.35	1.39
North West	2	20.55	98.6	38.4	1.16	1.14
South East	2	12.85	100.0	14.2	0.66	0.66
Yorkshire and Humberside	3	12.79	100.0	16.0	0.78	0.79
South West	1	6.55	100.0	22.4	0.37	0.39
London	2	6.55	100.0	9.5	0.24	0.39
North East	1	3.00	100.0	18.7	0.19	0.19
Eastern	1	4.90	100.0	13.7	0.30	0.30
Scotland	1	8.35	100.0	18.3	0.59	0.59
Total	16	99.09	99.7	21.8	5.64	5.84

Investment Manager's Report (continued)

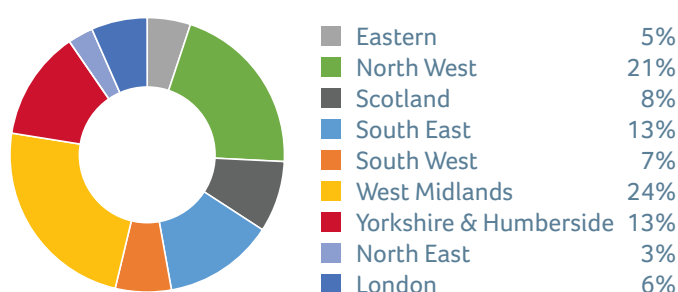
Property Portfolio (continued)

The below charts illustrate the sector and geographical weightings of the Group's property portfolio as at 30 June 2018, based on valuations as at that date.

Sector Allocation by Market Value

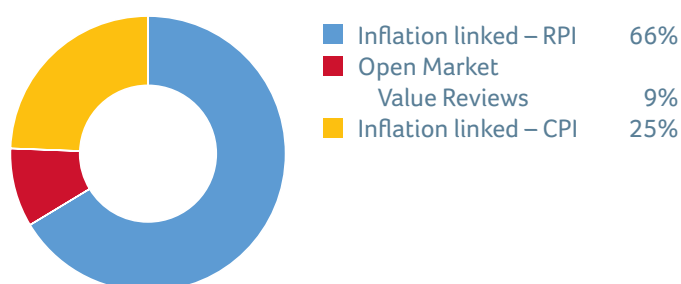


Geographical Allocation by Market Value

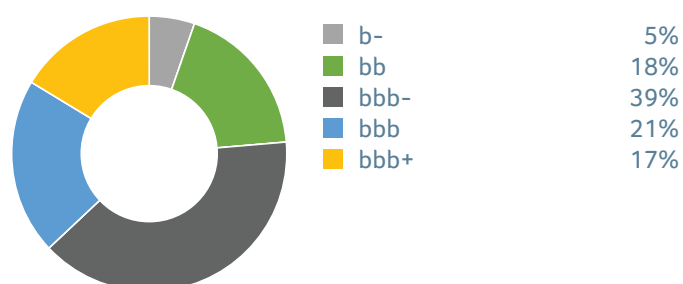


The below chart illustrates the weighting of the Group's contracted rental income, based on the type of rent review associated with each lease.

Income Allocation by Type



Income by Credit Risk



Investment Manager's Report *(continued)*

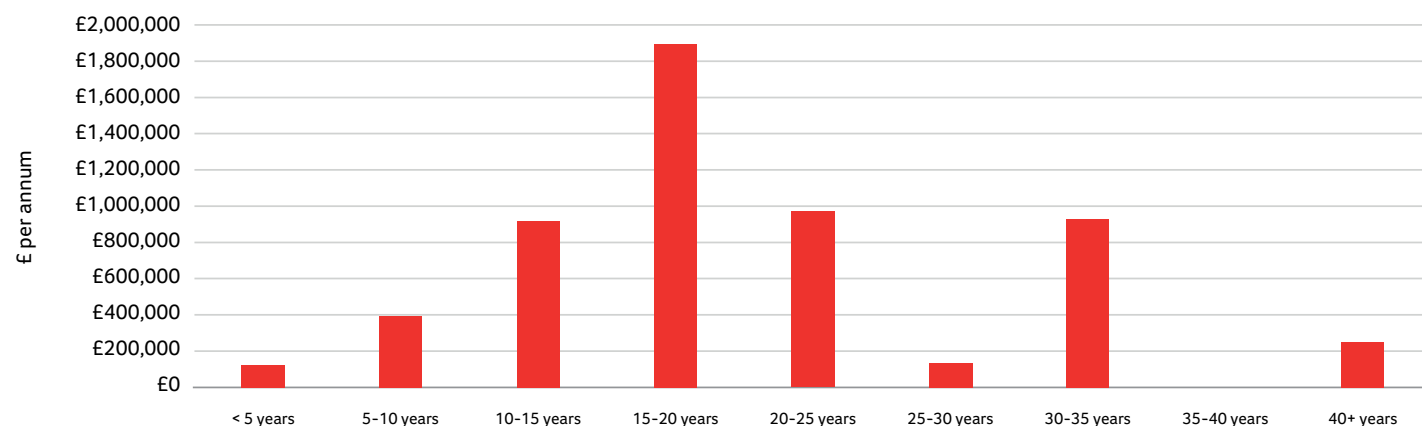
Top Ten Tenants

Tenant	Property	Annual Passing Rental Income (£'000)	% of Portfolio Total Passing Rental Income
Meridian Metal Trading Limited	Grazebrook Industrial Estate, Dudley and Provincial Park, Sheffield	659	11.7%
Prime Life Limited	Lyndon Croft Care Centre, Solihull and Westerlands Care Village, Brough	629	11.2%
Mears Group Plc	Bramall Court, Salford	621	11.0%
Juniper Hotels Limited	Mercure City Hotel, Glasgow	589	10.4%
Motorpoint Limited	Motorpoint, Birmingham	450	8.0%
Premier Inn Hotels Limited	Premier Inn, Camberley	449	8.0%
Volkswagen Group UK Limited	Audi, Huddersfield	396	7.0%
Travelodge Hotel Limited	Travelodge, Swindon	350	6.2%
Hoddesdon Energy Limited	Hoddesdon Energy, Hoddesdon	300	5.3%
Biffa Waste Services Limited	Pocket Nook Industrial Estate, St. Helens	255	4.5%

The Group's top ten tenants, listed above, represent 83.3% of the total passing rental income of the portfolio.

Lease Expiry Profile

Lease Expiry by Contracted Rent



Investment Manager's Report *(continued)*

Alternative Investment Fund Manager ('AIFM')

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

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

Information Disclosures under the AIFM Directive ('AIFMD')

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

Leverage

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

Leverage Exposure	30 June 2018	
	Gross Method	Commitment Method
Maximum Limit	250%	250%
Actual	129%	138%

In accordance with the AIFMD, leverage is expressed as a percentage of the Group'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 Group'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 Group's positions without deducting cash balances and taking into account any hedging and netting arrangements. For the purposes of evaluating the methods above, the Group's positions primarily reflect its current borrowings and NAV.

Remuneration

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

AIFMD Remuneration Code staff include 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 Alternative Investment Funds it manages.

Staff are remunerated in accordance with the key principles of the firm's remuneration policy, which include (1) promoting sound risk management; (2) supporting sustainable business plans; (3) remuneration being linked to non-financial criteria for Control Function staff; (4) 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 below is for the year from 1 January 2017 to 31 December 2017, which is in line with the most recent financial reporting of the AIFM, and relates to the total remuneration of the entire staff of the AIFM.

Investment Manager's Report *(continued)*

	For the period from 1 January 2017 to 31 December 2017		
Total remuneration paid to employees during financial year:			
a) remuneration, including, where relevant, any carried interest paid by the AIFM			£2,342,893
b) the number of beneficiaries			26
The aggregate amount of remuneration, broken down by:			
a) senior management			£604,938
b) members of staff			£1,737,955
	Fixed remuneration	Variable remuneration	Total remuneration
Senior management	£604,938	–	£604,938
Staff	£1,458,955	£279,000	£1,737,955
Total	£2,063,893	£279,000	£2,342,893

AEW UK Investment Management LLP

17 September 2018

Principal Risks and Uncertainties

The Group'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.

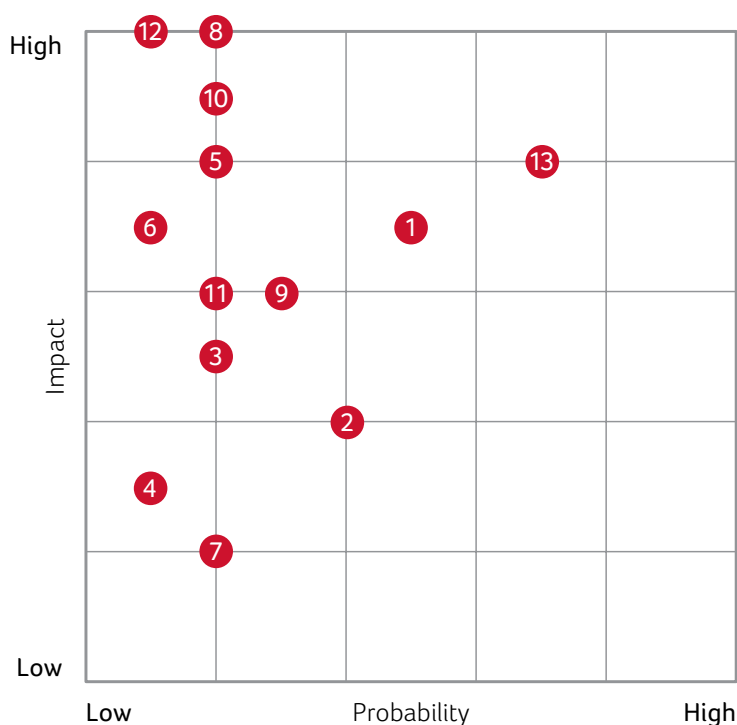
The Board has overall responsibility for reviewing the effectiveness of the system of risk management and internal control which is operated by the Investment Manager. The Group's ongoing risk management process is designed to identify, evaluate and mitigate the significant risks the Group faces.

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's risk management and internal control processes.

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

An analysis of the principal risks and uncertainties is set out in the table 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. Tenant default
2. Portfolio concentration
3. Property defects
4. Rate of inflation
5. Property market
6. Property valuation
7. Investments will be illiquid
8. Breach of borrowing covenants
9. Use of service providers
10. Dependence on the Investment Manager
11. Ability to meet objectives
12. Group REIT status
13. Political/Economic Risks

The matrix above illustrates the Group'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. Tenant default

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

Our investment policy limits our exposure to any one tenant to 15% of gross assets. This prevents significant exposure to a single tenant. Our maximum exposure to any one tenant (calculated by contracted rental income) is 11.7% as at 30 June 2018.

In the due diligence process prior to acquiring a property, covenant checks are carried out on tenants. Further covenant checks are then carried out where there are concerns as to tenants' creditworthiness.

The Investment Manager conducts ongoing monitoring and liaison with tenants to manage potential bad debt risk.

Probability: Moderate

Impact: Moderate to high

2. Portfolio concentration

Any downturn in the UK and its economy or regulatory changes in the UK could have a material adverse effect on the Group's operations or financial condition. Greater concentration of investments in any sector or exposure to the creditworthiness of any one tenant or tenants may lead to greater volatility in the value of the Group's investments, NAV and its Share price.

