Guernsey: **27 April 2018**

UK Commercial Property Trust Limited
("UKCPT or the "Company")

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017 AND UPDATE ON REIT CONVERSION

UK Commercial Property Trust Limited (FTSE 250, LSE: UKCM) announces its final results for the year ended 31 December 2017. It owns a diversified portfolio of high quality income producing UK commercial property and is advised by Standard Life Investments.

Financial Highlights – Continued outperformance and attractive dividend yield

- Strong NAV total return of 12.2% (2016: 3.8%) driven by above benchmark portfolio total return of 12.2% (2016: 4.4%) versus IPD benchmark return of 10.7% (2016: 3.6%).
- Share price total return of 9.4% (2016: 3.8%) for the year leading to a share price total return of 72.5% since inception, comparing favourably to the minus 4.4% FTSE All-Share REIT Index total return over the same period.
- Net gearing of 12.8%, remains one of the lowest in the Company's peer group and the wider REIT sector.
- Attractive dividend yield of 4.2% compared to the FTSE All-Share REIT Index yield of 3.4% and the FTSE All-Share Index yield of 3.6%.
- 1.8% increase in rental income to £69.8 million (2016: £68.5 million).
- EPRA earnings per share (excluding deferred tax) of 3.42p (2016: 3.43p), equating to a dividend cover of 93% which is expected to grow as cash is invested and asset management initiatives are delivered.

Investment activity continues to drive valuation and improve long term income returns

- 9.1% increase in portfolio valuation to £1.4 billion as at 31 December 2017 (2016: £1.3 billion).
- £74 million of investment during the year, including future funding commitments, generating a blended index-linked yield on cost of 5.4% and increasing the Company's exposure to RPI indexed and fixed uplifts to approximately 15%.
- Further acquisitions that would be accretive to dividend cover and earnings targeted with £109 million available for investment through £59 million of uncommitted cash resources and an undrawn £50 million revolving credit facility.
- Further progress made post year end with the sale of three Shrewsbury shopping centres for approximately £51 million, ahead of book valuation, reducing the Company's exposure to the retail sector.

Positive leasing momentum with portfolio offering strong reversionary potential.

- Over £8.4 million of annual income secured (after rent free periods and incentives) through 30 new leases and 38 lease renewals/rent reviews.
- Vacancy rate of 7.6% (2016: 3.7%) compared to benchmark rate of 7.0%, following a number of anticipated take-backs of space, with almost 75% in the favoured industrial sector affording an opportunity to increase income and capital values.
- 99% of rent collected within 21 days underlining continued strength of tenant base.
- Portfolio yield of 4.5% with reversionary yield of 5.6% highlighting the reversionary nature of the portfolio and scope for future earnings growth.

Progress made on REIT conversion

- The Company has now received an irrevocable undertaking from its largest shareholder, Phoenix Life Limited, to support REIT conversion.
- As a result, a circular will be issued to shareholders in due course with the intention being to convert to a REIT, subject to shareholder approval, on 1 July 2018.

Commenting on the results, Andrew Wilson, Chairman of UKCPT, said:
"UK Commercial Property Trust saw a continuation of the positive momentum generated in 2016. Our portfolio delivered above benchmark returns for the second year running which led to healthy NAV, share price and earnings returns. Looking forward, we expect our successful asset management initiatives will help improve dividend cover and unlock the income reversion in the portfolio and, as a result, the prospect for enhancing the income return to shareholders is positive. In addition, the Company's progress to REIT conversion is to be welcomed."

Will Fulton, Fund Manager at Standard Life Investments Limited (UKCPT's Investment Manager) added:
"We have outperformed our benchmark for the second year running, reflecting the success of our asset management initiatives and our above benchmark exposure to the strong performing industrial sector. The anticipated increase in our void rate represents an opportunity as 75% of this vacancy is in our favoured industrial/logistics sector where leasing momentum is strong and the prospects for income growth, and potentially capital growth, are good. Overall we maintain our belief that the Company remains well positioned with a strong balance sheet that offers capacity to make further acquisitions, a well-diversified portfolio, low gearing and emerging letting opportunities."

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PERFORMANCE SUMMARY

CAPITAL VALUES AND GEARING	31 December 2017	31 December 2016	% Change
Total assets less current liabilities (excl Bank loan & swap) (£'000)	1,457,262	1,372,926	6.1
Net asset value per share (p)	92.8	86.2	7.7
Ordinary Share Price (p)	88.6	84.5	4.9
Discount to net asset value (%)	(4.5)	(2.0)	n/a
Gearing (%): Net*	12.8	11.4	n/a
Gross**	17.2	18.2	n/a

TOTAL RETURN	1 year % return	3 year % return	5 year % return
NAV †	12.2	27.0	72.2
Share Price †	9.4	14.5	73.3
MSCI (IPD) Balanced Monthly and Quarterly Funds	10.7	29.2	67.9
FTSE All-Share Real Estate Investment Trusts Index	12.2	15.4	70.8
FTSE All-Share Index	13.1	33.3	63.0

EARNINGS AND DIVIDENDS	31 December 2017	31 December 2016
EPRA Earnings per share (excl deferred tax)	3.42	3.43
IFRS Earnings per share (p)	10.12	3.48
Dividends declared per ordinary share (p)	3.68	3.68
Dividend Yield (%) ***	4.2	4.4
IPD Benchmark Yield (%)	4.8	5.1
FTSE All-Share Real Estate Investment Trusts Index Yield (%)	3.4	3.7
FTSE All-Share Index Yield (%)	3.6	3.5

ONGOING CHARGES AND VOID RATE		
As a % of average net assets including direct property costs	1.5	1.4
As a % of average net assets excluding direct property costs	0.9	0.9
Vacancy rate (%)	7.6	3.7

* Calculated as net borrowings (gross borrowings excluding swap valuation less cash) divided by total assets less cash and less current liabilities (excluding any borrowings and swap valuation).

** Calculated as gross borrowings (excluding swap valuations divided by total assets less current liabilities (excluding borrowings and swap).

† Assumes re-investment of dividends excluding transaction costs.

*** Based on an annual dividend of 3.68p and the share price at 31 December.

Sources: Standard Life Investments, MSCI Investment Property Databank ("IPD")

Chairman's Statement

I am pleased to report that in 2017 UK Commercial Property Trust saw a continuation of the positive momentum we generated in 2016. Our portfolio delivered above benchmark returns for the second year running which led to healthy NAV, share price and earnings returns. This was achieved against a backdrop of continued political uncertainty and a property market performance which, on the whole, surprised on the upside.

The Company's portfolio delivered a total return of 12.2% which compared favourably to the Company's IPD benchmark return of 10.7%. Encouragingly, our portfolio produced positive total returns across all sectors, although the principal driver for this performance came from the Company's industrial holdings which delivered a total return of 19.7%.

This outperformance resulted from the combination of various portfolio strategies and initiatives that saw the Company reduce its retail and Central London offices exposure, with £42 million of sales, at above their most recent valuation, during the year. These are both sectors where values are expected to come under pressure and the capital was recycled into assets in our favoured industrial sector and properties offering secure, longer term income. Indeed, following a number of acquisitions in 2017 and over the past few years, 34.9% of the Company's £1.4 billion portfolio was in the industrial sector at the year end, a deliberately overweight position compared to the benchmark of 24.0%.

This process continued after the year end when, in January 2018, the Company completed the sale of its Shrewsbury shopping centres to Shropshire Council at a price which was also above the most recent valuation. As a result, UKCPT's exposure to shopping centres is now 4.2%, below the benchmark weighting of 5.3%. Furthermore, the sale reduced the Company's total retail weighting to 33.9%, again below the benchmark of 36.2%.

The proceeds from the 2017 sales were reinvested into a number of assets which we believe are well placed to produce sustainable income returns over the medium to long term. These included the funding of a now completed pre-let distribution centre at Burton upon Trent, an office investment in Sheffield, and the forward funding of a pre-let hotel in Newcastle, the Company's first investment into this sector. These acquisitions are secured on long leases with all having upwards-only inflation-linked rents. Following these acquisitions, 15% of UKCPT's rental income has either fixed or inflation linked increases on relatively long leases, complementing the remaining portfolio which, while being well let, offers opportunities to enhance rental and capital value through successful asset management initiatives over time.

The Company's strong NAV total return of 12.2% for 2017, whilst comfortably above that of the IPD benchmark, was similar to that of its wider Guernsey Property Investment Company peer group but achieved with much lower leverage than the majority of its peers. Since inception, UKCPT has delivered a higher NAV total return of 83.5% than the peer group weighted average return of 75.7%.

Over the year, the Company's share price moved to a 4.5% discount to NAV which resulted in a lower total return to shareholders in 2017 of 9.4%, compared to the 12.2% return on the FTSE All-Share REIT Index. Over the longer term, however, UKCPT has significantly outperformed this Index: since the Company's formation in 2006 it has produced a total return to shareholders of 72.5%, versus the REIT Index's return of minus 4.4%.

The Manager's continued focus on delivering successful asset management initiatives together with the Company's strong financial base also contributed to these robust returns and to the continuing good health of the business.

Financial Resources

UKCPT continues to be in a financially strong position, with a combination of low gearing and significant financial resources available for investment. As at 31 December 2017, the Company's gearing was a modest 12.8% (gross gearing of 17.2%). UKCPT continues to be one of the lowest geared companies in both its peer group and the wider REIT sector. This is a sensible defensive strategy, given that capital returns in the UK property market are forecast to slow in 2018 and 2019.

The debt has a weighted average maturity of five years and a low blended cost at 2.89% per annum, providing an attractive margin for enhancing income, given the portfolio's 4.5% net initial yield.

Following the sale of the Shrewsbury holding, adjusting for future dividend and capital expenditure commitments, the Company has available cash of £59 million along with access to a £50 million low cost revolving credit facility.

Dividends

In 2017, UKCPT declared and paid to its shareholders a total of 3.68 pence in dividend per share paid in four equal instalments of 0.92 pence per share. The fourth interim dividend for the financial year ended 2017 of 0.92 pence was paid on 28 February 2018.

This attractive annual dividend reflects a yield of 4.2% based on the year end share price. It compares favourably to the yields on the FTSE All-Share REIT Index of 3.4% and the FTSE All-Share Index of 3.6% as well as to the 10 year gilt yield of 1.2%. This dividend yield continues to be underpinned by cash flows derived from a strong tenant base which pays 99% of its annual £68.9 million rental commitment within 21 days of the due dates.

A principal focus of the Board is maintaining an attractive level of dividend in recognition of its importance to shareholders. Almost three quarters of the vacancy rate of 7.6% is in the favoured industrial sector and represents an excellent opportunity to increase sustainable rental income. Additionally, with the portfolio having a significant reversionary potential, and taking account of the Company's resources for future acquisitions, it is the Board's expectation that dividend cover, which stood at 93% for 2017, will move towards, if not exceed, 100% in the medium term, allowing the Board to consider, at the appropriate time, growing the dividend.

REIT Conversion

In the NAV announcement for the fourth quarter of 2017, the Board noted the proposals in the Budget to charge capital gains tax on offshore owners of UK commercial property for gains accruing from April 2019 and the decision to bring non-resident landlords into the corporation tax regime in April 2020. Both of these initiatives would result in the Group paying significant additional tax unless it converts into a UK REIT.

