

## HALF-YEAR REPORT

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AEW UK Long Lease REIT PLC

21 February 2018

### **AEW UK LONG LEASE REIT PLC (the 'Company')**

#### **Announcement of Interim Report and Financial Statements for the period from 18 April 2017 to 31 December 2017**

##### **FINANCIAL HIGHLIGHTS**

- Net Asset Value ('NAV') of £74.28 million and of 92.27 pence per share as at 31 December 2017.
- Operating profit before fair value changes is £0.25 million for the period.
- Loss before tax of £4.24 million and of 6.51 pence per share for the period, of which £4.56 million and 6.99 pence relate to acquisition costs written off.
- EPRA Earnings Per Share ('EPRA EPS') for the period were 0.38 pence.
- Total dividends of 1.00 pence per share have been declared for the period.
- The Company raised total gross proceeds of £80.50 million during the period.
- The price of the Company's Ordinary Shares on the Main Market of the London Stock Exchange was 101.75 pence per share as at 31 December 2017.

##### **PROPERTY HIGHLIGHTS**

- The Company acquired eleven properties in the period for a total of £71.28 million (excluding acquisition costs).
- As at 31 December 2017, the Company's property portfolio had a fair value of £71.42 million.
- The assets acquired are fully let as at 31 December 2017.
- Rental income generated in the period under review was £0.67 million. The number of tenants as at 31 December 2017 was 13.
- Annualised contractual income of £5.42 million as at 19 February 2018.
- Average portfolio net initial yield of 5.46%.
- Weighted average unexpired lease term ('WAULT') of 27.5 years to the expiry, and 24.4 years to the earlier of break and expiry.

##### **CHAIRMAN'S STATEMENT**

###### **Overview**

I am pleased to present the first interim consolidated results of the Group for the period from 18 April 2017 ('incorporation') to 31 December 2017 (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 £80.50 million having been raised from the Company's Initial Public Offering ('IPO').

In accordance with the Company's investment policy, the net proceeds of the IPO have been invested in a portfolio of commercial investment properties, predominately in the alternative and specialist sectors, throughout the UK.

As at 31 December 2017, the Group has invested £75.84 million (including purchase costs) of the £78.93 million net IPO proceeds. The portfolio has a net initial yield of 5.46%, the WAULT to expiry is 27.5 years and almost 85% of the income is linked to inflation (RPI or CPI). The rental income in the period under review is £0.67 million.

The Group's property portfolio has been independently valued by Knight Frank LLP in accordance with the RICS Valuations - Professional Standards. As at 31 December 2017, the Group's portfolio had a fair value of £71.42 million, an increase of £0.14 million (before £0.07 million adjustment to fair value for straight lining of lease income) or 0.20% over the aggregate purchase price of £71.28 million (excluding acquisition costs).

###### **Financial Results**

Under International Financial Reporting Standards ('IFRS') as adopted by the European Union, our operating profit before fair value changes for the period was £0.25 million, with a total comprehensive loss for the period of £4.24 million. Basic loss per share for the period was 6.51 pence per share.

Under European Public Real Estate Association ('EPRA') methodology, EPS for the period was 0.38 pence and the NAV per share at 31 December 2017 was 92.27 pence. A full list of EPRA performance figures can be found below.

The NAV per share as at 31 December 2017 was 92.27 pence, prior to adjusting for the interim dividend for the period 1 October 2017 to 31 December 2017 of 0.50 pence per Ordinary Share.

### Financing

On 5 January 2018, the Group entered into a £30 million loan agreement with Canada Life Investments, expiring in October 2025. The term facility is up to 35% loan to property value, provided on a portfolio basis. The loan was drawn down on 19 January 2018.

The Group will use this financing to continue to invest in commercial properties in line with the investment policy.

### Dividends

On 1 November 2017, the Company declared its first interim dividend of 0.50 pence per share, in respect of the period from incorporation to 30 September 2017. This was paid on 30 November 2017 to shareholders on the register as at 10 November 2017.

On 24 January 2018, the Company declared a second interim dividend of 0.50 pence per share, in respect of the period from 1 October 2017 to 31 December 2017. This will be paid on 28 February 2018 to shareholders on the register on 2 February 2018.

The Company is currently targeting an aggregate dividend of 3.25 pence per share for the financial period to 30 June 2018. Once fully invested and leveraged, the Company targets an annual dividend of 5.50 pence per share, payable quarterly, in line with the stated dividend policy set out in the Company's Prospectus.

### The Investment Manager

The Group has appointed AEW UK Investment Management LLP ('AEW UK') as the Group's discretionary investment manager. AEW UK are part of AEW Group, one of the world's largest real estate managers, with €57.7 billion of assets under management as at 30 September 2017. AEW UK is an experienced team with a track record of strong performance in long-lease funds and investing through different cycles.

### Outlook

The Group has executed its strategy since the IPO and delivered on its stated objectives. A strong portfolio of assets has been acquired, diversified by sector, tenants and geographical regions, at attractive yields that generate predictable income streams through long leases which provide for regular inflation linked income adjustment, in line with our investment policy.

