



# **Standard Life Investments Property Income Trust Limited**

Annual Report & Consolidated Accounts  
Year ended 31 December 2018



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## Performance Summary

### Financial Highlights

2018 NAV total return\*

**9.6  
PERCENT**

Strong NAV total return in the year of 9.6% (2017: 14.5%) as portfolio continued to grow due to strategic overweight position in industrial sector. Over ten years the Company has produced a NAV total return of 187.0% compared with the AIC Property Direct Sector average of 159.9%.

2018 Share price total return

**–8.3  
PERCENT**

Share price total return in the year was –8.3% (2017: 13.7%) reflecting the move from a premium to a discount to NAV, in line with the wider sector. Over ten years the Company has delivered a share price total return of 214.0% compared with the total return on the FTSE All-Share REIT Index of 115.0% and the FTSE All-Share Index of 138.4% highlighting consistent long term performance of the Company's shares.

2018 FTSE  
All-Share REIT Index

**–12.4%**

(2017: 12.2%)

2018 FTSE  
All-Share Index

**–9.5%**

(2017: 13.1%)

Shares issued

**10.2  
MILLION  
POUNDS**

£10.2 million of shares issued in the year all at prices accretive to the underlying NAV.

Loan to value

**24.4  
PERCENT**

24.4% (2017: 18.0%) – Prudent LTV remains one of the lowest in the peer group and wider REIT sector.

Dividend yield\*

**5.9 PERCENT**

Dividend yield - FTSE All-Share REIT Index

**4.7 PERCENT**

Dividend yield - FTSE All-Share Index

**4.5 PERCENT**

**Dividend yield**

(based on share price at  
31 December 2018 of 81.1p).

\* These Alternative Performance Measures ("APMs") are defined in the glossary on pages 84 to 85.

## Performance Summary

### Portfolio Highlights

Portfolio value\*

**499.1**  
**MILLION**  
**POUNDS**

Portfolio value of £499.1 million compared with £433.2 million at 31 December 2017.

Occupancy rate

**94.1**  
**PERCENT**

Occupancy rate of 94.1% an increase from 2017 figure of 92.3% as successful asset management initiatives and strategic sales reduced the number of void units in the portfolio.

SLIPIT was the proud winner of The AJ Bell Fund and Investment Trust Awards, 2018, in the Active Property category, recognising the investment fund, trust and ETF managers for their levels of excellence.

SLIPIT was also awarded FT Adviser Property Fund of the Year in their Investment 100 Club, based on the results of an extensive product research process.



13 new lettings securing

**£2.65m**  
per annum in rent.

Restructured 8 leases to secure longer term income on

**£1.58m**  
per annum of rent.

Rent collection

**98**  
**PERCENT**

Rent collection of 98% within 21 days for 2018.

2018 Portfolio total return

**8.5%**  
(2017: 12.1%)

Portfolio total return of 8.5% significantly ahead of IPD benchmark total return of 6.8%.

**6.8%**  
(2017: 10.5%)

IPD Benchmark

2018 Income return

**5.0%**  
(2017: 6.3%)

Continued strong income generation resulted in income return of 5.0% compared with IPD benchmark income return of 4.6%.

**4.6%**  
(2017: 4.8%)

IPD Benchmark

2018 Capital return

**3.3%**  
(2017: 5.5%)

Capital performance of the portfolio continued to outperform its benchmark due to high industrial weighting and lower exposure to retail.