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

Probability: Low to moderate

Impact: Low to moderate

3. Property defects

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 Group's profitability, the NAV and its Share price.

The Group's due diligence relies on the work (such as legal reports on title, property valuations, environmental, building surveys) outsourced to third parties that have appropriate Professional Indemnity cover in place.

Probability: Low

Impact: Moderate

Principal Risks and Uncertainties (continued)

PRINCIPAL RISKS AND THEIR POTENTIAL IMPACT

HOW RISK IS MANAGED

RISK ASSESSMENT

REAL ESTATE RISKS (continued)

4. Rate of inflation

Rent review provisions may have contractual limits to the increases that may be made as a result of the rate of inflation. If inflation is in excess of such contractual limits, the Group may not be able to deliver targeted returns to shareholders.

The inflation linked (RPI/CPI) leases in the portfolio have contractual rent review caps in the range of 3% to 5%. These rates are in excess of RPI/CPI forecasts during the next five year rent review cycle and therefore based on forecasts, the risk is somewhat mitigated.

Probability: Low

Impact: Low to moderate

5. Property market

Any property market recession or future deterioration in the property market could, inter alia, (i) lead to an increase in tenant defaults, (ii) make it harder for the Group to attract new tenants for its properties, (iii) lead to a lack of finance available to the Group, (iv) cause the Group to realise its investments at lower valuations; and (v) delay the timings of the Group's realisations. Any of these factors could have a material adverse effect on the ability of the Group to achieve its investment objective.

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

Most of the leases provide a long unexpired term and contain upward-only rent reviews which are linked to either RPI or CPI. Because of these factors, the Investment Manager expects that the assets held by the Group will show less volatile valuation movement over the long term.

Probability: Low

Impact: Moderate to High

6. Property valuation

Property is inherently difficult to value due to the individual nature of each property.

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

The Group uses an independent valuer (Knight Frank LLP) to value the properties on a quarterly basis at Fair Value in accordance with accepted RICS appraisal and valuation standards.

Probability: Low

Impact: Moderate to High

7. Investments will be illiquid

The Group invests in commercial properties. Such investments are illiquid; they may be difficult for the Group to sell and the price achieved on any realisation may be at a discount to the prevailing valuation of the relevant property.

The Group aims to hold the properties for long-term income.

Probability: Low

Impact: Low

Principal Risks and Uncertainties *(continued)*

PRINCIPAL RISKS AND THEIR POTENTIAL IMPACT

HOW RISK IS MANAGED

RISK ASSESSMENT

BORROWING RISKS

8. Breach of borrowing covenants

The Group has entered into a term loan facility.

Material adverse changes in valuations and net income may lead to breaches in the LTV and interest cover ratio covenants.

If the Group is unable to operate within its debt covenants, this could lead to default and the loan facility being recalled. This may result in the Group selling properties to repay the loan facility and this is likely to lead to a fall in its NAV.

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

The Group's gearing at 30 June 2018 was 27.7%, below our maximum gearing (on a GAV basis on drawdown) of 40% and materially below our default covenant of 60%.

There is significant headroom in the LTV and interest cover covenants in the loan agreement.

Probability: Low

Impact: High

CORPORATE RISKS

9. Use of service providers

The Group 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 Group in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Group.

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.

The Management Engagement and Remuneration Committee review the performance and continuing appointment of service providers on an annual basis.

Probability: Low to moderate

Impact: Moderate

Principal Risks and Uncertainties (continued)

PRINCIPAL RISKS AND THEIR POTENTIAL IMPACT

HOW RISK IS MANAGED

RISK ASSESSMENT

CORPORATE RISKS (continued)

10. Dependence on the Investment Manager

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

The future ability of the Group 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.

An Investment Management Agreement ('IMA') is in place between the Investment Manager and the Group. Unless there is a default, insolvency or winding up of the Investment Manager or Group, either party may terminate the IMA by giving not less than 12 months written notice.

The Board meets regularly with the Investment Manager to ensure it maintains a positive working relationship.

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

Probability: Low

Impact: High

11. Ability to meet objectives

The Group 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 UK.

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

The Group has an investment policy to achieve a balanced portfolio with a diversified tenant base.

This is reviewed by the Board at each scheduled Board meeting.

Probability: Low

Impact: Moderate

TAXATION RISK

12. Group REIT status

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

If the Group 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 in UK tax legislation could impact on the Group's ability to achieve its investment objectives and provide attractive returns to shareholders.

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

Probability: Low

Impact: High

Principal Risks and Uncertainties *(continued)*

PRINCIPAL RISKS AND THEIR POTENTIAL IMPACT

HOW RISK IS MANAGED

RISK ASSESSMENT

13. POLITICAL/ECONOMIC RISKS

Political and macroeconomic events present risks to the real estate and financial markets that affect the Group and the business of our tenants. The level of uncertainty that such events bring has been highlighted in recent times, most pertinently following the EU referendum vote (Brexit) in June 2016. The arrangements, or lack of them, that would be put in place between the UK and the EU following the eventual Brexit could impact the health of the UK economy, make it more difficult for the Group to raise capital and/or increase the regulatory compliance burden on the Group.

The Group only invests in UK properties with strong alternative use values and long leases so the portfolio is well positioned to withstand any economic downturn.

Probability: The overall probability of a political or macroeconomic event occurring, which will have a negative impact on the Group has been assessed as moderate to high. However, specifically in relation to Brexit, the probability of a negative outcome is considered very difficult to assess at present.

Impact: Moderate to high

Whilst good progress towards reaching the Group's objectives has been made since the IPO, both additional gearing and issuing new equity will allow the Group to attain full cover for the annual target level of dividend of 5.5 pence per share. The former has already been put into action (see Note 22 on page 80), but the latter will need to await suitable market conditions once the funds from the additional debt have been fully invested.

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

Steve Smith
Chairman

17 September 2018

Governance

Board of Directors



Steve Smith, non-executive Chairman

Steve was chief investment officer of British Land Company PLC, the FTSE 100 REIT, from January 2010 with responsibility for the group's property and investment strategy. He stood down from the board of British Land in March 2013 and left the company at the end of June 2013. He was formerly global head of asset management and transactions at AXA Real Estate Investment Managers where he was responsible for the asset management of a portfolio of more than €40 billion on behalf of life funds, listed property vehicles, unit linked and closed end funds. Prior to joining AXA in 1999, he was managing director at Sun Life Properties for five years.

Steve is currently non-executive chairman of The PRS REIT plc and Starwood European Real Estate Finance Limited. He is also a non-executive director of Gatehouse Bank plc., Pollen Estate Trustee Company Limited and Network Rail Property Limited. He was formerly a non-executive director of Tritax Big Box REIT plc.



Jim Prower, non-executive Director

Jim has worked in industry and commerce since 1985, having qualified at Peat, Marwick, Mitchell & Co in 1979. He performed the roles of finance director and company secretary at Minty plc from 1987 to 1989, Creston Land & Estates plc from 1989 to 1995 and NOBO Group plc from 1995 to 1997, before joining Argent Group plc in the same roles. Between 2009 and 2015, he was closely involved with the development and delivery of King's Cross Central (a joint venture between AustralianSuper, the BT Pension Scheme and Argent's management), where he was primarily responsible for raising debt for working capital, development and investment as well as reporting to the joint venturers. Between November 2012 and 31 December 2015, together with other senior Argent personnel, Jim was a member of Argent (Property Development) Services LLP which had acquired Argent Group's property development and management businesses in late 2012. Jim continues to be a partner of Argent King's Cross Limited Partnership and a member of Argent Investments LLP which retain interests in some of Argent's projects.

In addition to being a non-executive director of the Company, Jim acts as the Senior Independent Director and chairs the Audit Committee of Empiric Student Property plc and as the Senior Independent Director of Tritax Big Box REIT plc.



Alan Sippetts, non-executive Director

Alan was investment director, head of investment research at Heartwood Wealth Management, a UK subsidiary of Svenska Handelsbanken AB, from 2007 to 2016, where he led the research, due diligence and governance processes of all investments and was responsible for commercial property. Alan oversaw investment and research across all asset classes in collective schemes, including funds, trusts and REITs at Lloyds Private Bank from 2001 to 2006. Prior to that, from 1992 to 2001, he was head of UK smaller companies at Legal & General Investment Management Ltd where he was responsible for all aspects of UK smaller listed and pre-IPO investments. Alan started his investment career at PosTel (Hermes) Investment Management in 1987.

Alan is an external funds specialist and independent member of the Funds Oversight Committee of the £4.0bn funds of Close Asset Management. He holds a B.Sc. in Management Science-Economics from Lancaster University, where today he is honorary teaching fellow at the Management School. He is also a fellow of the Chartered Institute for Securities & Investment.

All appointed on 8 May 2017

Diversity, Social and Environmental Matters

Diversity

The Board approved and adopted a diversity policy during the period. The policy acknowledges the importance of diversity, including gender diversity, for the Group.

The Board is comprised of a mixture of individuals who have an appropriate balance of skills and experience to meet the future opportunities and challenges facing the Group. The Board regularly reviews its composition and effectiveness. Appointments are made first and foremost on the basis of merit and taking into account the recognised benefits of all types of diversity. The Board ensures that diversity is an important consideration and part of the selection criteria used to assess candidates to achieve a balanced Board.

George Henshilwood resigned as a Director on 28 June 2018. The Directors in office at 30 June 2018 and the date of this report are set out on page 32.

Social, Community and Employee Responsibility

The Group has no direct social, community or employee responsibilities. The Group 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 Group 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 Group. 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 result of the Group's GRESB assessment for the period should be available in October 2018. This can be found on the Investment Manager's website www.aewuk.co.uk.

As an investment company, the Group's own direct environmental impact is minimal and greenhouse gas ('GHG') emissions are therefore negligible. Information on the GHG emissions in relation to the Group's property portfolio are disclosed on page 48 of the Directors' Report.

Corporate Governance Statement

This Corporate Governance Statement comprises pages 34 to 38 and forms part of the Directors' Report.

Statement of Compliance

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

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

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

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

The UK Corporate Governance Code includes provisions relating to:

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

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers these provisions not relevant to the position of the Company, being an externally managed investment company. In particular, all of the Group'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 it has complied throughout the year, except as disclosed below:

- Directors are not appointed for a specific term as all Directors are non-executive and the Company has adopted a policy of all Directors standing for annual re-election. The Board has determined that no further policy on tenure is required.
- 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 full Board.

The Board of Directors

The Board of Directors is collectively responsible for the long-term success of the Group. It provides overall leadership, sets the strategic aims of the Group and ensures that the necessary resources are in place for the Group 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 Group's investment policy and investment strategy and have overall responsibility for the Group's activities, including the review of investment activity and performance and the control and supervision of the Investment Manager.

The Board consists of three non-executive Directors. It 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 the property sector, investment trusts and financial and public company management.

Corporate Governance Statement *(continued)*

The Board of Directors *(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 Group's registered office. None of the Directors has a contract of service with the Group. Directors are not entitled to any compensation for loss of office for whatever reason. As set out on page 34, Directors are not appointed for a specific term and will stand for annual re-election.