The Group's Investment Manager, AEW UK, has a pipeline of assets under offer to utilise the £30 million loan facility agreed with Canada Life Investments in January 2018. In the period since 31 December 2017, the Group has acquired a further three properties totalling £18.1 million (net of acquisition costs), generating a further £1.25 million of rent. Following these acquisitions, the Group owns a portfolio of fourteen properties with an annualised contractual income of £5.42 million.

Following the full deployment of the IPO proceeds and substantially all the debt, the outlook looks positive. The Board and Investment Manager are confident of delivering strong returns for our shareholders in the second half of the financial period to 30 June 2018 and in the future.

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

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

**Steve Smith**

**Chairman**

20 February 2018

### KEY PERFORMANCE INDICATORS ("KPIs")

KPI and definition	Relevance to strategy	Performance
<p><b>1. Net Initial Yield</b> A representation to the investor of what their initial net yield would be at a predetermined purchase price after taking account of all associated costs. E.g. void costs and rent free periods.</p>	The Net Initial Yield 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><b>5.46%</b> at 31 December 2017.</p>
<p><b>2. WAULT to expiry</b> The average lease term remaining to expiry across the portfolio, weighted by contracted rent.</p>	The WAULT is a key measure of the quality of our portfolio. Long leases underpin the security of our future income.	<p><b>27.5 years</b> at 31 December 2017.</p>
<p><b>3. NAV</b> NAV is the value of an entity's assets minus the value of its liabilities.</p>	The NAV reflects the Company's ability to grow the portfolio and add value to it throughout the life cycle of its assets.	<p><b>£74.28 million</b> at 31 December 2017.</p>
<p><b>4. Dividend</b> Dividends declared in relation to the year. The Company targets a dividend of 5.50 pence per Ordinary Share per annum once</p>	The dividend reflects the Company's ability to deliver a sustainable income stream from its portfolio.	<p><b>0.50 pence per share</b> for the quarter to 31 December 2017.</p>

fully invested and leveraged.

#### 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 7.

This reflects the Company's ability to generate earnings from the portfolio which underpins dividends.

**0.38 pence per share**  
for the period 18 April  
2017 to 31 December  
2017.

## INVESTMENT MANAGER'S REPORT

### Investment Objective

The investment objective of the Company 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 commercial properties, predominately in alternative and specialist sectors.

In order to achieve its investment objective the Company 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.

The Company intends to achieve a diversified portfolio across both properties, tenants and locations. The Company will focus on properties that can generate predictable income streams through long leases and have contractual exposure to inflation rates at the time of investment.

### Investment Strategy

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

The Company intends to supplement this core strategy with active asset management initiatives to re-gear certain mid-life lease properties.

In the current market environment the focus will be to invest in properties to construct a portfolio when fully invested with the following minimum targets:

- a weighted average unexpired lease term, at the time of investment, in excess of 18 years;
- at least 85 per cent of the gross passing rent will have leases with rent review 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 per cent of the properties will be in non-traditional sectors. Once Gross Asset Value is £250 million or greater, future investments will be made to target a portfolio with at least 80 per cent of the properties in non-traditional sectors;
- less than 30 per cent of the properties will be in the traditional sectors of retail, industrial and offices. Once Gross Asset Value is £250 million or greater, future investment will be made to target a portfolio with less than 20 per cent of the properties in traditional sectors;
- over 90 per cent of properties will be freehold or very long leasehold (over 100 years).

### Portfolio Activity

During the period, the Group has invested £75.84 million (including acquisition costs) in a diversified portfolio of 11 properties throughout the UK. This accounts for 96% of the IPO net proceeds of £78.93 million. This deployment has been achieved over a 7 month period since incorporation as compared to an expectation at IPO that full deployment including debt would take 9 months.

The following investment transactions were made during the period:

- The Company acquired its first property, Princes Street, Swindon on 6 September 2017. Purchased for £6.3 million and providing a 5.5% net initial yield, 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 estimated rental value ('ERV') of £388,358 and a reversionary yield of 5.8%.
- The Company 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% net initial yield, 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 net initial yield of 6.1%, has an ERV of £187,960 and a reversionary yield of 6.05%.
- 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, with five yearly RPI linked reviews. The acquisition price reflects a net initial yield 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 net initial yield 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 five yearly.

- The Company acquired two residential care home properties in the West Midlands and East Riding for £10.3 million on 30 October 2017. Both 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 to old age and dementia. The property provides an unexpired lease term of 31 years. The acquisition price reflects a net initial yield 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 net initial yield 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 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 net initial yield of 5.85%.

- Audi showroom, Huddersfield was purchased on 22 December 2017 for £6.3 million. The 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. The acquisition reflects a net initial yield of 5.89%.

- Bramall Court, Salford was purchased on 22 December 2017 for £10.9 million. The 94,290 sq. ft. student accommodation block 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 unexpired lease with annual rent reviews linked to CPI. The acquisition reflects a net initial yield of 5.35%.

- Finally, Hoddesdon, Hertfordshire 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 and various private investors 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 acquisition reflects a net initial yield of 5.9% and provides a lease term of 32 years to expiry and 14 years to break.

### Portfolio overview

The following table shows the key statistics for the portfolio as at 31 December 2017:

Fair valuation of portfolio	£71.42 million
Average net initial yield	5.46%
WAULT to expiry	27.5 years
Index linked income (RPI or CPI)	84%
Number of tenants	13
Properties	11
Annualised contractual income	£4.17 million
Vacancy	0%

The tables below illustrate the sector and geographic weightings of the Group's property portfolio as at 31 December 2017, based on valuations at that date.