**2.1%**  
(2017: 5.5%)

IPD Benchmark

## Strategic Report

### Performance Summary

Earnings & Dividends	31 December 2018	31 December 2017
EPRA earnings per share (p) (excluding capital items & swap movements)*	4.22	4.99
Dividends declared per ordinary share (p)	4.76	4.76
Dividend cover (%)	89	104
Dividend yield (%)**	5.9	5.1
FTSE All-Share Real Estate Investment Trusts Index Yield (%)	4.7	3.6
FTSE All-Share Index Yield (%)	4.5	3.4
Ongoing Charges***		
As a % of average net assets including direct property costs	2.0	1.7
As a % of average net assets excluding direct property costs	1.1	1.2

Capital Values & Gearing	31 December 2018	31 December 2017	Change %
Total assets (£million)	512.2	468.8	9.3
Net asset value per share (p) (note 20)	91.0	87.6	3.9
Ordinary Share Price (p)	81.1	93.25	(13.0)
(Discount)/Premium to NAV (%)	(10.9)	6.4	
Loan to Value (%)†	24.4	18.0	

Total Return	1 year % return	3 year % return	5 year % return
NAV‡	9.6	28.7	86.7
Share Price‡	(8.3)	11.6	53.2
FTSE All-Share Real Estate Investment Trusts Index	(12.4)	(8.6)	25.1
FTSE All-Share Index	(9.5)	19.5	22.1

Property Returns & Statistics (%)	31 December 2018	31 December 2017
Property income return	5.0	6.3
IPD benchmark income return	4.6	4.8
Property total return	8.5	12.1
IPD benchmark total return	6.8	10.5
Void rate	5.9	7.5

\* Calculated as profit for the period before tax (excluding capital items & swaps breakage costs) divided by weighted average number of shares in issue in the period (see page 76 for further details).

\*\* Based on an annual dividend of 4.76p and the share price at 31 December 2018.

\*\*\* Calculated as investment manager fees, auditor's fees, directors' fees and other administrative expenses divided by the average NAV for the year.

† Calculated as bank borrowings less all cash (including cash held at solicitors) as a percentage of the open market value of the property portfolio as at the end of each year.

‡ Assumes re-investment of dividends excluding transaction costs.

Sources: Aberdeen Standard Investments, Investment Property Databank ("IPD").

Alternative Performance Measures ("APMs") including NAV total return, share price total return, dividend cover, dividend yield and portfolio total return are defined in the glossary on pages 84 to 85.

## Strategic Report

### Chairman's Statement

*It is pleasing to report that your Company has continued to deliver both strong portfolio and NAV returns in 2018. These returns have been driven by a portfolio that is strategically weighted to the outperforming industrial sector, with low exposure to the struggling retail sector. In addition, a number of investment and letting transactions have been completed that have added value and increased occupancy levels.*

Robert Peto

### BACKGROUND

Since the referendum result in June 2016 to leave the European Union and the inconclusive result of the general election in 2017, the UK has been mired in political uncertainty unlike that seen for a generation. This uncertainty is now having direct economic implications with a number of companies triggering Brexit contingency plans or cutting back on planned investment into the UK. Combined with concerns over an escalating US/China trade war, UK GDP growth has been muted with 1.4% GDP growth in 2018, a trend that is expected to continue into 2019.

Against such an uncertain economic environment, the UK commercial real estate market has delivered positive, albeit, slowing returns. The Company's benchmark (Quarterly version of IPD Monthly Index Funds) produced a total return of 6.8% in 2018, with the long-expected decline in capital values starting to bite in the second half of the year.

However, even given this, capital growth over 2018 was a respectable 2.1% driven by the outperforming industrial sector which produced strong capital growth of 11.8%. The office sector delivered capital growth of 2.5% as overseas money still sought prime office assets both in the City of London and, increasingly, elsewhere in the UK. These returns were partially offset by a 5.8% fall in capital values in the retail sector which is still coming to terms with the growing presence of online retailers and a number of high profile company voluntary arrangements that resulted in both store closures and reduced rents, a trend that looks likely to continue.

Income returns continued to be the main contributor to the overall positive performance of the real estate sector, with the IPD benchmark producing an income return of 4.6% in 2018 with rental growth of 0.7% being delivered, again mainly driven by industrials.