The Company has now received an irrevocable undertaking from its largest shareholder, Phoenix Life Limited, to support REIT conversion. In due course, the Company will issue a circular to shareholders and convene a General Meeting to propose REIT conversion with the intention being, subject to shareholder approval, to convert to a REIT on 1 July 2018.

Additionally the Board is monitoring the position in regard to the recently announced, proposed sale of Standard Life Aberdeen's insurance business to Phoenix and Standard Life Aberdeen's proposed shareholding of 19.99% in Phoenix to form a strategic alliance between the pair. The Board is assessing the implications, given Standard Life Aberdeen's role as the Company's Investment Manager and Phoenix's large shareholding in the Company.

Board Changes

Ms Margaret Littlejohns and Mr Robert Fowlds, both UK residents, joined the Board on 1 January and 1 April 2018 respectively. They each have impressive backgrounds in their respective fields and will be valuable additions to the business as it develops further following the proposed REIT conversion. Mr John Robertson retired from the Board on 31 March 2018 and has been replaced by Ms Littlejohns as chair of the Risk Committee. Mr Robertson has played an invaluable role in the development of UKCPT for which the Board is very grateful.

Company Outlook

The UK's economic position continues to be dominated by the ongoing Brexit negotiations. The UK is forecast to be one of the slowest growing of the developed economies in 2018 as business investment continues to be muted due to the ongoing uncertainty. The perceived success, or otherwise, of the outcome of the Brexit negotiations will be pivotal in determining the performance of the UK economy in the short to medium term.

Real estate as an asset class has thus far proved resilient to the slowdown in the economy experienced in 2017. Returns were considerably higher than the IPF consensus expectations for the year of 3.2%. While foreign investment into the UK market has helped, the underlying property fundamentals, unlike in previous cycles, are sound and should support property continuing to deliver attractive relative returns. The yields generated by UK real estate remain significantly higher than those from other mainstream asset classes. This should continue even if interest rates edge up more quickly. Leverage in the real estate sector is prudent and overall the market is reasonably liquid.

By historical standards, limited development and lower than average vacancy rates should also assist in a solid foundation for future positive returns, albeit more geared towards income rather than capital growth in the immediate future.

In this environment, UKCPT is in a strong position with robust fundamentals: low gearing, cash resources, a well let and well located portfolio appropriately aligned to the principal sectors, particularly industrials, which is again expected to be the strongest performing sector in 2018. The Company's retail weighting is purposely below benchmark at 33.9% (post the sale of Shrewsbury) with the vast majority of the Company's retail exposure being in prime retail warehousing. In addition, 97% of its office holdings are let, a sector which comprises 19% of its portfolio.

The Company continues to provide a secure dividend yield and the prospects for having a fully covered dividend in the medium term are strong. This should stand the Company in good stead in a world where the demand for products that offer reliable income streams remains high. UKCPT's strong financial base should reduce volatility as capital values come under pressure and allow it to deploy its surplus cash to take advantage of the opportunities that would be expected to come along in such an environment. We expect our successful asset management initiatives additionally to assist dividend cover and unlock the reversionary nature of the portfolio and, as a result, the prospect for enhancing the income return to shareholders is positive.

I therefore believe your Company continues to be well positioned to grow and deliver attractive relative returns in the future.

Andrew Wilson
Chairman 26 April 2018

Strategic Overview

The purpose of the Strategic Overview is to provide shareholders with details of the Company's strategy and business model, as well as the principal risks and uncertainties faced by the Company.

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

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

The Company focuses on identifying and acquiring institutional grade, income producing assets and looks to identify assets that benefit from wider infrastructure improvements delivered by others where possible. The Company also recognizes that the experience of tenants is paramount and hence the Investment Manager works closely with tenants to understand their needs through regular communication and visits to properties to which Board members also periodically attend. Where required, and in consultation with tenants, the Company refurbishes and manages the owned assets to improve the tenants' experience with the aim being to generate greater tenant retention and hence lower voids, higher rental values and stronger returns.

Investment risks to the Group are managed by investing in a diversified portfolio of freehold and long leasehold UK commercial properties. The Group invests in income producing assets in four commercial property sectors: industrial, office, retail and leisure. The Group has not set any maximum geographic exposures within the UK nor any maximum weighting limits in the principal property sectors. No single property shall, however, exceed at the time of acquisition 15 per cent of the gross assets of the Group.

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

At an EGM of the Company on 28 April 2011 the shareholders of the Company approved a revised gearing policy of the Group amended to read as follows: "Gearing, calculated as borrowings as a percentage of the Group's gross assets, may not exceed 65 per cent. The Board intends that borrowings of the Group at the time of draw down will not exceed 25 per cent. of the Total Assets of the Group. The Board receives recommendations on gearing levels from the Investment Manager and is responsible for setting the gearing range within which the Investment Manager may operate".

The Group's performance in meeting its objective is measured against key performance indicators as set out on above. A review of the Group's returns during the year, the position of the Group at the end of the year, and the outlook for the coming year is contained in the Chairman's Statement and the Investment Manager Review.

Board

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate strategy, corporate governance, and risk management. Biographical details of the Directors, all of whom are non-executive, can be found in the Governance sections and indicate their range of property, investment, commercial, professional, financial and governance experience. The Company has no executive Directors or employees.

Management of Assets and Shareholder Value

The Board has contractually delegated the management of the investment portfolio and other services to Standard Life Investments (Corporate Funds) Limited.

The Company invests in properties which the Investment Manager believes will generate a combination of long-term growth in income and capital for shareholders. Investment decisions are based on analysis of, amongst other things, prospects for future capital growth, sector and geographic prospects, tenant covenant strength, lease length and initial yield. In the year to 31 December 2017, the Company generated operating cash flows of £42.4m (2016: £49.4m).

Investment risks are spread through investing in a range of geographical areas and sectors, and through letting properties to low risk tenants. A list of all the properties held as at 31 December 2017 is contained in the annual report and further analysis can be found in the Investment Manager Review. At each Board meeting, the Board receives a detailed portfolio, financial, risk and shareholder presentation from the Investment Manager together with a comprehensive analysis of the performance of the portfolio during the reporting period.

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

Borrowings

As at 31 December 2017 the Group had total borrowing facilities drawn of £250 million, representing a gross gearing level of 17.2% (net gearing of 12.8%) of the year end total assets with a blended fixed interest rate of 2.89% per annum.

Key Performance Indicators / Alternative Performance Measures

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

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

- Net asset value and share price total return against the IPD benchmark and other selected comparators.
- Premium/(Discount) of share price to net asset value.
- Dividend per share and dividend yield.
- Ongoing charges

Given the structure of the Company and the Company's knowledge of its underlying shareholder base, it is believed the above measures are the most appropriate for shareholders to determine the performance of the Company. These indicators for the year ended 31 December 2017 are set out above. In addition the Board considers specific property KPIs such as void rates, rent collection levels and weighted average lease length on a regular basis.

Principal Risks and Risk Uncertainties

The Board has established a Risk Committee to ensure that proper consideration of risk is undertaken in all aspects of the Company's business on a regular basis. The Risk Committee meets quarterly, comprises all members of the Board and is chaired by John Robertson (from 1 April 2018 — Margaret Littlejohns). The duties of the Risk Committee include the consideration of matters relating to the risk profile of the Company, including an assessment of risk appetite, risk tolerance and risk strategy, and the regular review of principal risks, seeking assurance that these risks are appropriately rated and ensuring that appropriate risk mitigation is in place. The Committee also reviews emerging risks.

The Board confirms that, through the operation of the Risk Committee, it frequently carries out a robust assessment of the principal risks facing the Company. These risks and how they are mitigated are set out below.

The Company's assets consist of direct investments in UK commercial property. Its principal risks are therefore related to the commercial property market in general, but also to the particular circumstances of the properties in which it is invested and their tenants. The Manager seeks to mitigate these risks, including health and safety risks which are covered in more detail on below, through continual review of the portfolio utilising research produced by the Manager's in-house research team, detailed reports on the performance of the portfolio, setting of annual asset plans for each asset in the portfolio and also through asset management initiatives. All of the properties in the portfolio are insured, providing protection against risks to the properties and also protection in case of injury to third parties in relation to the properties.

The Board has also identified a number of specific risks that are reviewed at each quarterly Risk Committee Meeting. These are as follows:

Company objectives and performance

The Company's objectives and/or performance become unattractive to investors which may lead to a persistent discount and a continuation vote which may threaten the future solvency and liquidity of the Group.

This risk is mitigated through regular performance reviews of the Company's portfolio, contact with shareholders, a regular review of share price performance and the level of discount at which the shares trade and regular meetings with the Company's broker to discuss these points and address any issues that arise.

The discount control policy of the Company provides that if the market price of the ordinary shares is more than 5 per cent below the published net asset value (as last calculated, adjusted downwards for the amount of any dividend declared by the Company upon the shares going ex-dividend) for a continuous period of 90 dealing days or more, following the second anniversary of the Company's most recent continuation vote in relation to the discount control policy, the Board will convene an EGM to consider an ordinary resolution for the continuation of the Company. This situation arose in the 90 day period up to 11 October 2016 and, as a result, the Board convened an EGM which was held on 9 November 2016 and, at which, the continuation of the Company was approved with 76% of shareholders voting and, of those who voted, 99% voting for the continuation of the Company.

Dividend cover

Dividend cover falls to a level whereby the Company becomes unattractive to investors, for example due to tenant failure or inability to let properties.

This risk is mitigated through regular review of forecast dividend and regular review of tenant mix, risk and profile. Due diligence work on potential tenants is undertaken before entering into new lease agreements and tenants are kept under constant review through regular contact and various reports both from managing agents and from the Manager's own reporting processes. Contingency plans are put in place at units that have tenants that are believed to be in financial trouble.

The introduction of new base erosion and profit shifting regulation ('BEPS') in 2020 has been recognised by the Board as a potential future risk to dividend cover. This risk is covered in more detail in the taxation section below.

Company indebtedness

The Company is unable to service or repay its debts, threatening the future solvency and liquidity of the Group.

This risk is mitigated by two factors. First of all the Investment Policy of the Company limits gearing to 25 per cent of total assets at the time of draw down. This low gearing limit means it is expected that, barring any unforeseen circumstances, the Group will have adequate assets to service and repay the debt if required. Secondly, the underlying assets themselves are mainly invested in a diversified, prime UK commercial property portfolio underpinned by a strong tenant base. This means that, even in a significant economic downturn, the Board is confident that the assets will still be of sufficient value and generate sufficient income to meet future liabilities.

Taxation

The tax structure of the Group is not optimised or is affected by legislative change, impacting performance and dividend cover.

The Group has historically been structured in a tax efficient way which results in rental income the Group generates being offset by expenses and internal loan interest. The terms on the internal loan notes, namely interest rates and loan to value ratios, are crucial in preserving the tax efficiency of the Group. These loan notes were refinanced in September 2016 via a rigorous process to ensure they continue to represent commercially available terms. The result of this loan note refinancing is that the Group is expected to generate future taxable profits. As the Group has around £37 million of unutilised tax losses as at 31 December 2017 and it is anticipated these losses will now be utilised, the Group has recognised a net deferred tax asset in the financial statements of £3.3 million (2016: £6.5 million). This asset will be written off over the time period in which the losses are utilised or are no longer able to be offset against future profits (for example as a result of the Group entering the UK REIT regime).