### Geographical Allocation at 31 December 2017

Eastern	6.7%
Inner London	6.1%
North East	4.1%
North West	27.8%
South East	12.0%
South West	8.9%
West Midlands	19.9%

Yorkshire & Humberside 14.5%

#### Sector Allocation at 31 December 2017

Power Station	6.7%
Leisure	10.2%
Industrial	12.6%
Medical/Care	14.4%
Student	15.2%
Car Showroom	20.0%
Hotel	20.9%

#### Financial Results

The Group has acquired a diversified portfolio of properties since incorporation and as at 31 December 2017 holds 11 investment properties. Rental income earned from the portfolio for the period since incorporation was £0.67 million, contributing to an operating profit before fair value changes of £0.25 million.

The portfolio has seen an overall fall of £4.49 million on the revaluation of investment property over the period. This comprises a fair value gain of £0.07 million on properties held over the period, and a write down of £4.56 million of portfolio acquisition costs.

Administrative expenses, which include the Investment Manager's fee and other costs attributable to the running of the Group, were £0.43 million for the period.

The total loss before tax for the period of £4.24 million equates to a basic loss per share of 6.51 pence per share.

The Company's NAV as at 31 December 2017 was £74.28 million or 92.27 pence per share. This is a decrease of 5.78 pence per share or 5.90% since incorporation. This expected fall is predominantly due to the acquisition costs incurred on purchasing the properties within the portfolio. The movement in NAV set out in the table below:

	Pence per share	£ million
<b>NAV (at incorporation after launch costs)</b>	<b>98.05</b>	<b>78.93</b>
Portfolio acquisition costs	(5.66)	(4.56)
Change in fair value of investment property	0.08	0.07
Income earned for the period	0.83	0.67
Expenses for the period	(0.53)	(0.43)
Dividends paid for the period	(0.50)	(0.40)
<b>NAV at 31 December 2017</b>	<b>92.27</b>	<b>74.28</b>

#### Dividend

On 1 November 2017, the Company declared its first interim dividend of 0.50 pence per share, in respect of the period from incorporation to 30 September 2017. This was paid on 30 November 2017 to shareholders on the register as at 10 November 2017.

On 24 January 2018, the Company declared a second interim dividend of 0.50 pence per share, in respect of the period from 1 October 2017 to 31 December 2017. This will be paid on 28 February 2018 to shareholders on the register on 2 February 2018.

The Company is currently targeting an aggregate dividend of 3.25 pence per share for the financial period to 30 June 2018. Once fully invested and leveraged, the Company targets an annual dividend of 5.50 pence per share, payable quarterly, in line with the stated dividend policy set out in the Company's Prospectus.

#### Financing

On 5 January 2018, the Company entered into a £30 million loan agreement 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. On 19 January 2018, the Group drew down its entire £30 million loan facility. The loan is fixed until October 2025 at a total rate of 3.05% per annum.

#### Pipeline

The Group made three further acquisitions totalling £18.1 million (net of acquisition costs) on 23 January 2018. With those acquisitions complete, the Group has utilised £22.1 million of its £30 million loan facility. The remaining debt has been substantially allocated to two assets under offer which are subject to completion.

#### Second Raise and Further Acquisitions

On 8 January 2018, the Company announced plans to raise up to £35 million by way of a placing, offer for subscription and intermediaries offer under its Share Issuance Programme. The net proceeds from this issue would have been used to acquire further properties in the alternative and specialist sectors in line with the Company's investment policy. However, in early February markets went through an unexpectedly turbulent period and following discussions with the Group's Advisors, the Board decided to withdraw the placing, offer for subscription and intermediaries offer. The Group is confident that as markets stabilise there will be further opportunities to offer new shares and grow the portfolio.

## Market Outlook

### UK Economic Outlook

December 2017's inflation rate, measured by the Consumer Price Index stood at 2.7%, slightly down from the 2.8% in November<sup>1</sup>. Inflation has picked up over the course of the year amid a drop in pound sterling resulting in import costs linked inflation. We expect inflation to gradually move towards the Bank of England target rate of 2% in the period 2018-2019. This should enable the Company to grow its rental income stream as 84% of its passing rent as at 31 December 2017 is inflation-linked.

UK GDP growth for 2018 might be upgraded from the current 1.5% forecast, after Q4 came in above expectations at 0.5% to lift actual full year 2017 growth to 1.8%. Despite the agreement before year end on a two-year transition, further delays in the Brexit transition negotiations are likely on the back of internal government disagreements further prolonging the uncertainty for businesses. With the pound sterling reversing most of its weak post-Brexit run against the US dollar and oil prices expected to stabilise, inflation is projected to moderate from its recent five-year record level in 2018. The UK labour market remains strong with unemployment at a more than 40-year low of 4.3%, after 102,000 jobs were added in the three months to November 2017. Annual pay growth ticked up in October to 2.3%, but with higher inflation real pay still fell over the year. As a result, consumer spending remains under pressure, which resulted in an unexpected 1.5% decline in retail sales in December 2017. Despite this monthly decline, UK retail sales for the full year 2017 were still up 1.9%. However, this represents a four-year low in growth.