Chairman

The Chairman is deemed by his fellow independent 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 Smith has no significant commitments other than those disclosed in his biography on page 32.

Given the size of the Group it is not considered necessary to appoint a senior independent director.

Board Operation

The Directors have adopted a formal schedule of matters reserved for decision by the Board. These include the following:

- the Group's investment/ business strategy;
- specific risk management policies including insurance, hedging, borrowing limits and corporate security;
- contracts not in the ordinary course of business;
- raising of new capital and major financing facilities;
- decision taking in key areas, in particular those relating to general investment policy and investment strategies, and the power to perform senior management functions in such key areas;
- investment management decisions;
- Board appointments and removals; and
- appointment and removal of the Investment Manager, Auditor and the Group's other service providers.

Board Meetings

The Group 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 Group's economic and financial environment, statutory and regulatory changes and corporate governance best practice. A description of the Group's risk management and internal control systems is set out on pages 37 and 38.

The Group's main functions are delegated to a number of service providers, each engaged under separate contracts. The management of the Group's portfolio is delegated to the Investment Manager, which manages the assets in accordance with the Group's objectives and policies. At each Board meeting, representatives from the Investment Manager attend to present reports to the Directors covering the Group'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 formal meetings.

Corporate Governance Statement (continued)

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 all Directors and is chaired by Jim Prower, who has recent and relevant financial experience. Given the size and nature of the Board it is felt appropriate that all 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. Further details about this Committee and its activities can be found on pages 39 to 41.

The Management Engagement and Remuneration Committee comprises all Directors and is chaired by Alan Sippetts. Further details about this Committee and its activities can be found on pages 42 and 43.

Meeting attendance

The Board's scheduled meetings are quarterly, with additional approvals of NAVs and dividends sought via email. There were a further eight ad hoc meetings during the year, attended by those Directors available at the time. During the period to 30 June 2018, the number of scheduled Board and Committee meetings attended by each Director were as follows:

	Board meetings	Audit Committee meetings	*Management Engagement and Remuneration Committee Meetings
	Number attended	Number attended	Number attended
Steve Smith	4/4	1/1	N/A
George Henshilwood	4/4	1/1	N/A
Jim Prower	4/4	1/1	N/A
Alan Sippetts	4/4	1/1	N/A

* the Management Engagement and Remuneration Committee was not required to meet during the period.

Performance evaluation

The Directors are aware that they need to continually monitor and improve Board performance and recognise that this can be achieved through regular Board evaluation, providing a valuable feedback mechanism for improving Board effectiveness. While no formal Board evaluation took place during the period ended 30 June 2018, being the first year of the Company, the Directors have agreed that, going forward, this process of review will be conducted on an annual basis by way of completion of a formal questionnaire.

Directors' independence

The independence of the Directors was reviewed as part of the IPO process and will be reviewed as part of the annual evaluation process going forward. During the majority of the period, the Board consisted of four non-executive Directors, all of whom were considered independent.

Mr Henshilwood had been appointed by the trustees of the AEW UK Core Property Fund and AEW UK Real Return Fund and by the partners of AEW UK South East Office Fund to act as chair of each of their governance committees. As Mr Henshilwood was appointed by such trustees and is not an employee or professional adviser to any member of the AEW Group nor any such fund(s), he was considered by the Board to be independent of the Investment Manager for the purposes of the Listing Rules and the AIC Code. Mr Henshilwood resigned as a Director of the Company on 28 June 2018.

Corporate Governance Statement *(continued)*

Director induction

A procedure for the induction of new Directors has been established, part of which includes the provision of an induction pack containing relevant information about the Company, its processes and procedures. New appointees will also have the opportunity of meeting with the Chairman and relevant persons at the Investment Manager.

Directors' conflicts of interest

It is the responsibility of each individual Director to avoid an unauthorised conflict of interest situation arising. The Director must request authorisation from the Board as soon as he becomes aware of the possibility of an interest that conflicts, or might possibly conflict, with the interests of the Group. The Company's Articles of Association ('Articles') 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.

In accordance with the above policy, all Directors will be standing for election at the Company's first AGM and will seek annual re-election thereafter.

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, during which the Board and the Investment Manager will be 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 90.

Internal control review

The Board is responsible for the systems of internal controls relating to the Group 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 has been established for identifying, evaluating and managing the risks faced by the Group. 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 Group are safeguarded.

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

Corporate Governance Statement *(continued)*

Internal control review *(continued)*

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.

Internal control assessment process

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

In arriving at its judgement of what risks the Group faces, the Board, through the Audit Committee, has considered the Group's operations in light of the following factors:

- the nature and extent of risks which it regards as acceptable for the Group to bear within its overall business objective;
- the threat of such risks becoming reality;
- the Group's ability to reduce the incidence and impact of risk on its performance;
- the cost to the Group and benefits related to the review of risk and associated controls of the Group; and
- the extent to which third parties operate the relevant controls.

A risk register has been produced against which the risks identified and the controls in place to mitigate those risks can be monitored. The risks are assessed on the basis of the likelihood of them happening, the impact on the business if they were to occur and the effectiveness of the controls in place to mitigate against them. This risk matrix is reviewed twice a year by the Audit Committee and at other times as necessary.

The principal risks that have been identified by the Board are set out on pages 26 to 31.

The Board reviews financial information produced by the Investment Manager and the Administrator on a regular basis. Most functions for the day-to-day management of the Group are sub contracted, and the Directors therefore obtain regular assurances and information from key third-party suppliers regarding the internal systems and controls operated in their respective organisations. In addition, each third party is requested to provide a copy of its report on internal controls each year, which are reviewed by the Audit Committee.

Report of the Audit Committee

I am pleased to present the Audit Committee Report for the period ended 30 June 2018.

Meetings

The Audit Committee met once during the period under review and once following the period end. Details of the composition of the Committee are set out in the Corporate Governance Statement on page 36.

Role of the Committee

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

- monitoring the integrity of the financial statements of the Group, including its annual and half-yearly reports and reviewing significant financial reporting issues and the judgements which they contain;
- keeping under review the adequacy and effectiveness of the Group's risk management systems and reviewing and approving the statements to be included in the annual report concerning internal controls and risk management;
- making recommendations to the Board in relation to the re-appointment or removal of the Auditor and approving its remuneration and terms of engagement;
- reviewing 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 period

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 period, and to the date of this report, were that the Committee:

- confirmed the appointment of KPMG LLP as Auditor;
- reviewed financial results for publication;
- reviewed the performance and effectiveness of the Auditor and considered its reappointment and remuneration;
- reviewed the non-audit services provided by the Auditor and the associated fees incurred;
- reviewed the internal controls and risk management systems of the Group and its third-party service providers; and
- reviewed the Committee's terms of reference (which are available on the Group's website).

Significant issues considered by the Committee

The Committee determined that the key area of risk in relation to the consolidated financial statements of the Group was the valuation of the investment properties. The 16 properties in the portfolio as at 30 June 2018 were 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 Committee considered the valuations of the Group's portfolio at 30 June 2018 and these were discussed with the Investment Manager and Auditor during the audit of the financial statements. During the period ended 30 June 2018, all members of the Committee, which comprises all three Directors, participated in separate valuation sessions held with the Investment Manager and valuer. Details of the valuation methodology are contained in note 10 to the Consolidated Financial Statements.

Consideration has also been given to new IFRS accounting standards 9, 15 and 16 in preparing the Consolidated Financial Statements, details of which are contained in note 2 to the Consolidated Financial Statements.

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

Report of the Audit Committee (*continued*)

Internal controls

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

The Committee reviewed, and where appropriate, updated the risk matrix during the period. The Committee received a report on internal control and compliance from the Investment Manager and the Group's other service providers and no significant matters of concern were identified.

The Group does not have an internal audit function. During the period, the 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 Group. While the 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 Group's control environment which may need to be reviewed in detail.

Maintenance of REIT Status

The Committee monitored the compliance status of the Group and considered the requirements for the maintenance of REIT status.

Going concern and long-term viability of the Group

The Committee considered the Group'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 Committee also considered the longer-term viability statement within the Annual Report for the period ended 30 June 2018, 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 Group's long term viability. The Group's viability statement can be found on page 47.

Audit fees and non-audit services

The Committee has sole responsibility for agreeing the audit fee in consultation with the Investment Manager and the scope of the audit. During the period ended 30 June 2018, the Committee approved and implemented a policy on the engagement of the Auditor to supply non-audit services, taking into account the recommendations of the FRC. All non-audit services are reviewed by the Committee which makes recommendations 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.

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 Committee during the period and it was agreed that the policy remained appropriate for the Company.

Report of the Audit Committee (continued)

Audit fees and non-audit services (continued)

An analysis of audit fees is set out below:

	Period ended 30 June 2018 £'000
Audit	
Statutory audit of Annual Report and Accounts	70
Statutory audit of Subsidiary Accounts	12
Statutory audit of Initial Accounts	11
	93
Non-audit	
Review of Interim Report	23
Review of Initial prospectus	40*
	63
Total fees paid to KPMG LLP	156
Percentage of total fees attributed to non-audit services	40%

* one-off fee in connection with the Company's IPO.

Independence and objectivity of the Auditor

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

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

External audit process

The Committee meets at least twice a year with the Auditor, once at the planning stage before the audit (at the Committee's meeting to consider the interim results) 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 Committee has an opportunity to question and challenge the Auditor in respect of each of these reports.

In addition, at least once a year, the Committee has an opportunity to discuss any aspect of the Auditor's work with the Auditor in the absence of the Investment Manager and other service providers. After the annual audit, the Committee will review the audit process and consider its effectiveness.

Re-appointment of the Auditor

Following consideration of the performance of the Auditor, the services provided during the period and a review of its independence and objectivity, the Committee has recommended to the Board that the appointment of KPMG LLP as the Company's Auditor be proposed to shareholders at the forthcoming AGM.

In line with EU requirements, it is intended that the external audit will be put to tender at least every ten years.

Jim Prower
Audit Committee Chairman

17 September 2018

Report of the Management Engagement and Remuneration Committee

I am pleased to present the Management Engagement and Remuneration Committee Report for the period ended 30 June 2018.

Meetings

The Management Engagement and Remuneration Committee met once following the period end. Details of the composition of the Committee are set out in the Corporate Governance Statement on page 36.

Role of the 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 Manager's continuing appointment align with the investment policy and investment objective of the Group and setting Directors' remuneration. The remuneration of the Chairman is considered by the Committee in his absence.

Matters considered in the period

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 period, and to the date of this report, were that the Committee:

- considered and approved the Directors' remuneration and agreed that it remained appropriate;
- reviewed the Remuneration Policy for approval by shareholders at the forthcoming AGM;
- satisfied itself that the Investment Management Agreement is fair and that its terms remain competitive and sensible for shareholders and that matters of compliance are under proper review;
- considered the continuing appointment of the Investment Manager and made recommendations to the Board thereon; and
- reviewed the Committee's terms of reference (which are available on the Group's website).

Review of Service Providers

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

A review of all the other service providers has been undertaken since the period end which concluded that the services provided to the Company were satisfactory and that the agreements entered into with them were operating in the best interests of the shareholders.