The proposals in the 2017 UK Budget to charge capital gains tax on offshore holders of UK commercial property with effect from April 2019 and the decision to bring non-resident landlords into the corporation tax regime in 2020 linked to BEPS both would result in the Company paying significant additional tax after utilisation of any losses available. The proposals increase taxation risk in comparison to previous years. The Board is intending to mitigate the impact of these changes by converting to a REIT, subject to approval from shareholders, as detailed in the Chairman's statement.

Macroeconomic environment

Uncertainty or change in the macroeconomic environment results in property becoming an undesirable asset class, causing a decline is property values.

This risk is managed through regular reporting from, and discussion with, the Manager and other advisors. Macroeconomic conditions form part of the decision making process for purchases and sales of properties and for sector allocation decisions.

Macroeconomic uncertainty continued in 2017, particularly in relation to the UK's decision to leave the EU. The Board continues to monitor closely the effect of this on property values and also the impact of any resultant regulatory changes that may impact the Company.

Other risks faced by the Company include the following:
Economic — inflation or deflation, economic recessions and movements in interest rates could affect property valuations and its bank borrowings.
Strategic — incorrect strategy, including sector and property allocation and use of gearing, could lead to poor returns for shareholders.
Regulatory — breach of regulatory rules could lead to suspension of the Company's London Stock Exchange Listing, financial penalties or a qualified audit report.
Management and control — changes that cause the management and control of the Group to be exercised in the United Kingdom could lead to the Group becoming liable to United Kingdom taxation on income and capital gains.
Financial — inadequate controls by the Investment Manager or third party service providers could lead to misappropriation of assets. Inappropriate accounting policies or failure to comply with accounting standards could lead to misreporting or breaches of regulations.
Operational — failure of the Investment Manager's accounting systems or disruption to the Investment Manager's business, or that of third party service providers, could lead to an inability to provide accurate reporting and monitoring, leading to a loss of shareholders' confidence. An additional operation risk is failure by the Investment Manager, or other third party service provider, to implement appropriate policies and procedures to manage information and cyber security risk, leading to financial loss and business disruption for the Company.

The recent merger of Standard Life plc and Aberdeen Asset Management PLC creates a risk for the Company due to the potential for changes in the way the Investment Manager provides its services to the Company. The Board is keeping under close review any potential implications for the Company arising from the merger and the integration process.

In addition the recent announcement relating to the future sale of Standard Life Aberdeen's insurance business to Phoenix and Standard Life Aberdeen's proposed strategic stake in Phoenix creates a potential risk given Standard Life Aberdeen's role as the Company's Investment Manager and Phoenix's large shareholding in the Company. The Board is liaising with its advisers on the implications of this transaction.

The Board seeks to mitigate and manage these risks through the operation of the Risk Committee, policy setting and enforcement of contractual obligations. It also regularly monitors the investment environment and the management of the Company's property portfolio and levels of gearing, and applies the principles detailed in the UK Corporate Governance Code.

Viability Statement

The Board considers viability as part of its ongoing programme of monitoring risk. The Board considers five years to be a reasonable time horizon over which to review the continuing viability of the Company. The Board also considers viability over the longer term, in particular to key points outside this time frame, such as the due dates for the repayment of long-term debt.

The Board has considered the nature of the Company's assets and liabilities and associated cash flows. The Board has determined that five years is the maximum timescale over which the performance of the Company can be forecast with a material degree of accuracy and so is an appropriate period over which to consider the Company's viability.

The Board has also carried out a robust assessment of the principal risks faced by the Company including periodic continuation votes. The main risks which the Board consider will affect the business model, future performance, solvency, and liquidity are ongoing discounts leading to continuation votes, tenant failure leading to a fall in dividend cover, company indebtedness, taxation and macroeconomic uncertainty. The Board takes any potential risks to the ongoing success of the Company, and its ability to perform, very seriously and works hard to ensure that risks are consistent with the Company's risk appetite at all times.

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

- Detailed NAV, cash resources and income forecasts, prepared by the Company's Investment Manager, for a five year period under both normal and stressed conditions;

- The Company's ability to pay its operational expenses, bank interest, tax and dividends over a five year period;

- Future debt repayment dates and debt covenants, in particular those in relation to LTV and interest cover;

- Demand for the Company's shares and levels of premium or discount at which the shares trade to NAV; and

- The valuation and liquidity of the Company's property portfolio, the Investment Manager's portfolio strategy for the future and the market outlook.

Based on the results of the analysis outlined above, the Board has a reasonable expectation, assuming the continuation vote in 2020 is passed, that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of its assessment, including the debt refinancing in 2020.

Sustainable Real Estate Investment Policy

The Investment Manager acquires, develops and manages properties on behalf of the Company. It is recognised that these activities have both direct and indirect environmental and social impacts. The Board has adopted the

Investment Manager's own Sustainable Real Estate Investments Policy and associated Environmental Management Systems and is committed to environmental management in all phases of an asset's cycle — from acquisition through demolition, redevelopment and operational management to disposal. The focus is on energy efficiency, greenhouse gas emissions, resource management and occupier satisfaction. To facilitate this, the Manager works in partnership with contractors, suppliers, tenants and consultants to minimise those impacts, seeking continuous improvements in environmental performance and conducting regular reviews.

UK Commercial Property Trust was awarded a Green Star ranking from the Global Real Estate Sustainability Benchmark 2017 and improved its score by 9% compared with 2016. A Green Star is awarded to entities that perform well in both categories of the GRESB assessment: Management & Policies and Implementation & Measurement. Our approach to monitoring and improving the sustainability performance of the assets held by the Company has been highly successful. The greenhouse gas emissions intensity of the like-for-like portfolio reduced by 14% year-on- year. Water consumption reduced by 10% year- on-year and 99% of waste generated was diverted from landfill. For the first time this year we have adopted the 2017 EPRA Sustainability Best Practice Recommendations Guidelines (BPRs) to inform the scope of indicators we report against.

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

Bribery & Ethical Policy

It is the Company's Policy to prohibit and expressly forbid the offering, giving or receiving of a bribe in any circumstances. This includes those instances where it may be perceived that a payment, given or received, may be a bribe. The Company has adopted this Anti-Bribery and Corruption Policy to ensure robust compliance with The UK Bribery Act 2010. The Company has made relevant enquiries of its

Investment Manager and has received assurances that appropriate anti-bribery and corruption policies have been formulated and communicated to its employees. In addition the Board has adopted an ethical policy which highlights the need for ethical considerations to be considered in the acquisition and management of both new and existing properties.

Approval of Strategic Report

The Strategic Report of the Company comprises the following: Financial and Property Highlights, Performance Summary, Chairman's Statement, Strategic Overview, Investment Manager Review and Portfolio Information.

The Strategic Report was approved by the Board on 26 April 2018.

Andrew Wilson	Ken McCullagh
Director	Director

Investment Manager Review

Market Review

We expect relatively subdued economic growth in 2018 and then some further moderation in economic momentum in 2019 as the impact of leaving the European Union becomes more pronounced. Despite this relatively weak economic backdrop, UK real estate returns last year were stronger than most analysts anticipated at the start of 2017. The IPF Summer 2017 Consensus Forecast for 2017 was 6.7% whereas the actual outcome was a total return of 10.7% (as measured by MSCI/ IPD's Balanced Monthly & Quarterly index), also significantly higher than the 3.6% total return recorded in 2016. Capital growth was relatively strong over the year with values rising by 5.6% whilst rents increased by 2.1%, driven by demand in the industrial sector. For the first time, the overall industrial yield ended the year stronger than that for offices, with industrial yield compression particularly prominent in the South East where land supply is limited and development costs high.

In the equity markets the FTSE All-Share and the FTSE 100 total returns were 13.1% and 12.0% respectively over the calendar year whilst listed real estate (FTSE All Share REIT Index) delivered a total return of 12.2% over the year.

UK real estate investment volumes reached £64 billion in 2017, which was an improvement of almost 24% from the volume recorded in 2016. It was also ahead of agents' expectations at the start of the year.

UK institutional investors, along with quoted and private property companies, occupiers and private investors were all net divestors over the year.

Overseas investors continued to be the dominant net investor group in the UK real estate market. Overseas investors were, in fact, the only net investor group over 2017.

Central London offices were again the main focus of investors' attention, commanding the largest share of investment. Sentiment was fairly pessimistic towards the shopping centre sector, with investment in 2017 the lowest it has been for several years.

The industrial and alternative sectors saw a considerable rise during 2017, significantly ahead of previous years.

Review by Sector

Retail — Accelerating polarisation

Retail lagged in the year, recording a total return of 6.8% as measured by MSCI/IPD's Balanced Monthly & Quarterly index, with capital growth of 1.4% the weakest across sectors. Rents remained largely stable compared to office rental growth of 1.4% and industrials 4.9%.

Recent indicators from retailers suggest 2017 trading was a mixed bag for the year. For example, Next reported better than expected results, generally as a result of strong online sales rather than physical store sales whereas fashion retailer Debenhams reported a hit to its profit margins due to extensive discounting in the face of weak sales. Pressures in the sector remain significant with consumers' disposable income continuing to be under pressure, wage growth muted and consumer confidence relatively weak. Online buying continues to take market share from physical stores, although the pace of online growth has moderated recently with the ONS reporting online sales currently account for 17% of all retailing. Online food retailing remains a smaller proportion of this at 5.3% of food retailing.

Office — Buoyant investment activity in Central London

The office sector continued to lag the wider All Property market. Both the City and the West End London office markets underperformed in 2017 with muted rental growth in both. Despite this weakness in rental growth, Central London take up remained robust at close to its long-term average level. Much of this take up, however, came from flexible office occupiers such as WeWork as Brexit uncertainty impacted occupier decision-making. In fact, WeWork has been the most prolific taker of space across Central London since 2012, taking more space than companies in any other business sector. Flexible workspace operators have accounted for four of the top ten biggest takers of space, alongside the technology giants Google, Amazon, Apple and Facebook, with WeWork now having the largest volumes of space commitments after the Government. The market is watching with interest the appeal and flow of users both into, and out of, this flexible short-lease space.

Investment in offices continued to be buoyant regardless of the caution in occupier markets. Investment in Central London was ahead of the long-term average and well ahead of the 2016 level. Overseas investors, and particularly the Chinese, continued to account for a significant proportion of this. Investment in regional markets also remained strong with a reasonable amount of overseas activity in centres such as Manchester and Edinburgh. Volumes were ahead of the long-term average in regional markets but down on 2016 levels.

Industrial — Strong returns in the industrial sector

The industrial sector continued to demonstrate its strength, generating a total return of 19.4% in 2017 (MSCI/IPD benchmark). Industrial values continued to rise strongly delivering a capital gain of 13.9%. Rental growth at 5.4% significantly outperformed the market as a whole. The differentials between the South East and the Rest of the UK remained, however, with the South East industrial region delivering an impressive capital return of 17.2% as opposed to 8.8% for the rest of the country.

Take-up levels remained healthy in comparison to historic standards, albeit they represented a decline from record peaks in 2016. We expect demand for multi-let space and the logistics sector to continue to be above historic levels due to the structural changes that continue to take place in the sector caused by e-commerce and automation. However, in the short term, the sector will not be immune to the economic fundamentals as the process of leaving the European Union evolves.