As a result of stronger than expected growth in the US and the recent bond and stock market volatility, there is now an increased consensus expectation that the Bank of England's Monetary Policy Committee will adopt a more hawkish tone in its upcoming February meeting. Still it is expected to keep rates flat. After raising its base rate in November 2017 for the first time in over 10 years, policy rates are now expected to stay flat for 2018, as GDP growth is forecast to slow during 2018 and 2019 to 1.5% and 1.6%, respectively. Over the longer term, UK GDP growth for 2020-2022 has been downward adjusted to 1.9% pa, assuming that its government will successfully negotiate its two-year transition, final separation and ultimately a free-trade agreement with the EU.

### UK Real Estate Outlook

The UK property market continues to show healthy spreads over 10 year government bond yields, both in absolute terms and relative to other markets, at 200bps in London and 300bps elsewhere in the country, such as in Manchester and Birmingham. However, we are monitoring inflation and interest closely as they will ultimately impact the relative pricing of property. Widening yield curve and therefore lower yield premium are expected going forward, albeit not in the short term. For "traditional property", we are a long way through the cycle and property is still in the advantageous position of offering one of the highest yields from traditional asset classes and the yield gap is relatively high. In our view a key risk is that many investors might not recognise that this is more because fixed-income yields are expensive and unattractive, rather than because property yields are cheap on a historical basis. 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 buy in the limited universe 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 floatations being cancelled in recent months that highlight the difficulty in raising and deploying capital in the current UK market. Nevertheless, we are optimistic that we can continue to build an attractive portfolio with the properties in our pipeline and deliver compelling returns to our shareholders.

## AEW UK Investment Management LLP

20 February 2018

<sup>1</sup> <https://www.ons.gov.uk/economy/inflationandpriceindices>

## PRINCIPAL RISKS AND UNCERTAINTIES

The Prospectus issued in May 2017 (available from the Group's website - [www.aewukllreit.com](http://www.aewukllreit.com)) includes details of what the Group considers to be the key principal risks faced by the business. However, as the Group has a limited operating history some risks are not yet known and some that are currently not deemed material, could later turn out to be material. A summarised list of the principal risks and uncertainties is set out below:

### PRINCIPAL RISKS AND THEIR POTENTIAL IMPACT

### HOW RISK IS MANAGED

#### Real estate risks

##### *Tenant default*

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

Covenant checks are carried out on tenants where there are concerns as to their creditworthiness.

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

##### *Portfolio concentration risk*

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 the share price.

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

##### *Due diligence*

Due diligence may not identify all the risks and liabilities in respect of an acquisition (including any environmental,

The Group's due diligence relies on the work (such as legal reports on title,

structural or operational defects) that may lead to a material adverse effect on the Group's profitability, the NAV and the price of shares.

#### *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.

#### *Property market*

Any property market recession or future deterioration in the property market could, inter alia, (i) make it harder for the Group to attract new tenants for its properties, (ii) lead to an increase in tenant defaults, (iii) lead to a lack of finance available to the Group (iv) cause the Group to realise its investments at lower valuations; (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.

#### *Property valuation*

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

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

#### *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.

#### **Borrowing risks**

##### *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 loan to value and interest cover ratio covenants.

#### **Corporate risks**

##### *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.

##### *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

property valuations, environmental, building surveys) outsourced to third parties that have Professional Indemnity cover in place.

The inflation linked (RPI/CPI) leases in the portfolio, typically have contractual rent review caps in the range of 3.5% 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. Furthermore, the majority of these leases have rent review collars of 1% or 2% that provide the security of minimum rental uplifts.

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

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

The aim of the Group is to hold the properties for long-term income.

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

There is significant headroom in the loan to value and interest cover covenants in the loan agreement which mean the portfolio is resilient to any material falls in valuations or rental income.

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

Manager to retain its existing staff and/or to recruit individuals of similar experience and calibre.

#### *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 wider 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. The Group also has investment restrictions in place to limit exposure to potential risk factors. These factors mitigate the risk of fluctuations in returns.

#### **Taxation risks**

##### *Group REIT status*

The Group has a 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 the use of third-party tax advisors to monitor REIT compliance requirements.

#### **UK Exit from the European Union ('EU')**

A referendum was held on 23 June 2016 to decide whether the UK should remain in the EU. A vote was given in favour of the UK leaving the EU ('Brexit'). The extent of the impact of Brexit on the Group will depend in part on the nature of the arrangements that are put in place between the UK and the EU following the eventual Brexit and the extent to which the UK continues to apply laws that are based on EU Legislation. It could also potentially make it more difficult for the Group to raise capital in the EU and/or increase the regulatory compliance burden on the Group.

#### **RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE INTERIM FINANCIAL REPORT**

We confirm that to the best of our knowledge:

- the consolidated set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;

- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred since incorporation to 31 December 2017 and their impact on the consolidated set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place since incorporation to 31 December 2017 and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions that could do so.

A list of the Directors is set out below.