Continuing appointment of the Investment Manager

The Committee keeps under review the performance of the Investment Manager and the level and terms of the management fee. In the opinion of the Directors, the continuing appointment of the Investment Manager on the terms agreed is in the interests of shareholders as a whole.

Report of the Management Engagement and Remuneration Committee (continued)

The Directors' remuneration policy is put to a shareholder vote in the first year of a company, in any year where there is to be a change to the policy and, in any event, at least once every three years. Accordingly, the Company's remuneration policy will be put to shareholders at the forthcoming AGM. It is intended to take effect from the conclusion of that meeting and continue for the year ending 30 June 2019. The Company's proposed remuneration policy is set out below.

Directors' Remuneration Policy

The Company follows the recommendation of the AIC Code that non-executive Directors' remuneration should reflect the time commitment and responsibilities of the role. The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, and be determined with reference to comparable organisations and appointments.

All Directors are non-executive, appointed under the terms of letters of appointment. There are no service contracts in place. The Group has no employees. In line with the majority of investment trusts, there are no performance conditions attached to the remuneration of the Directors as the Board does not consider such arrangements or benefits necessary or appropriate for non-executive Directors.

The Board has set three levels of fees: one for a Director and additional fees for the chairman of the Audit Committee and the Chairman of the Board. Fees are reviewed annually in accordance with the above policy. The fee for any new Director appointed to the Board will be determined on the same basis.

The approval of shareholders would be required to increase the aggregate limit of £400,000, as set out in the Company's Articles.

Directors' fee levels

	Expected annual fees for the year ending 30 June 2019 £'000
Chairman	30
Chairman of the Audit Committee	25
Director	20

Other benefits

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

Loss of office

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

Relations with shareholders

The Company is committed to ongoing shareholder dialogue and any views expressed by shareholders on the fees being paid to Directors would be taken into consideration by the Board when reviewing the Directors' remuneration policy and in the annual review of Directors' fees.

Alan Sippetts
Management Engagement and Remuneration Committee Chairman

17 September 2018

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.

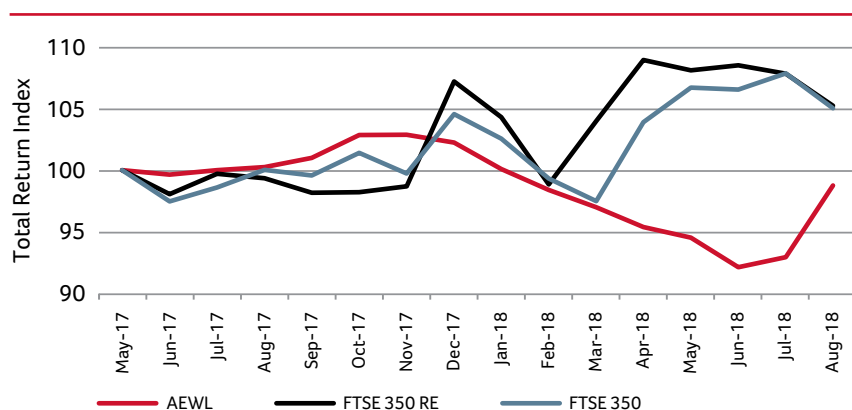
The Management Engagement and Remuneration Committee reviews fees on an annual basis. During the period ended 30 June 2018, the annual fees were set at the rate of £30,000 for the Chairman, £25,000 for the Audit Committee Chairman and £20,000 for a Director. No changes to these fee levels are proposed for the year ending 30 June 2019.

Ordinary resolutions will be put to shareholders at the forthcoming AGM to receive and approve the Director's Remuneration Report and to receive and approve the Directors' Remuneration Policy as set out on page 43.

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.

Share Price Total Return



Directors' remuneration for the period ended 30 June 2018 (audited information)

The remuneration paid to the Directors during the period ended 30 June 2018 is set out in the table below:

	Appointed	Resigned	Fees for the period 1 April 2017 to 30 June 2018 £'000
Steve Smith	8 May 2017		34
Alan Sippetts	8 May 2017		23
George Henshilwood	8 May 2017	28 June 2018	23
Jim Prower	8 May 2017		28
Nicholas Heather*	18 April 2017	8 May 2017	n/a
Kristian Thomas*	18 April 2017	8 May 2017	n/a

* Nicholas Heather and Kristian Thomas were appointed as directors upon the Company's incorporation but resigned from the Board on 8 May 2017, prior to the Company's listing.

Directors' Remuneration Report *(continued)*

Relative Importance of Spend on Pay

The table below sets out, in respect of the period ended 30 June 2018:

- (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.

	Period ended 30 June 2018 £'000
Directors' remuneration	108
Management fee and expenses	363
Dividends paid	1,610

Directors' Interests

Neither the Company's Articles 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 30 June 2018 are shown in the table below.

	Period ended 30 June 2018 Number of shares
Steve Smith	20,000
Jim Prower	–
Alan Sippetts	20,000

Subsequent to the year end, Mr Prower purchased 21,500 shares. There have been no other changes to Directors' interests between 30 June 2018 and the date of this Report.

None of the Directors or persons closely associated with them has a material interest in the Group's transactions, arrangements or agreements during the period.

Approval

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

Alan Sippetts
Management Engagement and Remuneration Committee Chairman

17 September 2018

Directors' Report

The Directors' Report, prepared in accordance with the requirements of the Companies Act 2006 and the UKLA's Listing Rules and Disclosure Guidance and Transparency Rules, comprises pages 34 to 50, and incorporates the Corporate Governance Statement on pages 34 to 38.

Results and dividends

The interim dividends paid by the Company are set out in note 9 of the Consolidated Financial Statements. A summary of the Group's performance during the period, significant events following the period end and future developments is set out in the Strategic Report on pages 2 to 31.

Directors

The Directors in office at the date of this report are shown on page 32.

Power of Directors

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

Indemnity provisions

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

Going concern

The Group has considered its cash flows, financial position, liquidity position and borrowing facilities. The Group's unrestricted cash balance as at 30 June 2018 was £6.59 million, of which £2.86 million was readily available for potential investments. As at 30 June 2018, the Group had substantial headroom against its borrowing covenants. The Group has the ability to utilise up to 40% of GAV measured at drawdown with a Group Loan to GAV of 27.7% as at 30 June 2018.

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

Directors' Report (continued)

Viability statement

In accordance with principle 21 of the AIC Code and FRC Guidance on Risk Management, Internal Controls and Related Financial and Business Reporting, the Directors have assessed the prospects of the Group over a period longer than the 12 months required by the 'Going Concern' provisions. The Board has considered the nature of the Group's assets and liabilities and associated cash flows and has determined that five years, up to 30 June 2023, is the maximum timescale over which the performance of the Group can be forecast with a degree of accuracy and so is an appropriate period over which to consider the Group's viability.

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

- The current unexpired term under the Group's debt facilities stands at 7.3 years and as noted on page 7, under the sub-heading "Borrowings", the Group intends to increase the facility up to an LTV of 40%;
- The Group's property portfolio had a WAULT to break of 21.8 years and a WAULT to expiry of 24.0 years as at 30 June 2018, representing a secure income stream for the period under consideration;
- Most leases contain a five year rent review pattern and therefore five years allows for the forecasts to include the reversion arising from those reviews.
- The five year review considers the Company's cash flows, dividend cover, REIT compliance and other key financial ratios over the period.

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

The business model has been subject to a sensitivity analysis, which involves flexing a number of key assumptions underlying the forecasts both individually and in aggregate for normal and stressed conditions.

Based on the results of this analysis, the Directors have a reasonable expectation that the Group and 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 companies

Details of the Company's subsidiaries are set out in note 16 to the Consolidated Financial Statements.

Management arrangements

AEW UK Investment Management LLP is the Group's Investment Manager and has been appointed as the AIFM. Under the terms of the IMA the Investment Manager is responsible for the day-to-day discretionary management of the Group's investments subject to the investment objective and investment policy of the Group and the overall supervision of the Directors. The Investment Manager is entitled to receive a management fee in respect of its services of 0.75% per annum of NAV (excluding uninvested proceeds from fundraisings). The IMA 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 19 to the Consolidated Financial Statements.

Directors' Report (continued)

Greenhouse gas emissions

The Group 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 financial control for the 12 month period to 30 June 2018. 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 Group and consumed within real estate assets owned by the Company.
- Scope 3 – including indirect emissions from electricity and gas purchased/consumed within the Group's assets, by tenants, where the tenant is counterparty to the energy supply.

The table below shows relevant GHG emissions (in tonnes carbon dioxide equivalent) that the Group was responsible for in the 12 month period to 30 June 2018.

Sector	Scope	Absolute tonnes of carbon dioxide equivalent (CO ₂)
		2017/2018
Hotel	Scope 3 – Gas	24
	Scope 3 – Elec	103
Industrial, Warehouse	Scope 3 – Gas	N/A
	Scope 3 – Elec	73
Total	Gas	24
	Elec	176

In addition to reporting relevant GHG emissions, the Group has chosen to report intensity ratios, where appropriate.

An intensity measure is reported for assets within the like-for-like portfolio, where:

- 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 70%; or
- At least 12 months data is available.

Normalisation is considered in line with the Real Estate Environmental Benchmark 2017 methodology against the following criteria:

- Hotel – whole building energy consumption divided by number of guest visits (the Investment Manager does not have access to tenant information on the number of guest visits).
- Industrial, Warehouse – external areas energy consumption divided by external area (m²). No meter met this requirement.

No meters within the Group's portfolio have met the criteria and therefore no intensity calculation has been undertaken.

Assurance statement

The Group'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.

Directors' Report (*continued*)

Share capital

The Company was incorporated with 1 Ordinary Share issued at £0.01.

At the general meeting held on 8 May 2017, the Company was granted authority to allot up to 300 million shares under a share issuance programme. This authority is to expire at the later of the third annual general meeting of the Company or 31 December 2020. On 6 June 2017, 80,499,999 Ordinary Shares were issued at £0.01 each fully paid, pursuant to a placing and offer for subscription.

The share premium relates to amounts subscribed for share capital in excess of nominal value less associated issue costs of the subscriptions. On 6 July 2017, the Company's share premium account of £78,122,172 was cancelled and the balance transferred to a distributable reserve.

At the general meeting held on 8 May 2017, the Company was granted authority to purchase up to 14.99% of the Company's Ordinary Shares in issue immediately following completion of the initial issue. No Ordinary Shares have been bought back under this authority.

At 30 June 2018, and as at the date of this report, there are 80,500,000 Ordinary Shares in issue, none of which are held in treasury.

Income entitlement

The profits of the Company available for distribution and determined to be distributed shall be distributed by way of interim or final dividends among the holders of Ordinary Shares.

Capital entitlement

After meeting the liabilities of the Company on a winding-up, the surplus capital and assets shall be paid to the holders of Ordinary Shares and distributed among such holders pro rata according to the nominal capital paid up on their holdings of Ordinary 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 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 their transfer 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.

Substantial shareholdings

As at 30 June 2018 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.