Industrial transaction volumes in 2017 hit a record high with investors attracted by the changing face of retail and the attractive returns generated in, and expected by, the sector. Caution, however, is required when looking at new investment based on opportunities to capture rental and capital value growth; genuine opportunities will become rarer as the market cycle continues to mature and competition for good real estate intensifies.

Leisure/Other

The MSCI/IPD "Other" sector continues to record performance above the All Property average. This "Other" sector is a mixed category MSCI/IPD use to collect investments outside the three traditional Office, Retail and Industrial sectors; key contributors are Residential (around 650 assets, £3.2bn) and Hotels (around 215 assets, £3.8bn), but also a number of Healthcare and Leisure assets; miscellaneous asset classes such as land and parking are also included but represent an even smaller sample.

Within the MSCI/IPD Balanced Monthly & Quarterly index, the Other sector recorded a 12.1% total return versus 10.7% for All Property. Investors remain attracted to the diversifying benefits of the sector and are continuing to benefit from reasonable rental growth in the segment at 1.6% for 2017 and elevated capital growth at 7.0%, due to strong demand for the longer leases the sectors generally provide. Additionally, the sector is benefiting from longer term demographic and structural factors such as the ageing demographic in the healthcare sector and the higher propensity to rent due to purchasing affordability constraints benefiting the build to rent sector. Within the leisure sector, the food and beverage segment continues to cause some concern with weaker operators encountering problems due to elevated competition and higher cost pressures.

Portfolio Performance

It is pleasing to report strong outperformance from the Company during the reporting period, with its property portfolio generating a 12.2% total return versus 10.7% for its MSCI/IPD benchmark.

The table below sets out the components of these returns for the year to 31 December 2017 with all valuations undertaken by the Company's valuer, CBRE Ltd.

	Total Return		**Income Return**		**Capital Growth**	
	Fund	**Benchmark**	**Fund**	**Benchmark**	**Fund**	**Benchmark**
	%	%	%	%	%	%
Industrials	19.7	19.4	4.6	4.9	14.5	13.9
Office	11.2	8.4	5.1	4.1	5.8	4.1
Retail	7.8	6.8	4.8	5.3	2.8	1.4
Leisure/Other	7.0	12.1	4.9	4.8	2.0	7.0
Total	**12.2**	**10.7**	**4.8**	**4.8**	**7.1**	**5.6**

Source: MSCI/IPD, Standard Life Investments
Multi-period capital growth and income return may not sum perfectly to total return due to the cross product that occurs as income is assumed to be reinvested on a monthly basis and is subject to capital value change.

As has been the case for some years, the Company's income profile provided a stable and reliable element of the portfolio return, 4.8% for the twelve month period, whilst capital growth accelerated to 7.1% against the benchmark's 5.6%.

The main drivers of this outperformance were a strategic overweight position in the industrial logistics distribution sector, strong asset performance from the Company's London West End office portfolio, including the profitable sale of a Soho property, and a combination of resilience and growth from the Company's retail warehouse portfolio.

Looking forward to an anticipated period of low capital growth across the whole market where income, income growth, and the manufacturing of income become the dominant drivers of positive returns, the more prime nature of the Company's portfolio and its industrial/logistics weighting should stand it in good stead.

Industrial
Having built exposure to industrial property over the past few years, it is pleasing to report that this sector was the Company's strongest performer during the year, with a total return of 19.7% against the benchmark return of 19.4%.

This occurred despite vacancies at some units in Ventura Park, Radlett, and at Magna Park, Lutterworth, as well as a short-term lease at Neasden, Wembley and emphasises the market's and our own belief in the strength of prime UK industrial/distribution locations with their potential to deliver rental growth. Investment demand is strong and good stock is scarce, particularly in London and the South East, where the market continues to reward the strong tenant demand and income growth characteristics of the sector.

During the year, the Company benefited from leasing activity on its multi-let industrial estates at Gatwick Airport, Dartford, and Ventura Park, Radlett, together with value improvement across the sector. The Company's industrial portfolio is well located and split approximately 70:30 between the South East and rest of the country and 30:70 between single-let 'big box' logistics assets and mainly London-focused multi-let industrial estates. The prime characteristics of the portfolio should stand it in good stead with both 'big box' and 'multi-let estate' well placed to continue providing sustainable income with growth potential.

Office
Boosted by the profitable sale of a low-yielding office investment at 13 Great Marlborough Street, London, the total return posted by the Company's office portfolio of 11.2% significantly out-performed the benchmark of 8.4% over the period.

The Company is intentionally both underweight in central London and South East offices and marginally overweight in the better yielding UK regions. Overall, the portfolio is underweight in the office sector. The City of London office market is under a shadow following the EU Referendum decision, with uncertainty cast on prospects for the financial services industry, and so its requirement for office space, linked to risks and uncertainty around cross-border trading. The Company has just one small office investment in the City, which accounts for only 2% of its portfolio and is let on generally modest rents. The asset is strategically located within a stone's throw of the new Liverpool Street Elizabeth Line Crossrail station, due to open next year.

Retail
It is pleasing to report that, with the sale of the Company's three shopping centres in Shrewsbury, asset management initiatives across the board during the year, and a portfolio of well located, predominantly "bulky goods", retail parks, the Company's retail portfolio outperformed the MSCI/ IPD Retail benchmark, with a total return of 7.8% compared to 6.8%. Notable asset management achievements included, at The Parade, Swindon, the reletting of the Company's only BHS exposure, as well as securing a long lease to Metro Bank for a new bank built at Metro Bank's cost.

Leisure/Other

The Company's leisure assets in Kingston upon Thames, Swindon, and Glasgow, altogether representing 9% of the portfolio, delivered a total return of 7.0%. Performance was relatively lacklustre against the benchmark of 12.1% but asset management plans have been developed aiming to address this.

Investment Activity

Sales

At the start of the year the Company took advantage of the strong investment market in London's West End and sold 13 Great Marlborough Street to a special purchaser for £30.5 million, reflecting a 3.3% net initial yield. The property is let to Sony Interactive Entertainment whose lease was due to expire in September 2018 and so the disposal also served to reduce short-term letting risk in the portfolio.

In July the Company sold its smallest investment, an industrial warehouse let to UK bed retailer, Dreams Ltd, at Loudwater, High Wycombe, for £4.7 million and in December sold another smaller asset, an office in Aberdeen let to Ensco, for £6.5 million.

Having exchanged contracts in December 2017, the Company completed its sale of Charles Darwin, Pride Hill and Riverside shopping centres in Shrewsbury to Shropshire Council after the year end in January 2018 for approximately £51 million, see note 21 for further details.

All sales were ahead of valuation and in line with the Company's strategy of reducing exposure to assets expected to underperform. Shopping centres in particular, which the Company believes will come under further pressure in the polarising retail environment, now represent only 4.2% of the portfolio after the Shrewsbury sales, down from 7.5% at the year end.

Purchases

In the first half of last year the Company acquired Hartshead House, 2 Cutlers Gate, Sheffield, for £20.2 million reflecting a net initial yield of 5%. This prominent 61,638 sq ft modern Grade A office is let to Capita Business Services Limited, guaranteed by Capita plc, for a further 22 years from purchase on a lease with annual inflation-linked rent increases. With easy access by car and a short walk to the city centre the location may also benefit in the longer term from the proposed HS2 rail line now earmarked to stop at Sheffield city centre.

Purchase activity continued in July, when the Company achieved practical completion of the pre-let development it committed to in February 2017, comprising a 258,370 sq ft distribution warehouse in Burton upon Trent. The total consideration of £22.2 million reflected a yield on capital of 5.8%. Let to Palletforce Limited for 15 years at £5.58 psf, or £1.4 million per annum, the rent benefits from RPI inflation-linked rent increases of between 1% and 3% per annum, compounded and captured every five years. It is situated on Centrum West, an industrial park in a prime logistics location, equidistant between Nottingham and Birmingham on the A38 dual carriageway and between the M1 and M6 motorways. From this location 87% of the UK population can be accessed within a legally continuous 4.5 hour HGV drive time.

At the end of the year the Company acquired its first hotel with the forward funding of a 265 bedroom four-star Maldron Hotel development in Newcastle city centre for £32 million, expected to deliver a yield on cost of 5.4%. The hotel has been pre-let for 35 years to the Dalata Hotel Group Plc with five yearly, annually compounded, RPI-linked upward only rent reviews and construction is due to complete in early 2019. The development includes an ancillary retail unit subject to a rent guarantee.

Collectively these transactions are a strong example of recycling capital from mature-cycle and expensive markets into higher yielding or more resilient assets, and in these cases on long-term leases, to deliver sustainable income. £74 million has been invested, including future funding commitments on the hotel, generating a blended index-linked yield on cost of 5.4% and increasing the Company's exposure to RPI indexed and fixed uplifts to approximately 15%.

Asset Management Activity

During the year the Company continued its drive to strengthen income streams, extend lease lengths and add value to the portfolio. Over £8.4 million of annual income was secured after rent free periods and incentives through 30 new leases and 38 lease renewals/rent reviews. The Company is also pleased to report that, on average, 99.2% of rent was collected within 21 days of each quarterly payment date during 2017.

It was good to witness the majority of the open market rent reviews within the portfolio generating rental increases this year, especially within the South East industrial sector where rents grew significantly and ahead of Estimated Rental Value (ERV). Rent review settlements within the Company's strong performing industrial portfolio, totalling £646,858 p.a., were 10% ahead of the previous rents and 7% ahead of ERVs at the time of review. Individual rent reviews took place at Newton's Court, Dartford, Emerald Park, Bristol and Dolphin Estate, Sunbury.

During the year, asset management improved the weighted average unexpired lease term across the portfolio from 8.1 years at December 2016 to 8.5 years at the end of the year.

The following activity is particularly noteworthy:-

High Street, Exeter

The rent review from 24 May 2015 with Barclays Bank Plc was agreed at £450,000 p.a., 38% ahead of the previous rent passing. In addition a new 21 year lease was completed with H&M which, following the completion of this property as its new flagship store, generates £740,000 p.a. in rental income; the new lease incorporates five-yearly upwards only rent reviews to the higher of open market rent or RPI indexation.

15 Great Marlborough Street, Soho, London

In the second half of the year the rent review with Costa Coffee settled at £190,000 p.a., 9% ahead of ERV and 46% up on the previous rent passing.

XDock377, Magna Park, Lutterworth

Following the takeover of Argos by Sainsbury's, the former Argos logistics distribution unit on Magna Park, Lutterworth, fell vacant in December. This anticipated vacancy moved the Company's void position at 31 December 2017 to 7.6% (of ERV), which sits slightly above the MSCI/IPD benchmark void rate of 7.0%.

Ventura Park, Radlett

On the Company's largest South East industrial holding at Ventura Park in Radlett, lease renewals took place with JMT Indisplay and UK Mail, securing £627,769 p.a., 8% ahead of ERV. This asset management activity helped to deliver one of the largest positive contributions to portfolio total return during the year driven by both capital growth and ERV improvement.

Gatwick Gate, Crawley

Helping to improve the portfolio's rental income, three lettings completed at Gatwick Gate, Crawley, to Airbase Interiors, Capital Scenery and USP Designs; securing over £600,000 p.a. These lettings improved capital value and the unexpired lease length at the property.