By order of the Board

**Steve Smith**  
**Chairman**  
20 February 2018

#### **INDEPENDENT REVIEW REPORT TO AEW UK LONG LEASE REIT PLC**

##### **Conclusion**

We have been engaged by the Company to review the set of financial statements in the half-yearly financial report for the period 18 April 2017 to 31 December 2017 which comprises the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the set of financial statements in the half-yearly financial report for the period 18 April 2017 to 31 December 2017 is not prepared, in all material respects, 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').

##### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and



accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The Directors are responsible for preparing the set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

#### Our responsibility

Our responsibility is to express to the Company a conclusion on the set of financial statements in the half-yearly financial report based on our review.

#### The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

#### Bill Holland

#### for and on behalf of KPMG LLP

Chartered Accountants  
15 Canada Square  
London  
E14 5GL

20 February 2018

## FINANCIAL STATEMENTS

### Consolidated Statement of Comprehensive Income

For the period from 18 April 2017 to 31 December 2017

	Notes	18 April 2017 to 31 December 2017 (unaudited) £'000
Rental income	3	666
Property operating expenses	4	(3)
<b>Net rental income</b>		<b>663</b>
Other operating expenses	4	(409)
<b>Operating profit before fair value changes</b>		<b>254</b>
Change in fair value of investment properties	9	(4,491)*
<b>Operating loss</b>		<b>(4,237)</b>
Finance expense	5	(6)
<b>Loss before tax</b>		<b>(4,243)</b>
Taxation	6	-
<b>Loss after tax</b>		<b>(4,243)</b>
Other comprehensive income		-
<b>Total comprehensive loss for the period</b>		<b>(4,243)</b>
<b>Loss per share (pence per share) (basic and diluted)</b>	7	<b>(6.51)</b>

The accompanying notes form an integral part of these financial statements.

\*This includes a fair value gain of £0.07 million on properties held over the period and a write down of £4.56 million of portfolio acquisition costs.

### Consolidated Statement of Changes in Equity

For the period from 18 April 2017 to 31 December 2017

<b>For the period from 18 April 2017 to 31 December 2017 (unaudited)</b>	Notes	<b>Share capital £'000</b>	<b>Share premium account £'000</b>	<b>Capital reserve and retained earnings £'000</b>	<b>Total capital and reserves attributable to owners of the Group £'000</b>
<b>Balance as at 18 April 2017</b>		-	-	-	-
Ordinary shares issued	14/15	805	79,695	-	80,500
Share issue costs	15	-	(1,573)	-	(1,573)
Cancellation of share premium	15	-	(78,122)	78,122	-
Total comprehensive loss		-	-	(4,243)	(4,243)
Dividends paid	8	-	-	(403)	(403)
<b>Balance as at 31 December 2017</b>		<b>805</b>	<b>-</b>	<b>73,476</b>	<b>74,281</b>

The accompanying notes form an integral part of these financial statements.

### Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	<b>As at 31 December 2017 (unaudited) £'000</b>
<b>Assets</b>		
<b>Non-current Assets</b>		
Investment property	9	71,349
		<b>71,349</b>
<b>Current Assets</b>		
Receivables and prepayments	10	301
Cash and cash equivalents		3,878
		<b>4,179</b>
<b>Total Assets</b>		<b>75,528</b>
<b>Current Liabilities</b>		
Payables and accrued expenses	11	(1,247)
		<b>(1,247)</b>
<b>Total Liabilities</b>		<b>(1,247)</b>
<b>Net Assets</b>		<b>74,281</b>
<b>Equity</b>		
Share capital	14	805
Share premium account	15	-
Capital reserve and retained earnings		73,476
<b>Total capital and reserves attributable to equity holders of the Group</b>		<b>74,281</b>
<b>Net Asset Value per share (pence per share)</b>	7	<b>92.27</b>

The financial statements were approved by the Board of Directors on 20 February 2018 and were signed on its behalf by:

**Steve Smith**

**Chairman**

AEW UK Long Lease REIT plc

Company number: 10727886

The accompanying notes form an integral part of these consolidated financial statements.

### Consolidated Statement of Cash Flows

For the period from 18 April 2017 to 31 December 2017

	<b>18 April 2017 to 31 December 2017 (unaudited) £'000</b>
<b>Cash flows from operating activities</b>	
Operating loss	(4,237)
<b>Adjustment for non-cash items:</b>	

Loss from change in fair value of investment property	4,491
Increase in other receivables and prepayments	(204)
Increase in other payables and accrued expenses	564
<b>Net cash generated from operating activities</b>	<b>614</b>
<b>Cash flows from investing activities</b>	
Purchase of investment property	(75,157)
<b>Net cash used in investing activities</b>	<b>(75,157)</b>
<b>Cash flows from financing activities</b>	
Proceeds from issue of ordinary share capital	80,500
Share issue costs	(1,573)
Finance costs	(103)
Dividends paid	(403)
<b>Net cash generated from financing activities</b>	<b>78,421</b>
Net increase in cash and cash equivalents	3,878
<b>Cash and cash equivalents at start of the period</b>	<b>-</b>
<b>Cash and cash equivalents at end of the period</b>	<b>3,878</b>

The accompanying notes form an integral part of these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the period from 18 April 2017 to 31 December 2017

### 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.

### 2. Accounting policies

#### 2.1 Basis of preparation

These financial statements are prepared and approved by the Directors in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the International Accounting Standards Board ('IASB') as adopted by the European Union ('EU IFRS'). A review of the interim financial information has been performed by the Independent Auditor of the Group and was approved for issue on 20 February 2018.