Directors' Report (continued)

	Number of Ordinary Shares held	% of total voting rights
Old Mutual Plc	15,578,000	19.35
Hawksmoor Investment Management Ltd	7,605,139	9.44
Premier Fund Managers Limited	5,000,000	6.21
Charles Stanley Group plc	4,035,250	5.01

The Company has been notified of the following changes to the above interests as at the date of this Report:

	Number of Ordinary Shares held	% of total voting rights
Hawksmoor Investment Management Limited	9,677,402	12.02
Charles Stanley Group plc	2,847,825	3.53

Related party transactions

Related party transactions during the period to 30 June 2018 can be found in note 21 to the Consolidated Financial Statements.

Statement of disclosure of information to Auditor

So far as each Director is aware, there is no relevant information, which would be needed by the Group's Auditor in connection with preparing their audit report (which appears on pages 52 to 57), of which the Auditor is not aware; and each Director, in accordance with section 418(2) of the Companies Act 2006, has taken all reasonable steps that he ought to have taken as a Director to make himself aware of any such information and to ensure that the Auditor is aware of such information.

Auditor

KPMG LLP has expressed its willingness to continue as the Company's Auditor. As outlined in the Report of the Audit Committee on page 41, resolutions proposing its reappointment 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:

Steve Smith
Chairman

17 September 2018

6th Floor
65 Gresham Street
London EC2V 7NQ

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

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

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework.

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 Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements;
- assess the Group and parent 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 Group or the parent 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 parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent 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 Group and to prevent and detect fraud and other irregularities.

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

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

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

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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 Group's position and performance, business model and strategy.

On behalf of the Board

Steve Smith
Chairman

17 September 2018

Independent Auditor's Report

to the members of AEW UK Long Lease REIT plc

1. Our opinion is unmodified

We have audited the financial statements of AEW UK Long Lease REIT plc ('the Company') for the period from 18 April 2017 to 30 June 2018 which comprise the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, Company statement of financial position, Company statement of changes in equity 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 the Group's and of the parent Company's affairs as at 30 June 2018 and of the Group's loss for the period from 18 April 2017 to 30 June 2018;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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 appointed as auditor by the directors on 22 November 2017. The period of total uninterrupted engagement is for the 1 financial year ended 30 June 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group 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:	£1.1m
Group financial statements as a whole	1% of total assets

Lower materiality applied to certain items	£0.1m
	5% of normalised profit before tax
	Applied to rental income, property & other operating expenses and finance expense

Coverage	100% of total assets
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Risks of material misstatement

Group	Valuation of investment properties
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Parent Company	Recoverability of investment in subsidiary undertakings
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Independent Auditor's Report *(continued)*

2. Key audit matters: 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 decreasing order of audit significance, 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
<p>Valuation of investment properties (Group) (£99.2 million)</p> <p>Refer to page 39 (Audit Committee Report), pages 64 and 65 (accounting policy) and pages 70 to 72 (financial disclosures).</p>	<p>Subjective valuation Investment properties represent 92% of the gross assets of the Group. The portfolio comprises 16 properties which are externally valued by a qualified independent valuer and held at fair value at the balance sheet date.</p> <p>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.</p> <p>Whilst comparable market transactions provide good valuation evidence, the individual nature of each property means that a key factor in the property valuations are assumptions which involve significant levels of judgement.</p>	<p>Our procedures, assisted by our own property valuation specialist (for procedures 1, 2 and 3), included:</p> <ul style="list-style-type: none"> – Assessing valuer's credentials: assessing the Group's external property valuer's objectivity, professional qualifications and capabilities through discussions with the valuer and reading their valuation report. – 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 relevant accounting standards. – 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. – Assessing transparency: considering the adequacy of the Group's disclosures about the degree of estimation and sensitivity to key assumptions made when valuing properties. <p>Our results</p> <ul style="list-style-type: none"> – We found the valuation of investment properties to be acceptable.
<p>Recoverability of investment in subsidiary undertakings (Parent) (£71.3 million)</p> <p>Refer to page 83 (accounting policy) and page 83 (financial disclosures).</p>	<p>Low risk, high value The carrying amount of the parent Company's investments in subsidiaries represents 95% of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.</p>	<p>Our procedures included:</p> <ol style="list-style-type: none"> 1. Tests of detail: Comparing the carrying amount of the investment with the subsidiary's draft balance sheet to identify whether its net assets, audited as part of the Group's audit as being an approximation of its minimum recoverable amount, was in excess of its carrying amount. <p>Our results</p> <ul style="list-style-type: none"> – We found the recoverability of the investment in subsidiary to be acceptable.

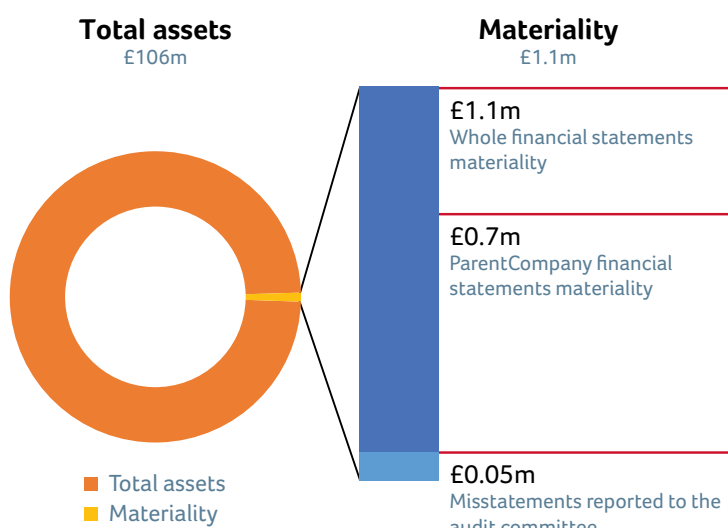
Independent Auditor's Report *(continued)*

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

Materiality for the Group financial statements as a whole was set at £1.1 million, determined with reference to a benchmark of total assets, of which it represents 1%.

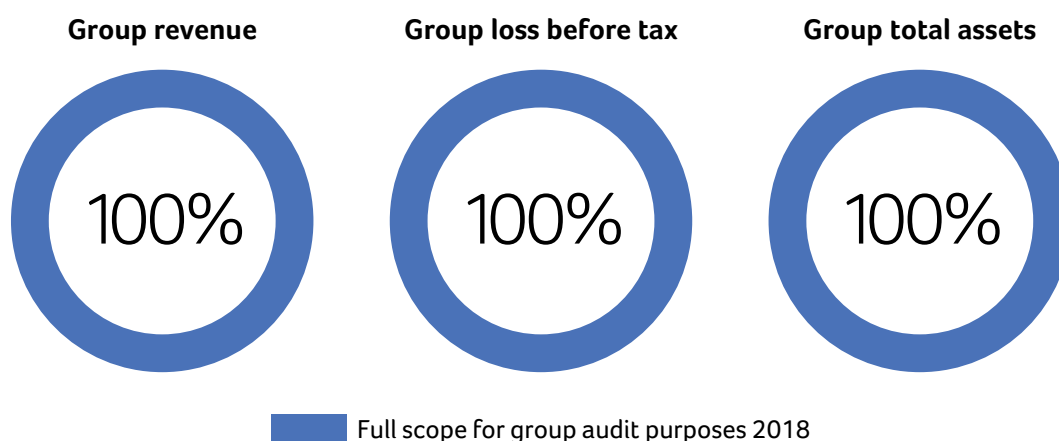
In addition, we applied a lower materiality of £0.1 million, determined as 5% of benchmark of profit before tax normalised for change in fair value of investment properties. The lower materiality was applied to rental income, property and other operating expenses and finance expense, for which we believe misstatement of lesser amounts than materiality for the financial statements as a whole can be reasonably expected to influence the Company's members' assessment of the financial performance of the Group.

Materiality for the parent Company financial statements as a whole was set at £0.7 million, determined with reference to a benchmark of Company total assets, of which it represents 1%.



We reported to the Audit Committee any corrected or uncorrected misstatements exceeding £53,300 or £5,000 for misstatements of accounts audited to the lower materiality, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Group, including the parent Company audit, was undertaken to the materiality levels specified above as if it was a single aggregated set of financial information and was performed by the Group team at the offices in London.



4. We have nothing to report on going concern

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 Group and 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 46 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

Independent Auditor's Report *(continued)*

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.

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 period 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 page 47 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency 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 Group, 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 Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

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' Responsibilities 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 Group'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.

Independent Auditor's Report *(continued)*

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 by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements 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 51, 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 Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 sector experience and through discussion with the directors and other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Independent Auditor's Report *(continued)*

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

17 September 2018

Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

for the period from 18 April 2017 to 30 June 2018

	Notes	18 April 2017 to 30 June 2018 £'000
Rental and other income	3	3,600
Property operating expenses	4	(105)
Net rental and other income		3,495
Other operating expenses	4	(1,050)
Operating profit before fair value changes		2,445
Change in fair value of investment properties	10	(2,853)*
Operating loss		(408)
Finance expense	6	(487)
Loss before tax		(895)
Taxation	7	–
Loss after tax		(895)
Other comprehensive income		–
Total comprehensive loss for the period		(895)
Loss per share (pence per share) (basic and diluted)	8	(1.25)

The notes on pages 62 to 80 form an integral part of these consolidated financial statements.

* This includes a fair value gain of £3.63 million on properties held over the period and a writedown of £6.48 million of portfolio acquisition costs.

Consolidated Financial Statements *(continued)*

Consolidated Statement of Financial Position

as at 30 June 2018

	Notes	As at 30 June 2018 £'000
Assets		
Non-Current Assets		
Investment property	10	99,243
		99,243
Current Assets		
Receivables and prepayments	11	1,121
Cash and cash equivalents		6,594
Restricted cash	2.5e	1,362
		9,077
Total Assets		108,320
Non-Current Liabilities		
Interest bearing loans and borrowings	13	29,434
Finance lease obligations	14	478
		29,912
Current Liabilities		
Payables and accrued expenses	12	1,952
Finance lease obligations	14	34
		1,986
Total Liabilities		31,898
Net Assets		76,422
Equity		
Share capital	17	805
Share premium account	18	–
Capital reserve and retained earnings		75,617
Total capital and reserves attributable to equity holders of the Group		76,422
Net Asset Value per share (pence per share)	8	94.93

The financial statements on pages 58 to 80 were approved by the Board of Directors on 17 September 2018 and were signed on its behalf by:

Steve Smith
Chairman

AEW UK Long Lease REIT plc
Company number: 10727886

The notes on pages 62 to 80 form an integral part of these consolidated financial statements.

Consolidated Financial Statements *(continued)*

Consolidated Statement of Changes in Equity

for the period from 18 April 2017 to 30 June 2018

For the period 18 April 2017 to 30 June 2018	Notes	Share capital £'000	Share premium account £'000	Capital reserve and retained earnings £'000	Total capital and reserves attributable to owners of the Group £'000
Balance as at 18 April 2017		–	–	–	–
Ordinary Shares issued	17,18	805	79,695	–	80,500
Share issue costs	18	–	(1,573)	–	(1,573)
Cancellation of share premium	18	–	(78,122)	78,122	–
Total comprehensive loss		–	–	(895)	(895)
Dividends paid	9	–	–	(1,610)	(1,610)
Balance as at 30 June 2018		805	–	75,617	76,422

The notes on pages 62 to 80 form an integral part of these consolidated financial statements.