Central Square, Newcastle

A new 10 year lease renewal was completed with Jacksons Commercial & Private Law, at Central Square, Newcastle. The new rent of £64,389 p.a. reflects an uplift of 4% ahead of ERV and the lease also improved the weighted average unexpired lease term at the building.

The Charles Darwin Centre, Shrewsbury

At the Charles Darwin Centre, Shrewsbury, building contractor McLaughlin and Harvey successfully completed the mall refurbishment and also the creation of the new anchor store for Primark, which opened on 27 July 2017. With footfall levels increasing as a result, the letting and improvement of this investment proved helpful in the successful sale to the Borough Council after the year end.

The Parade, Swindon

Within this investment, an Agreement for Lease exchanged with Wilko, a tenant with good covenant strength, to take the Company's only former BHS store. The new 15 year lease, let at ERV, will generate rental income of £385,000 p.a., leaving only a small proportion of the former BHS store remaining to let in the upper floors. Augmenting this, and following the strategic purchase of two units at the entrance to The Parade, the Company secured a new 25 year lease with Metro Bank Plc at a rent of £275,000 p.a. Metro Bank funded the construction of the new flagship unit, which opened in December 2017. This profitable transaction, as well as providing good income, has greatly enhanced the appearance of this important street corner.

83/85 George Street, Edinburgh

Within the Company's multi-use office and retail investment at 83/85 George Street, Edinburgh, Clydesdale Bank's new flagship branch opened during February. In the same month a new 10 year lease was completed with global power generation company InterGen, securing a headline rent of £30 psf p.a., following the comprehensive refurbishment of its office floor. Refurbishment of the remaining 10,000 sq ft top floor completed in November and is available to let with minimal Grade A office competition currently on the market in Edinburgh.

Eldon House, City of London

Within the Company's only City of London property, a lease renewal with Adsati and a rent review with MLM Building Control Ltd secured improved rents totalling £297,500 p.a., 6% ahead of ERV. New lettings also took place with Civilised Investments Ltd and Enigma Entertainment Ltd securing a combined rent of £193,751 p.a. for the next five years at rental levels ahead of ERV and 53% above the average rental tone at acquisition.

Regent Circus, Swindon

At this leisure asset a new lease was secured with Indian restaurant Tiffins at a rent of £131,700 p.a. for a 20 year term in-line with ERV. The new lease incorporates five yearly upwardly only rent reviews to the open market rent.

Newton's Court, Crossways Business Park, Dartford

A new five year lease of unit 1, on the estate was completed with Fabb Projects Ltd at £215,250 p.a., 16% above the ERV for the unit. The estate is now fully let.

Hannah Close, Neasden, Wembley

A one year lease extension to March 2019 was completed with Marks & Spencer at the Company's well located distribution facility in Neasden, Wembley, in line with ERV, securing an improved rent of £2,349,360 p.a., up 12% on the previous rent agreed in March 2016. At the same time a dilapidations settlement agreement was reached with the tenant and the new lease contracted out of the Landlord and Tenant Act 1954 which allows certainty on timing for reletting.

Market Outlook

UK real estate continues to provide an elevated yield compared to other assets and market values are now ahead of the level they attained before the Brexit upheaval in 2016. Lending to the sector remains prudent, liquidity remains reasonable and development remains relatively constrained by historic standards. With existing vacancy rates below average levels in most markets, aside from pockets of oversupply in some markets such as Central London, and concern over poorer retail activity, these favourable fundamentals and the steady secure income component generated by the asset class are likely to drive an income-led return over the next few years. The retail sector in particular continues to face a series of headwinds likely to hold back recovery in less strong locations and the City of London office market faces most uncertainty driven by politics. The market is likely to be sentiment driven in the short term as politics and the real and perceived economic impact associated with the UK's withdrawal from the European Union continue to evolve. Given the backdrop of ongoing heightened macro uncertainty, investors are becoming more risk averse and better quality assets are once again broadly outperforming poorer quality. Prime, good quality assets, with stronger tenants on longer leases, are likely to provide the best opportunities in the weaker economic environment we anticipate further into 2018.

Portfolio Strategy

The Company aims to deliver an attractive level of income, together with the potential for capital and income growth, through investment in a diversified UK commercial property portfolio. Our strategy to achieve this combines investment, divestment and asset management, including disciplined investment in existing stock where accretive.

Sales and purchases during the year brought cash available for investment down to £8 million at the year end, which then increased to £59 million in January following the sale of the three Shrewsbury shopping centres. This cash available is after allowing for dividend and capital expenditure commitments and, if opportunities arise, the Company has a further £50 million of capital available to be drawn down tactically from its revolving credit facility.

When looking at opportunities to deploy these resources, we continue our focus on long-term secure income, often found in alternative sectors providing such acquisitions would be accretive to recurring dividend cover; examples might include well-located hotels, funding the construction of pre-let logistics facilities, and potentially re-priced right-sized supermarkets in vibrant economies with strong demographics.

Importantly, we are also seeking to exploit pricing anomalies in the market, across most sectors, with our large team and the financial resources to react quickly. This includes the South East office sector where we will consider modern, well-let properties in strong locations to limit the impact of depreciation on returns, but only if an element of re-pricing or "place-making" by others has occurred to offset lower rental growth expectations. With uncertainty continuing in the economy and market as the path to Brexit evolves, interesting opportunities will, we believe, arise in the property market.

Turning to income, the Company anticipated an increase in its vacancy rate at the year end (7.6%), however approximately 70% of this is within our favoured industrial/logistics sector where prospects for reletting, income growth and potentially capital growth are good. This warrants the current strategy of retaining these investments (Neasden, Wembley, Magna Park, Lutterworth, and Ventura Park, Radlett M25).

In our 2016 year-end report, we stated our belief that the Company was well positioned to enter a new phase of the property cycle focused on income return rather than capital growth as returns slowed. That income return component will remain in sharp focus as Brexit uncertainty evolves and we maintain our belief that the Company remains well positioned to face this new environment with a strong balance sheet, a well-diversified portfolio, low gearing and emerging letting opportunities.

Will Fulton
Fund Manager

Standard Life Investments

26 April 2018

Directors' Responsibility Statement

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

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

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;

- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and

- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

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

We confirm that to the best of our knowledge:

- the Group financial statements, prepared in accordance with the IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and comply with the Companies Law;

- that in the opinion of the Board, the Annual Report and Accounts taken as a whole, is fair, balanced and understandable and it provides the information necessary to assess the Group's position, performance, business model and strategy; and

- the Strategic Report includes a fair review of the progression and performance of the business and the position of the Group together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

Andrew Wilson
Director

26 April 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Year Ended 31 December 2017 £'000	Year Ended 31 December 2016 £'000
Revenue			
Rental income	2	69,826	68,573
Gains/(Losses) on investment properties	9	90,416	(5,944)

Interest income		295	455
Total income		160,537	63,084
Expenditure			
Investment management fee 2	3	(9,215)	(8,870)
Direct property expenses 3	4	(4,444)	(3,716)
Other expenses 3	4	(3,565)	(3,362)
Total expenditure		(17,224)	(15,948)
Net operating profit before finance costs		143,313	47,136
Finance costs			
Finance costs 4	5	(8,143)	(8,101)
		(8,143)	(8,101)
Net profit from ordinary activities before taxation		135,170	39,035
Taxation on profit on ordinary activities	6	(3,608)	6,151
Net profit for the year		131,562	45,186
Other comprehensive income to be reclassified to Profit or Loss			
Gain/(Loss) arising on effective portion of interest rate swap 12	13	1,664	(3,913)
Other comprehensive income		1,664	(3,913)
Total comprehensive income for the year		133,226	41,273
Basic and diluted earnings per share 7	8	10.12p	3.48p
EPRA earnings per share (excluding deferred tax) 7		3.42p	3.43p

All of the profit and total comprehensive income for the year is attributable to the owners of the Company. All items in the above statement derive from continuing operations. The accompanying notes are an integral part of this statement. The accompanying notes are an integral part of this statement.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Non-current assets			
Investment properties	9	1,332,923	1,242,274
Deferred tax asset	6	3,271	6,515
Interest rate swap	13	-	-
		1,336,194	1,248,789
Current assets			
Investment properties held for sale	9	47,600	28,350
Trade and other receivables	11	23,433	16,035
Cash and cash equivalents		72,443	104,893
		143,476	149,278
Total assets		1,479,670	1,398,067
Current liabilities			
Trade and other payables	12	(22,408)	(25,141)
Interest rate swap	13	(1,130)	(1,340)
		(23,538)	(26,481)
Non-current Liabilities			
Bank Loan	13	(249,126)	(248,532)
Interest rate swap	13	(960)	(2,414)
		(250,086)	(250,946)
Total liabilities		(273,624)	(277,427)
Net assets		1,206,046	1,120,640
Represented by:			
Share capital	14	539,872	539,872
Special distributable reserve		583,920	590,594
Capital reserve		84,344	(6,072)
Revenue reserve		-	-
Interest rate swap reserve		(2,090)	(3,754)
Equity shareholders' funds		1,206,046	1,120,640
Net asset value per share		92.8p	86.2p
EPRA Net asset value per share		93.0p	86.5p

The accounts were approved and authorised for issue by the Board of Directors on 26 April 2018 and signed on its behalf by:

Andrew Wilson Ken McCullagh

Director Director

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Share Capital £'000	Special Distributable Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Interest Rate Swap Reserve £'000	Equity Shareholders' funds £'000
At 1 January 2017		539,872	590,594	(6,072)	-	(3,754)	1,120,640
Net profit for the year		-	-	-	131,562	-	131,562
Other comprehensive income		-	-	-	-	1,664	1,664
Total comprehensive income		-	-	-	131,562	1,664	133,226
Dividends paid	7	-	-	-	(47,820)	-	(47,820)
Transfer in respect of gains on investment properties	9	-	-	90,416	(90,416)	-	-
Transfer from special distributable reserve		-	(6,674)	-	6,674	-	-
At 31 December 2017		539,872	583,920	84,344	-	(2,090)	1,206,046

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Share Capital £'000	Special Distributable Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Interest Rate Swap Reserve £'000	Equity Shareholders' funds £'000
At 1 January 2016		539,872	587,284	(128)	-	159	1,127,187
Net profit for the year		-	-	-	45,186	-	45,186
Other comprehensive income		-	-	-	-	(3,913)	(3,913)
Total comprehensive income		-	-	-	45,186	(3,913)	41,273
Dividends paid	7	-	-	-	(47,820)	-	(47,820)
Transfer in respect of losses on investment properties	9	-	-	(5,944)	5,944	-	-
Transfer to special distributable reserve		-	3,310	-	(3,310)	-	-
At 31 December 2016		539,872	590,594	(6,072)	-	(3,754)	1,120,640

The accompanying notes are an integral part of this statement.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Cash flows from operating activities			
Net profit for the year before taxation		135,170	39,035
Adjustments for:			
(Gains)/Losses on investment properties	9	(90,416)	5,944
Movement in lease incentives	9	(6,597)	(2,271)
Movement in provision for bad debts	11	(130)	(75)
Increase in operating trade and other receivables		(672)	(2,310)
(Decrease)/Increase in operating trade and other payables		(3,094)	1,421
Finance costs		8,131	8,125
Cash generated by operations		42,392	49,869
Tax paid		-	(453)
Net cash inflow from operating activities		42,392	49,416
Cash flows from investing activities			
Purchase of investment properties	9	(52,016)	(1,911)
Sale of investment properties	9	41,513	45,595
Capital expenditure	9	(8,981)	(8,558)
Net cash (outflow)/inflow from investing activities		(19,484)	35,126
Cash flows from financing activities			
Dividends paid	7	(47,820)	(47,820)
Bank loan interest paid		(6,114)	(6,467)
Payments under interest rate swap arrangement		(1,424)	(1,148)
Net cash outflow from financing activities		(55,358)	(55,435)
Net (decrease)/increase in cash and cash equivalents		(32,450)	29,107
Opening balance		104,893	75,786
Closing cash and cash equivalents		72,443	104,893
Represented by:			
Cash at bank		27,735	44,821
Money market funds		44,708	60,072
		72,443	104,893

The accompanying notes are an integral part of this statement.