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 pound sterling and all values are rounded to the nearest thousand pounds (£'000), except when otherwise indicated.

The financial information contained in this interim report does not constitute full statutory accounts as defined in Section 434 of the Companies Act 2006.

#### Basis of consolidation

The consolidated financial statements for the interim period ended 31 December 2017 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, but the Group has decided not to adopt them early. 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) effective for annual periods beginning on or after 1 January 2018;
- 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; and
- IFRS 16 (Leases) issued in January 2016 and is effective for annual periods beginning on or after 1 January 2019.

The Group does not expect the adoption of new accounting standards issued but not yet effective to have a significant impact on the Financial Statements.

#### 2.2 Significant accounting judgements and estimates

The preparation of financial statements in accordance with EU IFRS requires the Directors of the Group 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.

**Estimates:**

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

**i) 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 9.

**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 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 financial statements have been prepared on the going concern basis.

**2.5 Summary of significant accounting policies**

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

**a) Presentation currency**

These financial statements are presented in pound 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. 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. All financing expenses are recognised in profit or loss in the period in which they occur. Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

**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 assets.

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.

*f) Receivables and prepayments*

Rent and other receivables are recognised at their original invoiced value. Where the time value of money is material, receivables are discounted and then held at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

*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.

*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) 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.

*p) 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 31 December 2017, EPS and NAV calculations under EPRA's methodology are included in note 7 and further unaudited measures are included below.

### 3. Rental income

	<b>18 April 2017 to 31 December 2017 (unaudited) £'000</b>
Gross rental income received	<u>666</u>
<b>Total rental income</b>	<u><b>666</b></u>

### 4. Expenses

	18 April 2017 to 31 December 2017 (unaudited) £'000
Property operating expenses	<u>3</u>
<b>Other operating expenses</b>	
Investment management fee	105
Auditor remuneration	52
Operating costs	192
Directors' remuneration	60
<b>Total other operating expenses</b>	<u>409</u>
<b>Total operating expenses</b>	<u>412</u>

#### 5. Finance expense

	18 April 2017 to 31 December 2017 (unaudited) £'000
Other interest	<u>6</u>
<b>Total</b>	<u>6</u>

#### 6. Taxation

	18 April 2017 to 31 December 2017 (unaudited) £'000
<b>Total tax charge</b>	<u>-</u>
<b>Analysis:</b>	
Loss before tax	<u>(4,243)</u>
Theoretical tax at 19%	(806)
<b>Adjusted for:</b>	
Exempt REIT income	<u>(47)</u>
Non taxable investment losses	<u>853</u>
<b>Total</b>	<u>-</u>

The Company 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.

#### 7. Earnings per share and NAV per share

	Period from 18 April 2017 to 31 December 2017 (unaudited) £'000
<b>Net attributable to Ordinary shareholders:</b>	
Loss after tax (£'000)	<u>(4,243)</u>
Weighted average number of shares*	65,211,240
<b>Basic loss per share (pence)</b>	<u>(6.51)</u>
<b>Adjustment to revenue:</b>	
Change in fair value of investment property (£'000)	4,491
Total EPRA Earnings (£'000)	<u>248</u>
<b>EPRA earnings per share (basic and dilutes) (pence)</b>	<u>0.38</u>
<b>NAV per share and EPRA NAV per share:</b>	
Net assets (£'000)	74,281
Ordinary Shares	80,500,000
<b>NAV per share and EPRA NAV per share (pence)</b>	<u>92.27</u>

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 NNNAV is equal to IFRS NAV and as such a reconciliation between the two measures has not been performed.

## 8. Dividends paid

	18 April 2017 to 31 December 2017 (unaudited) £'000
First interim dividend paid in respect of the period from incorporation to 30 September 2017 at 0.50p per Ordinary Share	403
<b>Total dividends paid during the period</b>	<b>403</b>
Second interim dividend declared in respect of the period 1 October 2017 to 31 December 2017 at 0.50p per Ordinary Share*	403
<b>Total dividends paid in respect of the period</b>	<b>806</b>

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

## 9. Investments

### 9.1) Investment property

	Period from 18 April 2017 to 31 December 2017 (unaudited)		
	Investment Properties Freehold £'000	Investment Properties leasehold £'000	Total £'000
<b>UK Investment property</b>			
As at beginning of period	-	-	-
Purchases in period	49,896	25,944	75,840
Revaluation of investment property	(2,866)	(1,555)	(4,421)
<b>Valuation provided by Knight Frank</b>	<b>47,030</b>	<b>24,389</b>	<b>71,419</b>
Adjustment to fair value for straight lining of lease income			(70)
<b>Total Investment property</b>			<b>71,349</b>
<b>Change in fair value of investment property</b>			
Loss from change in fair value			(4,421)
Adjustment to fair value for straight lining of lease income			(70)
<b>Total change in fair value</b>			<b>(4,491)</b>

#### 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.

### 9.2) Fair value measurement hierarchy

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

	31 December 2017 (unaudited)			
	Quoted prices in active markets (Level 1) £'000	Significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	Total £'000
<b>Asset measured at fair value</b>				
Investment property*	-	-	71,419	71,419
	-	-	<b>71,419</b>	<b>71,419</b>

\* 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.