Consolidated Financial Statements *(continued)*

Consolidated Statement of Cash Flows

for the period from 18 April 2017 to 30 June 2018

	18 April 2017 to 30 June 2018 £'000
Cash flows from operating activities	
Operating loss	(408)
Adjustment for non-cash items:	
Loss from change in fair value of investment property	2,853
Increase in other receivables and prepayments	(1,121)
Increase in other payables and accrued expenses	1,534
Net cash generated from operating activities	2,858
Cash flows from investing activities	
Purchase of investment property	(101,461)
Net cash used in investing activities	(101,461)
Cash flows from financing activities	
Proceeds from issue of ordinary share capital	80,500
Share issue costs	(1,573)
Loan draw down	28,638
Loan arrangement fees	(609)
Finance costs	(241)
Dividends paid	(1,518)
Net cash generated from financing activities	105,197
Net increase in cash and cash equivalents	6,594
Cash and cash equivalents at start of the period	–
Cash and cash equivalents at end of the period	6,594

The notes on pages 62 to 80 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the period from 18 April 2017 to 30 June 2018

1. Corporate information

The Company is a closed ended Real Estate Investment Trust ('REIT') incorporated on 18 April 2017 and domiciled in the UK. The registered office of the Company is located at 6th Floor, Gresham Street, London, EC2V 7NQ.

The Company's Ordinary Shares were listed on the Official List of the UK Listing Authority and admitted to trading on the Main Market of the London Stock Exchange on 6 June 2017.

The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 2 to 31.

2. Accounting policies

2.1 Basis of preparation

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

These Consolidated financial statements have been prepared under the historical-cost convention, except for investment property that has been measured at fair value.

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

Basis of consolidation

The Consolidated financial statements for the period from 18 April 2017 to 30 June 2018 incorporate the financial statements of AEW UK Long Lease REIT plc and its subsidiaries (the 'Group'). Subsidiaries are entities controlled by the Company, being AEW UK Long Lease REIT 2017 Limited and AEW UK Long Lease REIT Holdco Limited. IFRS 10 outlines the requirements for the preparation of consolidated financial statements, requiring an entity to consolidate the results of all investees it is considered to control. Control exists where an entity is exposed to variable returns and has the ability to affect those returns through its power over the investee.

New standards, amendments and interpretations

There are a number of new standards and amendments to existing standards which have been published and are mandatory for the Group's accounting periods beginning after 1 January 2018 or later periods. The following are the most relevant to the Group:

- IFRS 7 (Financial Instruments: Disclosures) amendments regarding additional hedge accounting disclosures (applied when IFRS 9 is applied);
- IFRS 9 (Financial Instruments) This standard will replace IAS 39 Financial Instruments and contains two primary measurement categories for financial assets (effective for annual periods beginning on or after 1 January 2018), the effect of any change to the Group's current accounting policies covering the measurement of financial instruments and the estimation of impairment is expected to be immaterial;
- IFRS 15 (Revenue from Contracts with Customers) issued in May 2014 and applies to an annual reporting period beginning on or after 1 January 2018, the Group's revenue primarily relates to property rental income which is outside the scope of IFRS 15;

Notes to the Consolidated Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

2. Accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

New standards, amendments and interpretations *(continued)*

- IFRS 16 (Leases) issued in January 2016 and is effective for annual periods beginning on or after 1 January 2019; and
- IAS 40 Investment Property: effective for annual periods beginning on or after 1 July 2018.

The impact of the adoption of new accounting standards issued and becoming effective for accounting periods beginning on or after 1 January 2018 has been considered and is not considered to be significant. The IFRS 16 disclosure requirements will be considered in due course.

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 consolidated financial information.

Estimates

In the process of applying the Group's accounting policies, management has made the following estimates, which have a significant effect on the amounts recognised in the consolidated financial information:

Valuation of investment property

The fair value of investment property is determined, by independent property valuation experts, to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Properties have been valued on an individual basis. The valuation experts use recognised valuation techniques, applying the principles of both IAS 40 and IFRS13.

The valuations have been prepared in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standard January 2014 (revised April 2015) ('the Red Book'). Factors reflected include current market conditions, annual rentals, lease lengths and location. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in note 10.

2.3 Segmental information

In accordance with IFRS 8, the Directors are of the opinion that the Group is engaged into one main operating segment, being investment property in the UK.

2.4 Going concern

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

Notes to the Consolidated Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

2. Accounting policies *(continued)*

2.5 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below.

a) Presentation currency

These Consolidated Financial Statements are presented in Sterling, which is the functional and presentational currency of the Group. The functional currency of the Group is principally determined by the primary economic environment in which it operates. The Group did not enter into any transactions in foreign currencies during the period.

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. For leases, which contain fixed or minimum uplifts, the rental income arising from such uplifts is recognised on a straight-line basis over the lease term.

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

ii) Deferred income

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

c) 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.

d) 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.

Notes to the Consolidated Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

2. Accounting policies *(continued)*

2.5 Summary of significant accounting policies *(continued)*

d) Investment property *(continued)*

For the purposes of these Consolidated Financial Statements, the assessed fair value is:

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

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

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset.

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

e) Cash and cash equivalents

Cash and short-term deposits in the Consolidated Statement of Financial Position comprise cash at bank and short-term deposits with an original maturity of three months or less. Cash held also includes amounts held in a restricted account that becomes available upon charging properties as security under the Canada Life Loan.

f) Receivables and prepayments

Rent and other receivables are recognised at fair value and subsequently at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full.

g) Capital prepayments

Capital prepayments are made for the purpose of acquiring future property assets, and held as receivables within the Consolidated 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.

h) Other payables and accrued expenses

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

i) Rent deposits

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

j) 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.

Notes to the Consolidated Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

2. Accounting policies *(continued)*

2.5 Summary of significant accounting policies *(continued)*

k) Impairment of financial assets

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

l) Provisions

A provision is recognised in the Consolidated Statement of Financial Position when the Group 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.

m) Dividend payable to shareholders

Equity dividends are recognised when they become legally payable.

n) 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.

o) Finance leases

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

p) 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 Group 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.

q) European Public Real Estate Association

The Group 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 period ended 30 June 2018, audited EPS and NAV calculations under EPRA's methodology are included in note 8 and further unaudited measures are included on page 9.

Notes to the Consolidated Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

3. Rental and other income

	18 April 2017 to 30 June 2018 £'000
Gross rental income	3,226
Spreading of tenant incentives and guaranteed fixed rental uplifts	359
Other property income	15
Total rental and other income	3,600

4. Expenses

	18 April 2017 to 30 June 2018 £'000
Property operating expenses	105
Other operating expenses	
Investment management fee	363
Auditor remuneration	116
Operating costs	571
Total other operating expenses	1,050
Total operating expenses	1,155

	18 April 2017 to 30 June 2018 £'000
Audit	
Statutory audit of Annual Report and Accounts	70
Statutory audit of Subsidiary Accounts	12
Statutory audit of Initial Accounts	11
	93

Non-audit	
Review of Interim Report	23
Review of Initial prospectus*	40
	63
Total fees paid to KPMG LLP	156
Percentage of total fees attributed to non-audit services	40%

* charged to share premium account

Notes to the Consolidated Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

5. Directors' remuneration

	18 April 2017 to 30 June 2018 £'000
Directors' fees	108
Tax & social security	5
Total	113

A summary of the Directors' remuneration is set out in the Directors' Remuneration Report on page 44.

The Group had no employees during the period.

6. Finance expense

	18 April 2017 to 30 June 2018 £'000
Interest payable on loan borrowings	419
Amortisation of loan arrangement fee	43
Other finance costs	25
Total	487

7. Taxation

	18 April 2017 to 30 June 2018 £'000
Total tax charge	–
Analysis of tax charge in the period:	
Loss before tax	(895)
Theoretical tax credit at UK Corporation tax standard rate of 19%	(170)
Adjusted for:	
Exempt REIT net losses	170
Total	–

The Group obtained REIT status on 13 October 2017, at which point any gains or losses arising from property business have been extinguished. As such, no deferred tax asset or liability has been recognised in the current period.

Factors that may affect future tax charges

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

Notes to the Consolidated Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

8. Earnings/(loss) per share and NAV per share

	18 April 2017 to 30 June 2018
Loss per share:	
Total comprehensive loss (£'000)	(895)
Weighted average number of shares	71,514,806
Loss per share (basic and diluted) (pence)	(1.25)
EPRA earnings per share:	
Total comprehensive loss (£'000)	(895)
Adjustment to total comprehensive loss:	
Change in fair value of investment properties (£'000)	2,853
EPRA earnings (basic and diluted) (£'000)	1,958
EPRA earnings per share (basic and diluted) (pence)	2.74
Adjusted earnings per share:	
EPRA earnings (basic and diluted) (£'000)	1,958
Adjustments:	
Rental income recognised in respect of tenant incentives and guaranteed fixed rental uplifts (£'000)	(359)
Amortisation of loan arrangement fee (£'000)	43
Adjusted earnings (basic and diluted) (£'000)	1,642
Adjusted earnings per share (basic and diluted) (pence)	2.30
NAV per share:	
Net assets (£'000)	76,422
Ordinary Shares	80,500,000
NAV per share (pence)	94.93

Earnings per Share ("EPS") amounts are calculated by dividing loss for the period attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period. EPRA NAV and EPRA NNNNAV are equal to the NAV presented in the Consolidated Statement of Financial Position under IFRS and there are no adjusting items. As such, a reconciliation between these measures has not been presented.

Notes to the Consolidated Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

9. Dividends paid

	18 April 2017 to 30 June 2018 £'000
First interim dividend paid in respect of the period from incorporation to 30 September 2017 at 0.50p per Ordinary Share	402
Second interim dividend declared in respect of the period 1 October 2017 to 31 December 2017 at 0.50p per Ordinary Share	402
Third interim dividend declared in respect of the period 1 January 2018 to 31 March 2018 at 1.00p per Ordinary Share	806
Total dividends paid during the period	1,610
Fourth interim dividend declared in respect of the period 1 April 2018 to 30 June 2018 at 1.25p per Ordinary Share*	1,006

* Dividends declared after the period end are not included in the Consolidated Financial Statements as a liability.

10. Investments

10.1) Investment property

	30 June 2018		
	Investment properties freehold £'000	Investment properties leasehold £'000	Total £'000
UK investment property			
As at beginning of period	–	–	–
Purchases in the period	54,917	46,674	101,591
Revaluation of investment property	(1,177)	(1,324)	(2,501)
Valuation provided by Knight Frank	53,740	45,350	99,090
Adjustment to fair value for rent smoothing			(359)
Adjustment for finance lease obligations			512
Total investment property			99,243
Change in fair value of investment property			
Change in fair value before adjustments for lease incentives			(2,501)
Movement in finance lease			7
Adjustment to fair value for rent smoothing of lease income			(359)
			(2,853)

Notes to the Consolidated Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

10. Investments *(continued)*

10.1) 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 Group'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 (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 flows.

10.2) Fair value measurement hierarchy

The following table provides the fair value measurement hierarchy for non-current assets:

	30 June 2018			Total £'000
	Quoted prices in active markets (Level 1) £'000	Significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	
Assets measured at fair value				
Investment property*	–	–	99,090	99,090
	–	–	99,090	99,090

* before adjustments to fair value for straight lining of lease income.