Strategic Report

Chairman’s Statement



9.6  
PERCENT

Strong Net Asset Value  
(NAV) total return

HOLLYWOOD GREEN, LONDON



# 5.9 PERCENT

Dividend yield

BOURNE HOUSE, STAINES



## POSITIVE PORTFOLIO AND CORPORATE PERFORMANCE

Your Company has continued to perform well in the year. The portfolio total return was 8.5%, significantly above the benchmark return. The portfolio delivered capital growth of 3.3%, boosted by its 52% weighting to the industrial sector compared to a benchmark weighting of 28%. In addition, the Company's low 9% weighting to the retail sector also helped deliver positive relative performance given the benchmark weighting of 32%. The portfolio also continued to produce an attractive income return of 5.0%, again above that of the benchmark income return. This positive portfolio performance, combined with the flexibility to use its debt facilities opportunistically during the year while maintaining a relatively conservative level of gearing, helped the Company achieve a NAV total return of 9.6%.

For the majority of the year the Company's shares traded at a premium to NAV. This allowed the Company to issue 11 million new shares under its blocklisting authority, all at significant premia to underlying NAV, raising net proceeds of £10.2 million. The Company's share price fell towards the end of the year as sentiment towards commercial property unsurprisingly turned negative given the well-publicised travails of the retail sector. This resulted in the Company's shares falling to a 10.9% discount to NAV at the year end and a shareholder total return for the year of –8.3% compared with the total return on the FTSE All-Share REIT and FTSE All-Share Indices of –12.4% and –9.5% respectively. Since the year end, however, the shares have recovered and as at 31 March 2019 stood at 90.1p, a 1% discount to NAV.

Over the longer term the Company has also delivered good NAV and shareholder performance with NAV and share price total returns over ten years of 187% and 214% respectively. By comparison, the FTSE All-Share REIT Index returned 115% and the FTSE All-Share Index returned 138% over the same period.

Strategic Report

Chairman’s Statement

continued





## DIVIDENDS

Dividends totalling 4.76p were paid to shareholders in the year. This represents a yield of 5.9% based on the share price at 31 December 2018 and compares favourably to the yield on the FTSE All-Share REIT and FTSE All-Share Indices (4.7% and 4.5% respectively).

Dividend cover was 89% for the year as void levels increased and the Company's revolving credit facility ("RCF") remained largely unutilised for the majority of the year. This equates to EPRA earnings per share of 4.22p in 2018. However, the letting of the Company's largest void in December and the sale of the second largest void in September resulted in the void rate falling to 5.9% as at 31 December 2018 (31 December 2017: -7.7%). In addition, the purchase of Hagley Road in November 2018, financed mainly through the use of the RCF, should result in improved dividend cover going forward, all other things remaining equal. The importance to shareholders of the attractive level of dividend paid by the Company is recognised by the Board and the preservation and potential growth in dividend cover is a key priority in the medium term.

The Company's current policy is to pay four interim dividends quarterly, in March, May, August and November.

## FINANCIAL RESOURCES

As at the year end, the Company had a prudent Loan to Value ratio of 24%. The Company has in place a term loan which is not due to expire until 2023 and a £35 million RCF of which £20 million was utilised at the year-end resulting in a blended rate of interest at 31 December of 2.65%. The net initial yield on the portfolio is 5.1%, highlighting the income accretive nature of investing the debt and the positive impact it has on dividend cover. Overall, the Company continues to be in a good financial position with a strong balance sheet and resources still available for investment at the opportune time.

## BOARD CHANGES

Sally-Ann Farnon has indicated she will stand down following the AGM to be held in June. Sally-Ann has been a valuable member of the Board and Chair of the Audit Committee during her tenure and her insight and knowledge will be sorely missed. Mike Balfour, a qualified Chartered Accountant, will Chair the Audit Committee upon Sally-Ann's departure, and Huw Evans will assume the role of Senior Independent Director.

I am pleased that Jill May joined the Board on 12 March 2019. Jill has an impressive background and has significant experience of capital markets which will prove invaluable as the business develops.

## OUTLOOK

The outlook for the next 12 months is clouded by the ongoing Brexit negotiations and whether the UK leaves the EU with or without a deal or, indeed, leaves at all. The outcome of this debate will, to a huge extent, determine whether business investment and confidence starts to pick up and sentiment starts to improve, or investment is held back and GDP growth remains muted. Based on leaving the EU with a deal, our Investment Manager forecasts GDP growth of 1.0% in 2019.