NOTES TO THE ACCOUNTS

1. Accounting Policies

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

(a) Basis of Accounting

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

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year. There have been other new and amended standards issued or have come into effect in the European Union from 1 January 2017 but either these were not applicable or did not have a material impact on the annual consolidated financial statements of the Group and hence not discussed and are detailed below:

– Annual Improvements to IFRSs 2010-2012 Cycle
– Annual Improvements to IFRSs 2011-2013 Cycle
– Annual Improvements to IFRSs 2014-2016 Cycle
– Annual Improvements to IFRSs 2015-2017 Cycle

(b) Significant accounting judgements, estimates and assumptions

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

Key estimation uncertainties

Fair value of investment properties: Investment property is stated at fair value as at the balance sheet date as set out in note 1(h) and note 9 to these accounts.

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

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

(c) Basis of Consolidation

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

(d) Functional and Presentation currency

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

(e) Revenue Recognition

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

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

(f) Expenses

Expenses are accounted for on an accruals basis. The Group's investment management and administration fees, finance costs and all other expenses are charged through the Statement of Comprehensive Income. Service charge costs, to the extent they are not recoverable from tenants, are accounted for on an accruals basis and included in operating profit.

(g) Taxation

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

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

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

(h) Investment Properties

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

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

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

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

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

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

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

(i) Operating Lease Contracts – the Group as Lessor

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

(j) Share Issue Expenses

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

(k) Segmental Reporting

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

(l) Cash and Cash Equivalents

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

(m) Trade and Other Receivables

Trade receivables, which are generally due for settlement at the relevant quarter end are recognised and carried at the original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable, debts are over 90 days old or relate to tenants in administration. Bad debts are written off when identified.

(n) Trade and Other Payables

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

(o) Reserves

Share Capital
This represents the proceeds from issuing ordinary shares.

Special Distributable Reserve
The special reserve is a distributable reserve to be used for all purposes permitted under Guernsey law, including the buyback of shares and the payment of dividends.

Capital Reserve
The following are accounted for in this reserve:

– gains and losses on the disposal of investment properties;

– increases and decreases in the fair value of investment properties held at the year end.

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

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

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

(p) Interest-bearing borrowings

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

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

(q) Derivative financial instruments

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

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

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

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

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

– The instrument must be related to an asset or liability

– It must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa;

– It must match the principal amounts and maturity date of the hedged item; and

– As a cash flow hedge the forecast transaction (incurring interest payable on the bank loan) that is subject to the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the profit or loss. The effectiveness of the hedge must be capable of reliable measurement and must be assessed as highly effective on an ongoing basis throughout the financial reporting periods for which the hedge was designated.

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

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

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

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

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

There are a number of new standards, amendments and interpretations that have been issued but are not yet effective for this accounting year and have not been adopted early. Those standards which may affect the Group are listed below.

IFRS 9 — Financial Instruments

In July 2014, the IASB published the final version of IFRS 9 'Financial Instruments' which replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement'. The IFRS 9 requirements represent a change from the existing requirements in IAS 39 in respect of financial assets.

The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value.

The standard eliminates the existing IAS 39 categories of held to-maturity, available-for-sale and loans and receivables.

For financial liabilities, IFRS 9 largely carries forward without substantive amendment the guidance on classification and measurement from IAS 39. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit is recorded in other comprehensive income rather than in profit or loss.

The standard introduces new requirements for hedge accounting that align hedge accounting more closely with risk management and establishes a more principles-based approach to hedge accounting. The standard also adds new requirements to address the impairment of financial assets and means that a loss event will no longer need to occur before an impairment allowance is recognised.

The standard will be effective for annual periods beginning on or after 1 January 2018, and is required to be applied retrospectively with some exemptions. The Group does not anticipate that this standard will have any material impact on the Group's financial statements as presented for the current year.

IFRS 15 — Revenue from Contracts

IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018, and endorsed by the EU 31 October 2016) specifies how and when an entity should recognise revenue from contracts and enhances the nature of revenue disclosures.

The Group notes lease contracts within the scope of IAS 17 are excluded from the scope of IFRS 15. Rental income derived from operating leases is therefore out with the scope of IFRS 15. The group therefore does not anticipate IFRS 15 having a material impact on the Group's financial statement
as presented for the current year.
The group notes under specific circumstances, certain elements of contracts the group may enter (for example, rental guarantees provided when selling a property) potentially fall within the scope of IFRS 15. The group does not have any such contracts in place at 31 December 2017.

The standard permits a modified retrospective approach. Financial statements will be prepared for the year of adoption (from 1 January 2018) by recognising a cumulative catch-up adjustment to opening retained earnings.

The group has not implemented the standard in advance of the effective date and it does not intend to do so.

IFRS 16 — Leases
IFRS 16 Leases (effective 1 January 2019) sets out the principle for the recognition, measurement, presentation and disclosure of leases for both the Lessee and Lessor.

The impact of this standard has not yet been assessed by the Group in full, but the Group is aware lessor accounting remains substantially unchanged and any impact is expected to be insignificant. A full impact assessment will however be concluded in due course.

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

2. Rental Income

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Rental Income	69,826	68,573

Included within rental income is amortisation of lease premiums and rent free periods granted.

3. Investment Management Fees

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Investment management fee	9,215	8,870

The Group's Investment Manager throughout the year was Standard Life Investments (Corporate Funds) Limited, who received an aggregate annual fee from the Group at an annual rate of 0.65 per cent of the Total Assets. The Investment Manager is also entitled to an administration fee of £100,000 per annum. The total paid in relation to this fee in the year was £100,000 (2016: £100,000). Both fees are payable quarterly in arrears. The Investment Management agreement is terminable by either of the parties to it on 12 months' notice.

4. Expenses

	Year ended 31 December 2017	Year ended 31 December 2016
Direct Property Expenses		

	£'000	£'000
Direct Property Expenses	4,444	3,716

Other Expenses	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Professional fees (including valuation fees)	2,744	2,547
Movement in bad debt provision	130	75
Directors' fees	222	215
Administration fee	100	100
Administration and company secretarial fees	85	85
Regulatory fees	212	277
Auditor's remuneration for:		
Statutory audit	68	63
Non audit services	4	-
	3,565	3,362

5. Finance costs

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Interest on principal loan amount	5,794	6,063
Amounts payable in respect of interest rate swap arrangement	1,435	1,197
Facility fees	321	331
Amortisation of loan set up fees	593	510
	8,143	8,101

6. Taxation

The Company owns five Guernsey tax exempt subsidiaries, UK Finance Holdings Limited (UKFH), UK Commercial Property GP Limited (GP), UK Commercial Property Holdings Limited (UKCPH), UK Commercial Property Estates Limited (UKCPEL) and UK Commercial Property Estates Holdings Limited (UKCPEH). GP and UKCPH are partners in a Guernsey Limited Partnership ("the Partnership") and own five Jersey Property Unit Trusts. UKCPEL owns two Jersey Property Unit Trusts. The Partnership, UKCPH and UKCPEL own a portfolio of

UK properties and derived rental income from those properties. As the Partnership and the unit trusts are income transparent for UK tax purposes, the partners and unit holders are liable to UK income tax on their share of the net rental profits of the Partnership and unit trusts respectively. The entities directly owning UK property are also liable to UK income tax on their own net UK rental profits. All entities subject to UK income tax have elected to receive rental income gross under HMRC's non-resident landlord scheme.

A reconciliation of the income tax charge applicable to the results from ordinary activities at the statutory income tax rates to the charge for the year is as follows:

	Year ended 31 December 2017 £'000	**Year ended 31 December 2016 £'000**
Net profit before tax	135,170	39,035
UK income tax at a rate of 20 per cent	27,034	7,807
Effect of:		
Capital (gains)/loss on investment properties not taxable	(18,999)	2,554
Lease incentive adjustment not allowable for tax purposes	1,319	454
Capital gains realised not taxable	(404)	(1,819)
Income not taxable	(59)	(91)
Intercompany loan interest	(7,099)	(11,126)
Expenditure not allowed for income tax purposes	(1,428)	2,585
Total current tax charge	364	364
Net movement in deferred tax asset	3,244	(6,515)
Total tax charge/(credit)	3,608	(6,151)

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

Reconciliation of current corporation and withholding tax in the consolidated income statement	**Year ended 31 December 2017 £'000**	**Year ended 31 December 2016 £'000**
Corporation tax charge in the year	-	117
Adjustment in respect of prior year over provision	(117)	(127)
Withholding tax charge in the year	-	374
Income tax charge in the year	481	-
At 31 December 2017	364	364

The Company owns one UK Limited Company, Brixton Radlett Property Limited ("BRPL"). As the losses of the Group cannot be used to offset the profits of BRPL, the profits of BRPL are subject to corporation tax in the UK, at a rate of 19% (20% prior to 1 April 2017). As the inter-company debt in BRPL is payable to a Guernsey entity, withholding tax is suffered on payment of this interest. During 2016, this debt was listed as a eurobond on the Guernsey Stock Exchange, resulting in withholding tax no longer being payable. It is estimated that for the year ended 31 December 2017 the total amount payable in corporation tax is nil (2016: £117,000) and withholding tax is nil (2016: £374,000), of which nil (2016: £117,000) remains payable at the year end.

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

Reconciliation of deferred tax in the consolidated income statement	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Movement in deferred tax asset on tax losses	2,793	(8,428)
Movement in deferred tax asset in respect of capital allowance timing differences	(144)	(337)
Movement in deferred tax liability in respect of capital allowance timing differences	595	2,250
	3,244	(6,515)

Reconciliation of deferred tax in the consolidated balance sheet	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Deferred tax asset on tax losses	5,635	8,428
Deferred tax asset in respect of capital allowance timing differences	481	337
Deferred tax liability on temporary timing differences	(2,845)	(2,250)
	3,271	6,515

The Group has unused tax losses carried forward of £49,537,000 (2015/2016: £50,437,000) based on the 2016/2017 tax returns to 5 April 2017. This figure is estimated to be £36,815,000 as at 31 December 2017, of which £11,224,248 have not been recognised in these financial statements as they relate to one group company that is not expected to recover its tax losses in the foreseeable future. There is no expiry date in respect of all of the tax losses.