Explanation of the fair value hierarchy:

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

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

Level 3 – Valuation techniques using non-observable data.

Notes to the Consolidated Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

10. Investments *(continued)*

10.2) 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 portfolios of investment properties are:

- 1) Estimated Rental Value ("ERV")
- 2) Equivalent yield

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

Class	Fair value £'000	Valuation technique	Significant unobservable inputs	Range
30 June 2018				
Investment Property*	99,090	Income capitalisation	ERV Equivalent yield	£3.50 – £21.96 4.9% – 7.06%

* Valuation per Knight Frank LLP

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

Sensitivity Analysis	30 June 2018			
	Change in ERV		Change in equivalent yield	
	£'000	£'000	£'000	£'000
	+5%	-5%	+5%	-5%
Resulting fair value of investment property	100,194	98,288	94,152	104,744

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.

Notes to the Consolidated Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

11. Receivables and prepayments

	30 June 2018 £'000
Receivables	
Rent debtor	304
Other debtors	425
Total Receivables	729
Accrued income	359
	1,088
Prepayments	
Other prepayments	33
Total	1,121

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

	30 June 2018 £'000
Less than three months due	304
Between three and six months due	425
Between six and twelve months due	–
Total	729

12. Payables and accrued expenses

	30 June 2018 £'000
Deferred income	657
Accruals	262
Other creditors	1,033
Total	1,952

Notes to the Consolidated Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

13. Interest bearing loans and borrowings

	30 June 2018 £'000
At the beginning of the period	–
Drawn in the period	30,000
Total facility drawn	30,000
Repayable between two and five years	30,000
Unamortised loan issue costs	(566)
Interest bearing loans and borrowings	29,434

The Group entered into a £30 million term loan facility with Canada Life Investments on 5 January 2018.

The term facility is up to 40% loan to property value, provided on a portfolio basis. The loan is fixed to October 2025 at a total rate of 3.05% per annum.

Borrowing costs associated with the credit facility are shown as finance costs in note 6 to these Consolidated Financial Statements.

	Bank borrowings £'000
Reconciliation to cash flows from financing activities	
Balance at the beginning of the period	–
Loan drawn down	28,638
Loan arrangement fees	(609)
Total changes from financing cash flows	28,029
Other changes	
Restricted cash	1,362
Amortisation of loan issue costs	43
Total other changes	1,405
Balance at 30 June 2018	29,434

Notes to the Consolidated Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

14. 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 for each of the following periods:

	30 June 2018 £'000
Within one year	34
After one year but less than five years	150
More than five years	328
	478
Total	512

15. Guarantees and commitments

Operating lease commitments – as lessor

The Group has entered into commercial property leases on its investment property portfolio. These non-cancellable leases have a remaining term of between 4 and 116 years.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June 2018 are as follows:

	30 June 2018 £'000
Within one year	5,738
After one year but not more than five years	23,187
More than five years	102,427
Total	131,352

During the period ended 30 June 2018 there were nil contingent rents recognised as income.

Notes to the Consolidated Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

16. Investment in subsidiaries

The Company has two wholly owned subsidiaries disclosed below:

<u>Name and company number</u>	<u>Country of registration and incorporation</u>	<u>Date of incorporation</u>	<u>Principal activity</u>	<u>Ordinary Shares held</u>
AEW UK Long Lease REIT Holdco Limited (Company number 11052186)	England and Wales	7 November 2017	Real Estate Company	73,158,502*
AEW UK Long Lease REIT 2017 Limited (Company number 10754641)	England and Wales	4 May 2017	Real Estate Company	73,158,501*

* Ordinary shares of £1.00 each.

AEW UK Long Lease REIT plc as at 30 June 2018 owns 100% controlling stake of AEW UK Long Lease REIT Holdco Limited.

AEW UK Long Lease REIT Holdco Limited holds 100% of AEW UK Long Lease REIT 2017 Limited.

Both AEW UK Long Lease REIT Holdco Limited and AEW UK Long Lease REIT 2017 Limited are registered at 6th Floor, 65 Gresham Street, London, England, EC2V 7NQ.

17. Issued share capital

<u>For the period 18 April 2017 to 30 June 2018</u>	<u>£'000</u>	<u>Number of Ordinary Shares</u>
Ordinary Shares issued and fully paid		
At the beginning of the period	–	1
Issued on admission to trading on the London Stock Exchange on 6 June 2017	805	80,499,999
At the end of the period	805	80,500,000

On 6 June 2017, the Company issued 80,499,999 Ordinary Shares with a nominal value of 1 pence at a price of 100.00 pence per share 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 31 May 2017.

Notes to the Consolidated Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

18. Share premium account

30 June 2018
£'000

The share premium relates to amounts subscribed for share capital in excess of nominal value:

Balance at the beginning of the period	–
Issued on admission to trading on the London Stock Exchange on 6 June 2017	79,695
Share issue costs	(1,573)
Cancellation of share premium	(78,122)
Balance at the end of the period	–

19. Financial risk management and policies

The Group's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and further risks inherent to investing in investment property. The Group's objective in managing risk is the creation and protection of shareholder value. Risk is inherent in the Group'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 Group in the management of its portfolio are as follows:

19.1 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 Group diversifies its portfolio geographically in the UK and across property sectors.

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

Notes to the Consolidated Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

19. Financial risk management and policies *(continued)*

19.2 Real estate risk

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

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

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

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

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

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

19.3 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 Group by failing to meet a commitment it has entered into with the Group.

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

In respect of property investments, in the event of a default by a tenant, the Group 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 Group's exposure to credit risk:

	30 June 2018 £'000
Debtors (excluding straight lining and prepayments)	729
Cash and cash equivalents	6,594
Total	7,323

Notes to the Consolidated Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

19. Financial risk management and policies *(continued)*

19.4 Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its borrowings. It is the risk the Group will encounter difficulty in meeting its financial obligations as they fall due as the majority of the Group's assets are investment properties and therefore not readily realisable. The Group's objective is to ensure it has enough 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 the Investment Manager and Board of Directors.

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

30 June 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	–	–	–	–	30,000	30,000
Interest payable	178	231	684	3,487	2,276	6,856
Payables and accrued expenses	600	92	425	–	–	1,117
Finance lease obligations	–	9	26	185	711	931
Total	778	332	1,135	3,672	32,987	38,904

19.5 Fair value of financial instruments

There is no material difference between the carrying amount and fair value of the Group's financial instruments.

20. Capital management

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

To enhance returns over the medium term, the Group utilises borrowings on a limited recourse basis for each investment or all or part of the total portfolio. The Group's policy is to borrow up to a maximum of 40% loan to GAV (both are measured at drawdown). Alongside the Group's borrowing policy, the Directors intend, at all times, to conduct the affairs of the Group so as to enable the Group to qualify as a REIT for the purposes of Part 12 of the Corporation Tax Act 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 Group remained compliant with in this reporting period.

The monitoring of the Group's level of borrowing is performed primarily using a Loan to GAV ratio. The Loan to GAV ratio is calculated as the amount of outstanding debt divided by the total assets of the Group, which includes the valuation of the investment property portfolio. The Group Loan to GAV ratio at the period end was 27.7%.

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

Notes to the Consolidated Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

21. Transactions with related parties

As defined by IAS 24 Related Party 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.

Subsidiaries

AEW UK Long Lease REIT plc as at 30 June 2018 owns 100% controlling stake of AEW UK Long Lease REIT Holdco Limited and AEW UK Long Lease REIT Holdco Limited holds 100% of AEW UK Long Lease REIT 2017 Limited.

Directors

For the period 18 April 2017 to 30 June 2018, the Directors of the Group are considered to be the key management personnel. Directors' remuneration is disclosed in note 5.

Investment Manager

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

Under the Investment Management Agreement, the Investment Manager receives a management fee which is calculated and accrued monthly at a rate equivalent to 0.75% per annum of NAV (excluding un-invested fund raising proceeds) and paid quarterly. During the period 18 April 2017 to 30 June 2018, the Group incurred £362,589 in respect of investment management fees and expenses of which £128,793 was outstanding at 30 June 2018.

22. Events after reporting date

Dividend

On 18 July 2018, the Board declared its final dividend of 1.25 pence per share in respect of the period from 1 April 2018 to 30 June 2018. This was paid on 31 August 2018 to shareholders on the register as at 27 July 2018. The ex-dividend date was 26 July 2018.

Credit facility

On 31 August 2018, the Board applied to increase the Group's loan facility with Canada Life Investments by £11 million to £41 million. The additional £11m will bear interest at a margin of 2.65%, and on a weighted basis, the whole loan bears interest at a margin of c. 2.1%. At the date of this report, no further drawdown has been made.

Property acquisition

On 13 September 2018, the Group acquired Eurolink Industrial Estate, Sittingbourne for £3.9 million (net of acquisition costs). This property is let to Dore Metal Services Southern Ltd and is subject to five yearly rent reviews linked to RPI, with annual uplifts between 1% and 4%. The property has a WAULT to break of 10 years and to expiry of 15 years, and reflects a net initial yield of 6.3%.

Company Financial Statements

Company Statement of Financial Position

as at 30 June 2018

	Notes	30 June 2018 £'000
Assets		
Non-Current Assets		
Investment in subsidiary companies	3	71,309
Investment property	3	–
		71,309
Current Assets		
Receivables and prepayments	4	412
Cash and cash equivalents		2,987
		3,399
Total Assets		74,708
Current Liabilities		
Payables and accrued expenses	5	664
		664
Total Liabilities		664
Net Assets		74,044
Equity		
Share capital		805
Share premium account		–
Capital reserve and retained earnings		73,239
Total capital and reserves attributable to equity holders of the Company		74,044

As permitted by s408 Companies Act 2006, the Company's profit and loss account has not been presented in these financial statements. The Company's loss for the period was £3,273,000.

The financial statements on pages 81 to 86 were approved by the Board of Directors on 17 September 2018 and were signed on its behalf by:

Steve Smith
Chairman

AEW UK Long Lease REIT plc
Company number: 10727886

The notes on pages 83 to 86 form an integral part of these financial statements.

Company Financial Statements *(continued)*

Company Statement of Changes in Equity

for the period from 18 April 2017 to 30 June 2018

For the period 18 April 2017 to 30 June 2018	Notes	Share capital £'000	Share premium account £'000	Capital reserve and retained earnings £'000	Total capital and reserves attributable to owners of the Group £'000
Balance as at 18 April 2017		–	–	–	–
Ordinary shares issued	7	805	79,695	–	80,500
Share issue costs		–	(1,573)	–	(1,573)
Cancellation of share premium	8	–	(78,122)	78,122	–
Total comprehensive loss		–	–	(3,273)	(3,273)
Dividends paid	6	–	–	(1,610)	(1,610)
Balance as at 30 June 2018		805	–	73,239	74,044

The notes on pages 83 to 86 form an integral part of these financial statements.

Notes to the Company Financial Statements

for the period from 18 April 2017 to 30 June 2018

1. Corporate information

AEW UK Long Lease REIT plc (the 'Company') is a closed ended Real Estate Investment Trust ('REIT') incorporated on 18 April 2017 and domiciled in the UK. The registered office of the Company is located at 6th Floor, Gresham Street, London, EC2V 7NQ.