The commercial real estate market is not immune to the Brexit-related uncertainty. While the real estate fundamentals are strong – comparatively high yields compared with other asset classes, prudent leverage, limited development and lower than average vacancy rates – uncertainty is reducing liquidity and visibility of pricing in most areas of the market. The principal exception to this is assets with long, secure income streams, which remain highly sought after and in short supply.

Against such a background the Board believes the Company is well positioned to continue delivering value. While secondary assets are inherently more volatile in nature, the Company's portfolio is well diversified by region and sector. The portfolio has a deliberate bias towards the industrial sector which our Investment Manager forecasts will continue to be the strongest performing sector over the next three years and a significantly underweight position to retail which is forecast to be the worst performer. With income likely to be the main driver of returns in the medium term, it is important to highlight the Company's strong income profile. This is underpinned by a strong and diverse tenant base and an active Investment Manager with a proven track record of reducing voids and risk through successful investment and letting activity. Finally, the Company continues to have a solid balance sheet, which has been strengthened over the last 12 months by NAV accretive share issues, and prudent but flexible gearing which has been used to capture opportunities that have arisen with firepower remaining should further opportunities be identified. Taking all these factors together, I believe your Company has a sound base on which to continue producing the strong absolute and relative performance delivered over the last decade.

**Robert Peto**  
Chairman  
17 April 2019

## Strategic Report

### Strategic Overview

#### OBJECTIVE

The objective of the Group is to provide shareholders with an attractive level of income together with the prospect of income and capital growth.

#### INVESTMENT POLICY AND BUSINESS MODEL

The Board intends to achieve the investment objective by investing in a diversified portfolio of UK commercial properties. The majority of the portfolio will be invested in direct holdings within the three main commercial property sectors of retail, office and industrial although the Group may also invest in other commercial property such as hotels, nursing homes and student housing. Investment in property development and investment in co-investment vehicles, where there is more than one investor, is permitted up to a maximum of 10% of the property portfolio.

In order to manage risk, without compromising flexibility, the Board applies the following restrictions to the property portfolio, in normal market conditions:

- ▶ No property will be greater by value than 15% of total assets.
- ▶ No tenant (excluding the Government) will be responsible for more than 20% of the Group's rent roll.
- ▶ Gearing, calculated as borrowings as a percentage of gross assets, will not exceed 65%. The Board's current intention is that the Group's loan to value ratio (calculated as borrowings less all cash as a proportion of property portfolio valuation) will not exceed 45%.

As part of its strategy, the Board has contractually delegated the management of the property portfolio, and other services, to Aberdeen Standard Fund Managers Limited ("the Investment Manager"). The Investment Manager was appointed in place of

Standard Life Investments (Corporate Funds) Limited on 10 December 2018 following the merger of Standard Life plc and Aberdeen Asset Management PLC in August 2017. The Investment Manager was appointed on identical terms to the arrangements previously in place with Standard Life Investments (Corporate Funds) Limited, and there have been no changes to the way the investment management services are provided to the Group.

#### STRATEGY

Each year the Board undertakes a strategic review, with the help of its Investment Manager and other advisers.

The overall intention is to continue to distribute an attractive income return alongside growth in the NAV and a good overall total return relative to the peer group.

At the property level, it is intended that the Group remains primarily invested in the commercial sector, while keeping a watching brief on other classes such as student accommodation and care homes. The Group is principally invested in office, industrial and retail properties and intends to remain so.

The Board's preference is to buy into good, but not necessarily prime, locations, where it perceives there will be good continuing tenant demand, and to seek out properties where the asset management skills of the Investment Manager can be used to beneficial effect. The Board will continue to have very careful regard to tenant profiles.