*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
<b>31 December 2017</b>				
Investment property	71,419	Income capitalisation	ERV Equivalent yield	£4.50-£16.25 5.04%-7.63%

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

Sensitivity Analysis	31 December 2017			
	Change in ERV		Change in equivalent yield	
	£'000	£'000	£'000	£'000
Resulting fair value of investment property	+5%	-5%	+5%	-5%
	71,653	71,038	67,672	75,297

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

**10. Receivables and prepayments**

	31 December 2017 (unaudited) £'000
<b>Receivables</b>	
Rent debtor	26
VAT receivable	100
	<b>126</b>
Accrued income from straight lining of lease income	70
	<b>196</b>
<b>Prepayments</b>	
Unamortised finance costs	97
Other prepayments	8
	<b>105</b>
<b>Total</b>	<b>301</b>

**11. Payables and accrued expenses**

	31 December 2017 (unaudited) £'000
Deferred income	290
Accruals	204
Other creditors	753
<b>Total</b>	<b>1,247</b>

**12. Guarantees and commitments**

*Operating lease commitments - as lessor*

The Company has entered into commercial property leases on its investment property portfolio. These noncancellable leases have a remaining term of between 4 and 116 years.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December 2017 are as follows:



	<b>31 December 2017 (unaudited) £'000</b>
Within one year	4,045
After one year but not more than five years	16,090
More than five years	81,018
<b>Total</b>	<b>101,153</b>

During the period ended 31 December 2017 there were nil contingent rents recognised as income.

### 13. Investment in subsidiary

The Company has two wholly owned subsidiaries disclosed below:

<u>Name and company number</u>	<u>Country of registration and incorporation</u>	<u>Principal activity</u>	<u>Ordinary Shares held</u>
AEW UK Long Lease REIT Holdco Limited (Company number 11052186)	England and Wales	Real Estate Company	1
AEW UK Long Lease REIT 2017 Limited (Company number 10754641)	England and Wales	Real Estate Company	1

AEW UK Long Lease REIT Holdco Limited is a subsidiary of the Company incorporated in the UK on 7 November 2017. As at 31 December 2017, the Company owns 100% of the issued share capital. The registered office of AEW UK Long Lease REIT Holdco Limited is 6th Floor 65 Gresham Street, London, England, EC2V 7NQ.

AEW UK Long Lease REIT 2017 Limited is a subsidiary of the Company incorporated in the UK on 4 May 2017. As at 31 December 2017, the Company owns 100% of the issued share capital. The registered office of AEW UK Long Lease REIT 2017 Limited is 6th Floor 65 Gresham Street, London, England, EC2V 7NQ.

### 14. Issued share capital

For the period 18 April 2017 to 31 December 2017

	<u>£'000</u>	<u>Number of Ordinary Shares</u>
<b>Ordinary Shares issued and fully paid</b>		
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
<b>At the end of the period</b>	<b>805</b>	<b>80,500,000</b>

On 6 June 2017, the Company issued 80,499,999 Ordinary Shares 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.

### 15. Share premium account

	<b>18 April 2017 to 31 December 2017 (unaudited) £'000</b>
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)
<b>Balance at the end of the period</b>	<b>-</b>

### 16. Capital reserve

On 26 July 2017, the Company by way of 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.

### 17. Financial risk management and objectives 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:

#### 17.1 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 assets 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") meets monthly and reserves the ultimate decision with regards to investments purchases or sales. In order to monitor property valuation fluctuations, the IMC and the Portfolio Management Team 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.

#### 17.2 Real estate risk

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

Property investments are illiquid assets and valuing is difficult. Real estate 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.

#### 17.3 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:

	<b>As at 31 December 2017 (unaudited) £'000</b>
Debtors (excluding straight lining and prepayments)	126
Cash and cash equivalents	3,878
<b>Total</b>	<b>4,004</b>

#### 17.4 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 management.

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

	<b>On demand £'000</b>	<b>&lt;3 months £'000</b>	<b>3-12 months £'000</b>	<b>1-5 years £'000</b>	<b>&gt;5 years £'000</b>	<b>Total £'000</b>
<b>31 December 2017</b>						
Payables and accrued expenses	-	1,247	-	-	-	1,247
<b>Total</b>	<b>-</b>	<b>1,247</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,247</b>

#### 17.5 Fair value of financial instruments

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

#### 18. 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 31 December 2017 owns 100% controlling stake in AEW UK Long Lease REIT 2017 Limited and AEW UK Long Lease REIT Holdco Limited respectively.

### **Directors**

For the period 18 April 2017 to 31 December 2017, the Directors of the Group are considered to be the key management personnel. Directors' remuneration is disclosed in note 4.

### **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 31 December 2017, the Group incurred £105,084 in respect of investment management fees and expenses of which £105,084 was outstanding at 31 December 2017.

## **19. Events after reporting date**

### **Dividend**

On 24 January 2018, the Board declared its second interim dividend of 0.50 pence per share in respect of the period from 1 October 2017 to 31 December 2017. This is to be paid on 28 February 2018 to shareholders on the register as at 2 February 2018. The ex-dividend date will be 1 February 2018.