Deferred tax asset

During the prior year the Group refinanced all inter-company loans, the majority of which were due to expire on 30 September 2016. All loans were re-financed for a 12 year duration, at rates ranging from 4% to 4.43%. As a result of the refinance, the Group has become profitable for tax purposes and began to utilise tax losses within certain subsidiaries built up since inception to offset both current and future taxable profits. A deferred tax asset of £5,635,000 (2016: £8,428,000) is therefore recognised in respect of the unutilised tax losses. A deferred tax asset of £481,000 (£2016: £337,000) has also been recognised in the year, on capital allowance balances of sold properties, where the group has retained the right to claim capital allowances after sale. A deferred tax liability of £2,845,000 (2016: £2,250,000) has been recognised in the year, relating to capital allowances already claimed on properties remaining in the portfolio as at 31 December 2017.

IAS 12 Income Taxes allows deferred tax assets and liabilities to be offset. A net deferred asset of £3,271,000 (2016: £6,515,000) is therefore included in the consolidated balance sheet.

The Company and its subsidiaries are exempt from Guernsey taxation on non-Guernsey source income (which includes relevant Guernsey bank interest) under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 as amended. A fixed annual fee of £1,200 per company is payable to the States of Guernsey in respect of this exemption. No charge to Guernsey taxation will arise on capital gains.

7. Dividends

Dividends on Ordinary Shares:	**Year ended 31 December 2017 £'000**	**Year ended 31 December 2016 £'000**
2016 Fourth interim of 0.92p per share paid 28 February 2016 (2015 Fourth interim:0.92p)	11,955	11,955
2017 First interim of 0.92p per share paid 31 May 2017 (2016 First interim: 0.92p)	11,955	11,955
2017 Second interim of 0.92p per share paid 31 August 2017 (2016 First interim: 0.92p)	11,955	11,955
2017 Third interim of 0.92p per share paid 30 November 2017 (2016 Third interim: 0.92p)	11,955	11,955
	47,820	47,820

A fourth interim dividend of 0.92p was paid on 28 February 2018 to shareholders on the register on 16 February 2017. Although this payment relates to the year ended 31 December 2017, under International Financial Reporting Standards it will be accounted for in the year ending 31 December 2018.

8. Basic and diluted Earnings per Share

The earnings per share (EPS) are based on the net profit for the year of £131,562,000 (2016: profit £45,186,000) and on 1,299,412,465 (2016: 1,299,412,465) ordinary shares, being the weighted average number of shares in issue during the year. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

9. Investment Properties

	Year ended 31 December 2017 £'000	**Year ended 31 December 2016 £'000**
Freehold and Leasehold properties		

Opening valuation	1,270,624	1,311,695
Purchases at cost	52,016	1,911
Capital expenditure	8,981	8,558
Gain/(Loss) on revaluation to fair value	94,994	(12,769)
Disposals at prior year valuation	(39,495)	(36,500)
Lease incentive movement	(6,597)	(2,271)
Total fair value at 31 December	1,380,523	1,270,624
Less: reclassified as held for sale	(47,600)	(28,350)
Fair value as at 31 December	1,332,923	1,242,274
Gains/(losses) on investment properties at fair value comprise		
Valuation gains / (losses)	94,994	(12,769)
Movement in provision for lease incentives	(6,597)	(2,271)
Gain on disposal	2,019	9,096
	90,416	(5,944)
Gains on investment properties sold		
Original cost of investment properties sold	(28,293)	(22,790)
Sale proceeds less sales costs	41,513	45,595
Profit/(loss) on investment properties sold	13,220	22,805
Recognised in previous periods	11,201	13,709
Recognised in current period	2,019	9,096
	13,220	22,805

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

CBRE Limited, (the "Property Valuer") completed a valuation of Group investment properties as at 31 December 2017 on the basis of fair value in accordance with the requirements of the Royal Institution of Chartered Surveyors (RICS) 'RICS Valuation — Professional Standards global, January 2014' and 'RICS Valuation — Professional Standards UK, January 2014 (revised April 2015)' (the 'Red Book'). For most practical purposes there would be no difference between Fair Value (as defined in IFRS 13) and Market Value. The Property Valuer, in valuing the portfolio, is acting as an 'External Valuer', as defined in the Red Book, exercising independence and objectivity. The Property Valuer's opinion of Fair Value has been primarily derived using comparable recent market transactions in order to determine the price that would be received to sell an asset in an orderly transaction between market participants at the valuation date. The fair value of these investment properties amounted to £1,397,250,000 (2016: £1,280,755,000). The difference between the fair value and the value per the consolidated balance sheet at 31 December 2017 consists of accrued income relating to the pre-payment for rent-free periods recognised over the life of the lease totalling £16,727,000 (2016: £10,131,000) which is separately recorded in the accounts as a current asset.

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

- No one property accounts for more than 15 per cent of the gross assets of the Group.

- All leasehold properties have more than 60 years remaining on the lease term.

- There are no restrictions on the realisability of the Group's investment properties or on the remittance of income or proceeds of disposal.

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

The property portfolio's fair value as at 31 December 2017 has been prepared adopting the following assumptions:

- That, where let, the Estimated Net Annual Rent (after void and rent free period assumptions) for each property, or part of a property, reflects the terms of the leases as at the date of valuation. If the property, or parts thereof, are vacant at the date of valuation, the rental value reflects the rent the Property Valuer considers would be obtainable on an open market letting as at the date of valuation.

- The Property Valuer has assumed that, where let, all rent reviews are to be assessed by reference to the estimated rental value calculated in accordance with the terms of the lease. Also there is the assumption that all tenants will meet their obligations under their leases and are responsible for insurance, payment of business rates, and all repairs, whether directly or by means of a service charge.

- The Property Valuer has not made any adjustments to reflect any liability to taxation that may arise on disposal, nor any costs associated with disposals incurred by the owner.

- The Property Valuer assumes an initial yield in the region of 3 to 7 per cent, based on market evidence, for the majority of the properties, with the reversionary yield being in the region of 4 to 7 per cent.

- The Property Valuer takes account of deleterious materials included in the construction of the investment properties, in arriving at its estimate of Fair Value, when the Investment Manager advises of the presence of such materials.

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

The following disclosure is provided in relation to the adoption of IFRS 13 Fair Value Measurement. All properties are deemed Level 3 for the purposes of fair value measurement and the current use of each property is considered the highest and best use. There have been no transfers from Level 3 in the year. The fair value of completed investment property is determined using a yield methodology. Under this method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. As an accepted method within the income approach to valuation, this method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market-derived discount rate (capitalisation rate) is applied to establish the present value of the cash inflows associated with the real property. The duration of the cash flow and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related lease up periods, re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of property. In the case of investment properties, periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net cash inflows, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted. Set out below are the valuation techniques used for each property sector plus a description and quantification of the key unobservable inputs relating to each sector. There has been no change in valuation technique in the year.

Sector	Fair Value at 31/12/17 (£m)	Valuation Techniques	Unobservable inputs	Range (weighted average)
Industrial	485.2	Yield methodology	Annual rent per sq ft	£0-£19 (£8)
			Capitalisation rate	4.5%-7.1% (5.0%)
Office	263.6	Yield methodology	Annual rent per sq ft	£15-£56 (£34)
			Capitalisation rate	3.4%-7.3% (5.2%)
Retail	494.3	Yield methodology	Annual rent per sq ft	£2-£306 (£64)
			Capitalisation rate	3.5%-11.2%
Leisure	129.2	Yield methodology	Annual rent per sq ft	£13-£35 (£25)
			Capitalisation rate	5.1%-6% (5.4%)
Other	8.2	Yield methodology	Annual rent per sq ft	£0-£0 (£0)
			Capitalisation rate	5.8%-5.8% (5.8%)

Sensitivity analysis

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

Sector	Assumption	Movement	Effect on valuation
Industrial	Capitalisation rate	+50 basis points	Decrease £46.7m
		-50 basis points	Increase £27.2m
Office	Capitalisation rate	+50 basis points	Decrease £26.8m
		-50 basis points	Increase £33.2m
Retail	Capitalisation rate	+50 basis points	Decrease £45.3m
		-50 basis points	Increase £55.4m
Leisure	Capitalisation rate	+50 basis points	Decrease £11.3m
		-50 basis points	Increase £13.8m
Other	Capitalisation rate	+50 basis points	Decrease £3.0m
		-50 basis points	Increase £3.6m

Investment property valuation process

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

These reports are based on both:

- Information provided by the Investment Manager such as current rents, terms and conditions of lease agreements, service charges and capital expenditure. This information is derived from the Investment Manager's financial and property management systems and is subject to the Investment Manager's overall control environment.

- Assumptions and valuation models used by the valuers — the assumptions are typically market related, such as yields. These are based on their professional judgment and market observation.

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

Asset held for sale

The assets shown on the Balance Sheet as held for sale at the year end are the three Shrewsbury shopping centres, Charles Darwin, Pride Hill and Riverside. The assets are shown at fair value in the Balance Sheet as a held for sale asset and continue to be valued by CBRE Limited using the method described in this note. The held for sale assets are included in the investment property table shown in this note. Any unrealised gain and loss on this asset is shown in the investment property table and in the consolidated statement of comprehensive income as gains/(losses) on investment properties.

The assets were sold by the Group on 24 January 2018 for a consideration of approximately £51m.

10. Subsidiary Undertakings

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

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

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

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

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

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

In addition the Group wholly owns seven Jersey Property Unit Trusts (JPUTs) namely, Junction 27 Retail Unit Trust, Charles Darwin Retail Unit Trust (sold January 2018), St Georges Leicester Unit Trust, Kew Retail Park Unit Trust (sold January 2018), Pride Hill Retail Unit Trust, Riverside Mall Retail Unit Trust (sold January 2018) and Rotunda Kingston Property Unit Trust. The principal business of the Unit Trusts is that of investment in property.

11. Trade and Other receivables

	2017	2016
	£'000	£'000
Rents receivable	2,995	2,603
Lease Incentive	16,727	10,131
Other debtors and prepayments	3,711	3,301
	23,433	16,035

Provision for bad debts as at 31 December 2016/2015	660	586
Movement in the year	130	75
Provision for bad debts as at 31 December 2017/2016	790	661

The ageing of these receivables is as follows:

	2017	2016
	£'000	£'000
Less than 6 months	374	302
Between 6 and 12 months	290	211
Over 12 months	126	148
	790	661

Other debtors include tenant deposits of £3,070,000 (2016 – £3,038,000). All other debtors are due within one year. No other debts past due are impaired in either year.

12. Trade and Other payables

	2017	2016
	£'000	£'000
Rental income received in advance	14,334	14,093
Investment Manager fee payable	2,370	2,256
VAT payable	641	590
Income tax payable	481	117
Other payables	4,582	8,085
	22,408	25,141

Other payables include tenant deposits of £3,070,000 (2016 – £3,038,000). The Group's payment policy is to ensure settlement of supplier invoices in accordance with stated terms.

13. Bank Loan and Interest rate swaps

	2017	2016
	£'000	£'000

Total Facilities available	300,000	300,000
Drawn down:		
Barclays facility	150,000	150,000
Cornerstone facility	100,000	100,000
Set up costs incurred	(4,536)	(4,536)
Accumulated amortisation of set up costs	3,067	2,474
Accrued variable rate interest on bank loan	595	594
Total due	249,126	248,532

(i) Barclays Facility

The Group has a five year £150 million facility, maturing in April 2020, with Barclays Bank plc initially taken out in May 2011 and extended in April 2015. As at 31 December 2017 this entire loan was drawn down. The bank loan is secured on the property portfolio held by UKCPEL. Under bank covenants related to the loan UKCPEL is to ensure that at all times:

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

UKCPEL met all covenant tests during the year.