The Company's Ordinary Shares were listed on the Official List of the UK Listing Authority and admitted to trading on the Main Market of the London Stock Exchange on 6 June 2017.

The Company is the ultimate parent company of the AEW UK Long Lease REIT Group. Its primary activity is to hold shares in subsidiary companies and invest in direct property investments.

2. Accounting policies

Basis of preparation

These financial statements are prepared and approved by the Directors in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to capital management, presentation of cash flow statement, standards not yet effective, impairment of assets and related party transactions.

These financial statements have been prepared under the historical-cost convention.

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

The financial statements of the Company follow the accounting policies of the Group laid out on pages 62 to 66.

For an assessment of going concern refer to the accounting policy 2.4 of the Group on page 63 and note 16 of the Group on page 76.

Investments in Subsidiary Companies

Investments in subsidiary companies which are all 100% owned by the Company are included in the statement of financial position at cost less provision for impairment.

3. Investments

3a. Investments in Subsidiary Companies

	30 June 2018 £'000
At the beginning of the period	–
Investment in subsidiary companies	71,309
At the end of the period	71,309

A list of subsidiary undertakings at 30 June 2018 is included on page 76.

Notes to the Company Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

3. Investments *(continued)*

3b. Investment property

	30 June 2018 £'000
At the beginning of the period	–
Purchases in the period	44,065
Disposals in the period	(44,065)
	–
Loss on disposal of investment property	
Net proceeds from disposal of investment property during the period	41,367
Cost of disposal	(44,065)
Loss on disposal of investment property	(2,698)

4. Receivables and prepayments

	30 June 2018 £'000
Receivables	
Amounts due from subsidiary companies	247
VAT receivable	157
	404
Prepayments	
Other prepayments	8
	8
Total	412

5. Payables and accrued expenses

	30 June 2018 £'000
Accruals	262
Other creditors	402
Total	664

Notes to the Company Financial Statements

for the period from 18 April 2017 to 30 June 2018

6. Dividends paid

	18 April 2017 to 30 June 2018 £'000
First interim dividend paid in respect of the period from incorporation to 30 September 2017 at 0.50p per Ordinary Share	402
Second interim dividend declared in respect of the period 1 October 2017 to 31 December 2017 at 0.50p per Ordinary Share	402
Third interim dividend declared in respect of the period 1 January 2018 to 31 March 2018 at 1.00p per Ordinary Share	806
Total dividends paid during the period	1,610
Fourth interim dividend declared in respect of the period 1 April 2018 to 30 June 2018 at 1.25p per Ordinary Share*	1,006

* Dividends declared after the period end are not included in the financial statements as a liability.

7. Issued share capital

For the period 18 April 2017 to 30 June 2018

	£'000	Number of Ordinary Shares
Ordinary Shares issued and fully paid		
At the beginning of the period	–	1
Issued on admission to trading on the London Stock Exchange on 6 June 2017	805	80,499,999
At the end of the period	805	80,500,000

On 6 June 2017, the Company issued 80,499,999 Ordinary Shares with a nominal value of 1 pence at a price of 100.00 pence per share 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 31 May 2017.

Notes to the Company Financial Statements *(continued)*

for the period from 18 April 2017 to 30 June 2018

8. Share premium account

	30 June 2018 £'000
The share premium relates to amounts subscribed for share capital in excess of nominal value:	
Balance at the beginning of the period	–
Issued on admission to trading on the London Stock Exchange on 6 June 2017	79,695
Share issue costs	(1,573)
Cancellation of share premium	(78,122)
Balance at the end of the period	–

9. Capital reserve

On 26 July 2017, the Company by way of a Special Resolution, cancelled the value of its share premium account, by an Order of the High Court of Justice, Chancery Division. As a result of this cancellation, £78,122,172 has been transferred from the share premium account, into the capital reserve. The capital reserve is classed as a distributable reserve.

EPRA Unaudited Performance Measure Calculations

Calculation of EPRA NIY and 'Topped-Up' NIY

	30 June 2018 £'000
Investment property – wholly-owned	99,090
Allowance for estimated purchasers' costs	6,738
Gross up completed property portfolio valuation	105,828
Annualised cash passing rental income	5,638
Property outgoings	(48)
Annualised net rents	5,590
Rent expiration of rent-free periods and fixed uplifts	1,284
'Topped-up' net annualised rent	6,874
EPRA NIY	5.28%
EPRA 'topped-up' NIY	6.50%

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 our external valuers as at 30 June 2018, plus an allowance for estimated purchasers' costs. Estimated purchasers' costs are determined by the relevant stamp duty liability, plus an estimate by our valuers of agent and legal fees on notional acquisition. The net rent deduction allowed for property outgoings is based on our valuers' assumptions on future recurring non-recoverable revenue expenditure.

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

EPRA Unaudited Performance Measure Calculations

(continued)

Calculation of EPRA Vacancy Rate

	30 June 2018 £'000
Annualised potential rental value of vacant premises	16
Annualised potential rental value for the completed property portfolio	5,841
EPRA Vacancy Rate	0.27%

Calculation of EPRA Cost Ratios

	30 June 2018 £'000
Administrative/operating expense per IFRS income statement	1,155
EPRA Costs (including and excluding direct vacancy costs)	1,155
Gross Rental Income	3,226
EPRA Cost Ratio (including direct vacancy costs)	35.80%
EPRA Cost Ratio (excluding direct vacancy costs)	35.80%

As this is the first operating period, the EPRA Cost Ratio may be artificially high. Certain fund-level operating costs have been incurred over the whole period, whereas rental income has only been earned for part of the period, in line with the timings of the acquisitions. The EPRA Cost Ratio is expected to better reflect the Group's level of operating costs in future periods, with a stable income stream having been established.

Company Information

Share Register Enquiries

The register for the Ordinary Shares is maintained by Computershare Investor Services PLC. In the event of queries regarding your holding, please contact the Registrar on 0370 707 1874 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 •. 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	80,500,000
SEDOL Number	BDVK708
ISIN Number	GB00BDVK7088
Ticker/TIDM	AEWL

Share Prices

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

Annual and Interim Reports

Copies of the Annual and Interim Reports are available from the Group's website.

Financial Calendar

31 October 2018	Annual General Meeting
31 December 2018	Half-year end
February/March 2019	Announcement of interim results
30 June 2019	Year end
September 2019	Announcement of annual results

Company Information *(continued)*

Directors

Steve Smith (Independent non-executive Chairman)
Jim Prower (Independent non-executive Director)
Alan Sippetts (Independent non-executive Director)

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Investment Manager and AIFM

AEW UK Investment Management LLP
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Tel: 020 7016 4880

Website: www.aewuk.co.uk

Property Manager

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Corporate Broker

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Legal Adviser to the Company

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Depository

Langham Hall UK Depository LLP
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Administrator

Link Alternative Fund Administrators Limited
Beaufort House
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Exeter
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Company Secretary

Link Company Matters Limited
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Registrar

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

Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Valuer

Knight Frank LLP
55 Baker Street
London
W1U 8AN

Frequency of NAV publication:

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

Glossary

<i>Company</i>	AEW UK Long Lease REIT plc.
<i>Company Secretary</i>	Link Company Matters Limited.
<i>Contracted rent</i>	The annualised rent adjusting for the inclusion of rent subject to rent-free periods.
<i>DTR</i>	Disclosure Guidance and Transparency Rules, issued by the UKLA.
<i>Earnings Per Share ('EPS')</i>	Profit for the period attributable to equity shareholders divided by the weighted average number of Ordinary Shares in issue during the period.
<i>EPRA</i>	European Public Real Estate Association, the industry body representing listed companies in the real estate sector.
<i>EPRA cost ratio (including direct vacancy costs)</i>	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.
<i>EPRA cost ratio (excluding direct vacancy costs)</i>	The ratio calculated above, but with direct vacancy costs removed from net overheads and operating expenses balance.
<i>EPRA Earnings Per Share</i>	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.
<i>EPRA NAV</i>	NAV 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.
<i>EPRA NNNAV</i>	EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation on revaluations.
<i>EPRA Net Initial Yield ('NIY')</i>	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.
<i>EPRA Topped-Up Net Initial Yield</i>	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).
<i>EPRA Vacancy Rate</i>	Estimated Rental Value of vacant space as a percentage of the ERV of the whole portfolio.
<i>Equivalent Yield</i>	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.
<i>Estimated Rental Value ('ERV')</i>	The external valuer's 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.
<i>External Valuer</i>	An independent external valuer of a property. The Group's External Valuer is Knight Frank LLP.
<i>Fair value</i>	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.
<i>Fair value movement</i>	An accounting adjustment to change the book value of an asset or liability to its fair value.
<i>FCA</i>	The Financial Conduct Authority.
<i>Gross Asset Value</i>	The aggregate value of the total assets of the Group as determined in accordance with IFRS.
<i>IASB</i>	International Accounting Standards Board.
<i>IFRS</i>	International Financial Reporting Standards, as adopted by the European Union.

Glossary (continued)

Investment Manager	The Group's Investment Manager is AEW UK Investment Management LLP.
Initial Accounts	The accounts prepared in respect of the Company for the period from 18 April 2017 to 31 August 2017. Company law requires the directors of a public company to prepare initial accounts when that company wishes to make a distribution prior to its first statutory accounts having been laid before its members.
Initial Prospectus	The prospectus prepared in accordance with the prospectus rules made by the Financial Conduct Authority under Section 73A of FSMA, comprising the Registration Document, the Securities Note and the Summary, each dated 17 May 2017.
Interim Report	The accounts prepared in respect of the Group for the period from 18 April 2017 to 31 December 2017 in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules (the 'DTR') of the UK's Financial Conduct Authority (the 'UK FCA').
IPO	The admission to trading on the London Stock Exchange's Main Market of the share capital of the Company and admission of Ordinary Shares to the premium listing segment of the Official List on 6 June 2017.
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 Consolidated Statement of Comprehensive Income on a straight-line basis until the lease expiry.
Loan to Value ('LTV')	The value of loans and borrowings utilised (excluding amounts held as restricted cash and before adjustments for issue costs) expressed as a percentage of the combined valuation of the property portfolio (as provided by the valuer) and the fair value of other investments.
Net Asset Value ('NAV')	Net Asset Value is the equity attributable to shareholders calculated under IFRS.
Net Asset Value per share	Equity shareholders' funds divided by the number of Ordinary Shares in issue.
Net equivalent yield	Calculated by the Group'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.
Ongoing Charges	The ratio of annualised total administration and property operating costs expressed as a percentage of average NAV throughout the period.
Ordinary Shares	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.
Passing rent	The gross rent, less any ground rent payable under head leases.
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 continuing relevant UK REIT criteria being met, the profits from the property business of a REIT, arising from both income and capital gains, are exempt from corporation tax.
Reversion	Increase in rent estimated by the Company's External Valuers, 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.

Glossary *(continued)*

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 of NAV. The dividends are assumed to have been reinvested in the form of Ordinary Shares or Net Assets.
Total Shareholder Return	The percentage change in the share price assuming dividends are reinvested to purchase additional Ordinary Shares.
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 (including rent-frees).
Yield compression	Occurs when the net equivalent yield of a property decreases, measured in basis points.



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