### **Credit facility**

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

The term facility is up to 35% 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.

On 19 January 2018, the Group drew down on its £30m loan facility and used £18.1 million (net of acquisition costs) on three property acquisitions.

### **Property acquisitions**

The Group made three further acquisitions on 23 January 2018 for a combined total of £18.1 million (net of acquisition costs).

The first two acquisitions are a set of two industrial units in Dudley and Sheffield, bought for £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 reflects a net initial yield of 6.0%.

The Group also acquired Mercure City Hotel on Ingram Street, Glasgow for £8.0 million. The asset is let to Jupiter Hotels Limited, with annual rent reviews linked to RPI. This property has a WAULT of 18.5 years and reflects a net initial yield of 6.5%.

## **EPRA UNAUDITED PERFORMANCE MEASURES**

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

<b>Measure and definition</b>	<b>Purpose</b>	<b>Performance</b>
<b>1. EPRA Earnings</b> Earnings from operational activities.	A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.	£0.25 million/0.38 pps EPRA earnings for the period 18 April 2017 to 31 December 2017
<b>2. EPRA NAV</b> Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business.	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.	£74.28 million/92.27 pps EPRA NAV as at 31 December 2017
<b>3. EPRA NNAV</b> EPRA NAV adjusted to include the fair values of: (i) financial instruments; (ii) debt; and (iii) deferred taxes.	Makes adjustments to EPRA NAV to provide stakeholders with the most relevant information on the current fair value of all the assets and liabilities within a real estate company.	£74.28 million/92.27 pps EPRA NNAV as at 31 December 2017
<b>4.1 EPRA Net Initial Yield ('NIY')</b>		

Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.

A comparable measure for portfolio valuations. This measure should make it easier for investors to judge themselves, how the valuation of portfolio X compares with portfolio Y.

5.45%  
EPRA NIY  
as at 31 December 2017

#### 4.2 EPRA 'Topped-Up' NIY

This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).

A comparable measure for portfolio valuations. This measure should make it easier for investors to judge themselves, how the valuation of portfolio X compares with portfolio Y.

6.73%  
EPRA 'Topped-Up' NIY  
as at 31 December 2017

#### 5. EPRA Vacancy

Estimated Market Rental Value ('ERV') of vacant space divided by ERV of the whole portfolio.

A "pure" (%) measure of investment property space that is vacant, based on ERV.

0%  
EPRA vacancy  
as at 31 December 2017

#### 6. EPRA Cost Ratio

Administrative and operating costs (including and excluding costs of direct vacancy) divided by gross rental income.

A key measure to enable meaningful measurement of the changes in a company's operating costs.

61.90%  
EPRA Cost Ratio as at  
31 December 2017

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

	31 December 2017 £'000
Investment property - wholly-owned	71,419
Allowance for estimated purchasers' costs	4,856
<b>Gross up completed property portfolio valuation</b>	<b>76,275</b>
Annualised cash passing rental income	4,166
Property outgoings	(5)
<b>Annualised net rents</b>	<b>4,161</b>
Rent expiration of rent-free periods and fixed uplifts	971
<b>'Topped-up' net annualised rent</b>	<b>5,132</b>
<b>EPRA Net Initial Yield</b>	<b>5.45%</b>
<b>EPRA 'topped-up' Net Initial Yield</b>	<b>6.73%</b>

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

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

The valuation of grossed up completed property portfolio is determined by our external valuers as at 31 December 2017, 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.

### Calculation of EPRA Vacancy Rate

	31 December 2017 £'000
Annualised potential rental value of vacant premises	-
Annualised potential rental value for the completed property portfolio	4,265
<b>EPRA Vacancy Rate</b>	<b>0%</b>

### Calculation of EPRA Cost Ratios

	31 December 2017 £'000
Administrative/operating expenses per IFRS income statement	412

<b>EPRA Costs (including and excluding direct vacancy costs)</b>	<b>412</b>
Gross Rental Income	666
<b>EPRA Cost Ratio (including direct vacancy costs)</b>	<b>61.90%</b>
<b>EPRA Cost Ratio (excluding direct vacancy costs)</b>	<b>61.90%</b>

## COMPANY INFORMATION

### Share Register Enquiries

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

Changes of name and/or address must be notified in writing to the Registrar, at the address shown below. You can check your shareholding and find practical help on transferring shares or updating your details at [www.investorcentre.co.uk](http://www.investorcentre.co.uk).

### 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 Interim Report will be available from the Company's website.

### Provisional Financial Calendar

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

### Dividends

The following table summarises the amounts recognised as distributions to equity shareholders in the period:

	<b>£</b>
Interim dividend for the period 18 April 2017 to 30 September 2017 (payment made on 30 November 2017)	402,500
Interim dividend for the period 1 October 2017 to 31 December 2017 (payment to be made on 28 February 2018)	402,500
<b>Total</b>	<b>805,000</b>

### Directors

Steve Smith\* (Non-executive Chairman)  
George Henshilwood\* (Non-executive Director)  
Jim Prower\* (Non-executive Director)  
Alan Sippetts\* (Non-executive Director)

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\* Independent of the Investment Manager.

This information is provided by RNS  
The company news service from the London Stock Exchange

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