Interest rate exposure is hedged by the purchase of an interest rate swap contract. The notional amount of the swap and the swap term matches the loan principal and the loan term. As at 31 December 2017 the Group had in place one interest rate swap totaling £150 million with Barclays Bank plc (2016: £150 million). The interest rate swap effectively hedges the current drawn down loan with Barclays Bank plc.

Interest on the swap is receivable at a variable rate calculated on the same LIBOR basis as for the bank loan (as detailed below but excluding margins) and payable at a fixed rate of 1.30 per cent per annum on the £150 million swap. The fair value of the liability in respect of the interest rate swap contract at 31 December 2017 is £2,090,000 (2016: liability of £3,754,000) which is based on the marked to market value.

Interest is payable by UKCPEL at a rate equal to the aggregate of LIBOR, mandatory costs of the Bank and a margin. The applicable margin is fixed at 1.50 per cent per annum and this was the applicable margin as at 31 December 2017 (2016: 1.50 per cent).

In addition to the above UKPCPEL has a £50 million revolving credit facility (“RCF”) with Barclays Bank plc at a margin of 1.50 per cent above LIBOR available for four years but cancellable at any time. The RCF has a non-utilisation fee of 0.6 per cent per annum charged on the proportion of the RCF not utilised on a pro-rata basis. At 31 December 2017 the RCF remained unutilised.

(ii) Barings Facility

The Group has a twelve year £100 million loan which is due to mature in April 2027 with Barings Real Estate Advisers LLP (previously Cornerstone Real Estate Advisers LLP), a member of the MassMutual Financial Services Group. The loan was taken out by UK Commercial Property Finance Holdings Limited (UKCFH). As at 31 December 2017 this entire loan was drawn down. The bank loan is secured on the portfolio of eight properties held within the wider Group. Under bank covenants related to the loan UKCFH is to ensure that at all times:

- The loan to value percentage does not exceed 75 per cent.

- Interest cover at the relevant payment date and also projected over the course of the proceeding 12 months is not less than 200 per cent.

UKCFH met all covenant tests during the year.

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

Swap Instruments

As at 31 December 2017 the Group had in place an interest rate swap instrument totalling £150 million which was deemed to be an effective hedge as per note 1(q).

The revaluation of this swap at the year end resulted in a gain on interest rate swaps of £1.7 million (2016: loss of £3.9 million). Of the total loss arising on interest rate swaps, £1.7 million related to effective hedge instruments (2016: loss £3.9 million) which is credited through Other Comprehensive Income in the Statement of Comprehensive Income.

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

The fair value of the interest rate swaps as at 31 December 2017 amounted to a liability of £2,090,000 (2016: Liability of £3,754,000). Based on current yield curves and non-performance risk, £1.1 million (2016: £1.3 million) of this value is a liability which relates to the next 12 months and is therefore classified as a current liability. The remainder is classified as a long term liability.

14. Share capital accounts

	2017	**2016**
	£’000	**£’000**
Share capital		
Opening balance	539,872	539,872
Share Capital as at 31 December 2017	539,872	539,872

(number of shares in issue at the year end being 1,299,412,465 (2016: 1,299,412,465)) of 25p each.

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

15. Net Asset Value per Share

The net asset value per ordinary share is based on net assets of £1,206,046,000 (2016: £1,120,640,000) and 1,299,412,465 (2016: 1,299,412,465) Ordinary Shares, being the number of Ordinary Shares in issue at the year end.

16. Related Party Transactions

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

Standard Life Investments (Corporate Funds) Limited, as the Manager of the Group for the period received fees for their services as investment managers. Further details are provided in note 3. The total management fee charged to the Statement of Comprehensive Income during the year was £9,215,000 (2016: £8,870,000) of which £2,370,000 (2016: £2,256,000) remained payable at the year end. The Investment Manager also received an administration fee of £100,000 (2016: £100,000), of which £25,000 (2016: £25,000) remained payable at the year end.

The Directors of the Company are deemed as key management personnel and received fees for their services. Total fees for the year were £222,000 (2016: £211,000) none of which remained payable at the year end (2016: nil).

The Group invests in the Standard Life Investments Liquidity Fund which is managed by Standard Life Investments Limited. As at 31 December 2017 the Group had invested £44.7 million in the Standard Life Investments Liquidity Fund (2016: £60.1 million). No additional fees are payable to Standard Life as a result of this investment.

17. Financial Instruments and Investment Properties

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

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

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

Fair value hierarchy

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

Explanation of the fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 – Use of a model with inputs (other than quoted prices included in level 1) that are directly or indirectly observable market data.

Level 3 – Use of a model with inputs that are not based on observable market data.

Investment Properties

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

31 December 2016	Level 1	Level 2	Level 3	Total fair value
	£'000	£'000	£'000	£'000
Investment properties	-	-	1,270,624	1,270,624

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

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

Bank Loans

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

31 December 2016	Level 1	Level 2	Level 3	Total fair value
	£'000	£'000	£'000	£'000
Bank loans	-	263,943	-	263,943

The lowest level of input is the interest rate payable on each borrowing which is a directly observable input.

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

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

31 December 2016	Level 1	Level 2	Level 3	Total fair value
	£’000	£’000	£’000	£’000
Interest rate swap	-	(3,754)	-	(3,754)

Trade and other receivables	-	16,035	-	16,035
Trade and other payables	-	(25,141)	-	(25,141)

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

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

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

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

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

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

Real Estate Risk

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

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

Credit risk

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

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

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

Financial Assets 2016	3 months or less	More than 3 months but less than one year	More than one year	Total
	£'000	£'000	£'000	£'000
Cash	104,893	-	-	104,893
Rent receivable	2,603	-	-	2,603
Other debtors	3,301	-	-	3,301
	110,797	-	-	110,797

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

The Company has a diversified tenant portfolio. The maximum credit risk from the rent receivables of the Group at 31 December 2017 is £6,065,000 (2016: £5,641,000). The Group holds rental deposits of £3,070,000 (2016: £3,038,000) as collateral against tenant arrears/defaults. All tenant deposits are in line with market practice. There is no residual credit risk associated with the financial assets of the Group. Other than those included in the provision for bad debts, no financial assets past due are impaired.

All of the cash is placed with financial institutions with a credit rating of A or above. £44.7 million (2016: £60.1 million) of the year end cash balance is held in the Standard Life Investments Liquidity Fund, which is a money market fund and has a triple A rating. Bankruptcy or insolvency of a financial institution may cause the Group's ability to access cash placed on deposit to be delayed or limited. Should the credit quality or the financial position of the banks currently employed significantly deteriorate, the Investment Manager would move the cash holdings to another financial institution subject to restrictions under the loan facilities.

Liquidity Risk

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

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

As at 31 December 2017 the cash balance was £72,443,000 (2016: £104,893,000).

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

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

Financial Liabilities 2016	3 months or less	More than 3 months but less than one year	More than one year	Total
	£'000	£'000	£'000	£'000
Bank loan	1,783	5,447	285,710	292,940
Other creditors	23,941	-	-	23,941
	25,724	5,447	285,710	316,881

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

Interest rate risk

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

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

An increase of 1 per cent in interest rates as at the reporting date would have increased the reported profit by £774,000 (2016: increased the reported profit by £1,049,000). A decrease of 1 per cent would have reduced the reported profit by £774,000 (2016: decreased the reported profit by £1,049,000). The effect on equity is nil (excluding the impact of a charge in retained earnings as a result of a change in net profit).

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

As at 31 December 2017 the Group had in place a total of £150 million of interest rate swap instruments (2016: £150 million). The values of these instruments are marked to market and will change if interest rates change. It is estimated that an increase of 1 per cent in interest rates would result in the swap liability decreasing by £3.3 million (2016: £4.8 million) which would increase the reported other comprehensive income by the same amount. A decrease of 1 per cent in interest rates would result in the swap liability increasing by £3.3 million (2016: £4.9 million) which would decrease the reported other comprehensive income by the same amount. The other financial assets and liabilities of Group are non-interest bearing and are therefore not subject to interest rate risk.

Foreign Currency Risk

There was no foreign currency risk as at 31 December 2017 or 31 December 2016 as assets and liabilities of the Group are maintained in pounds Sterling.

Capital Management Policies

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

The Group's capital is managed in accordance with investment policy which is to hold a diversified property portfolio of freehold and long leasehold UK commercial properties. The Group invests in income producing properties. The Group will principally invest in four commercial property sectors: office, retail, industrial and leisure. The Group is permitted to invest up to 15 per cent of its Total Assets in indirect property funds and other listed investment companies. The Group is permitted to invest cash, held by it for working capital purposes and awaiting investments, in cash deposits, gilts and money market funds.

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

The Group did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan arrangements in the year to 31 December 2017.

	2017 £'000	**2016 £'000**
Carrying amount of interest-bearing loans and borrowings	249,126	248,532
External valuation of completed investment property (excluding lease incentive adjustments)	1,397,250	1,280,755
Loan to value ratio	17.8%	19.4%

The Group's capital balances are set out in the Consolidated Statement of Changes in Equity and are regarded as the Group's equity and net debt.

18. Capital Commitments

The Group had contracted capital commitments as at 31 December 2017 of £44.4 million (31 December 2016 — £15.9m), which included:

- £4m capital works refurbishment of Magna Park, Lutterworth.
- £7.9m capital works relating to the split of units at the Parade Swindon, and the redevelopment of Falcon House, Swindon.
- £5.8m capital works building pre-let additional units at St George's Retail Park, Leicester.
- £2.4m for capital works across Cineworld Complex Glasgow, Eldon House London, 81/85 George Street Edinburgh and Units 4 and 5 Ventura Park, Radlett.
- £24.3m forward funding of the pre-let Maldron Hotel, Newcastle.

19. Lease Analysis

The Group leases out its investment properties under operating leases.

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

	2017	2016
	£000	£000
Less than one year	65,675	66,458
Between one and five years	200,249	202,552
Over five years	307,618	273,746
Total	573,542	542,756

The largest single tenant at the year end accounted for 5.8 per cent (2016: 5.8 per cent) of the current annual rental income.

The unoccupied property expressed as a percentage of annualised total rental value was 7.6 per cent (2016: 3.7 per cent) at the year end.

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

20. Service charge

The Group's managing agents Jones Lang LaSalle manage service charge accounts for all the Group's properties. The Group pays the service charge on any vacant units. Service charges on rented properties are recharged to tenants. The total service charge incurred in the year to 31 December 2017 was £7.4 million (2016: £7.4 million). Of this figure, the service charge paid by the Group in respect of void units was £2.1 million (2016: £1.7 million) and is included in direct property expenses.

21. Events After the Balance Sheet Date

On 24 January 2018, the Group completed the disposal of Charles Darwin, Pride Hill and Riverside unit trusts for approximately £51m.

This Annual Financial Report announcement is not the Company's statutory accounts for the year ended 31 December 2017. The statutory accounts for the year ended 31 December 2017 received an audit report which was unqualified.

The Annual Report will be posted to shareholders in May 2018 and additional copies will be available from the Manager (Tel. 0131 245 3151) or by download from the Company's webpage (www.ukcpt.co.uk).

Please note that past performance is not necessarily a guide to the future and that the value of investments and the income from them may fall as well as rise. Investors may not get back the amount they originally invested.