As part of this investment strategy, the Group recognises that tenants are a key stakeholder and aims to foster a culture whereby the experience of tenants is seen as paramount to the future success of the Group. The Investment Manager works closely with tenants to understand their needs through regular communication and visits to properties.

Where required, and in consultation with tenants, the Group refurbishes and manages the owned assets to improve the tenants' experience, including consideration of Health & Safety and environmental factors, with the aim being to generate greater tenant satisfaction and retention and hence lower voids, higher rental values and stronger returns.

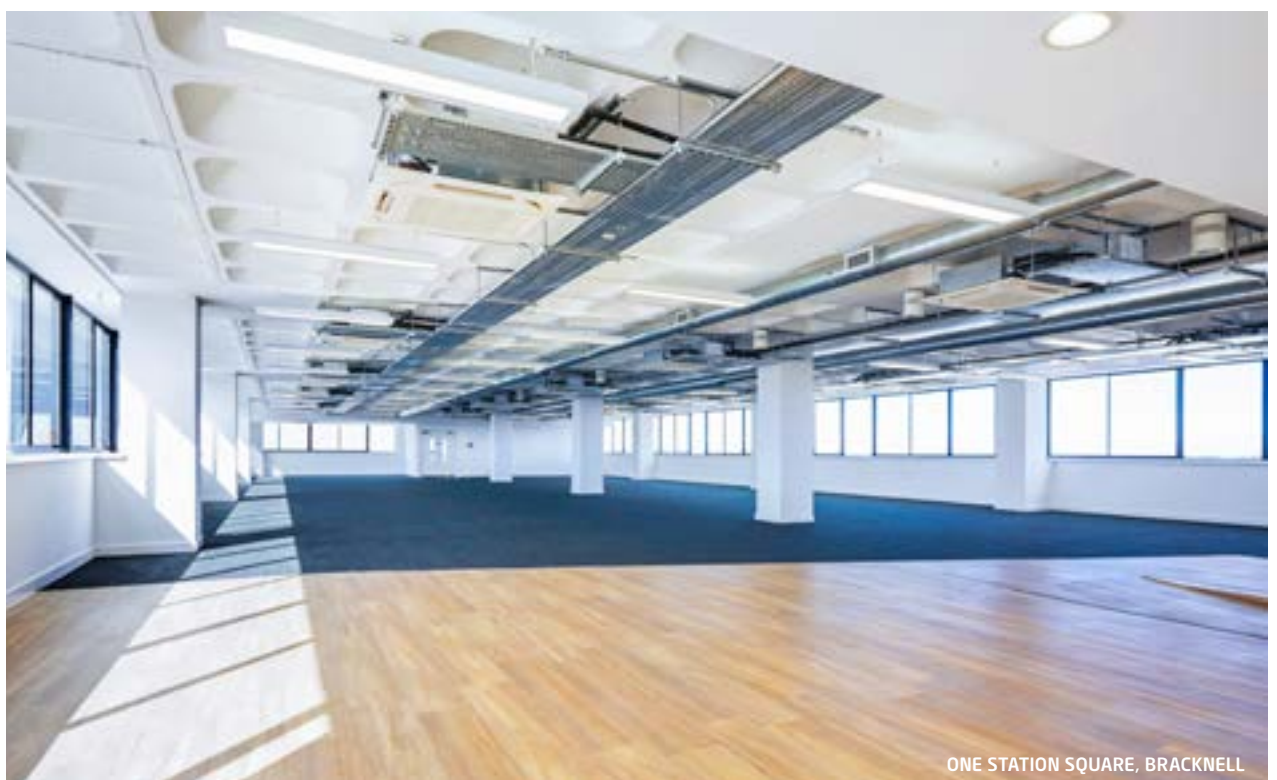
The Board continues to seek out opportunities for further, controlled growth in the Group. During 2018 and up to 31 March 2019, the Group raised an additional £10.2 million through new share issues, as detailed in the Chairman's Statement.

The Group continues to maintain a tax efficient structure, having migrated its tax residence to the UK and becoming a UK REIT on 1 January 2015.

#### THE BOARD

As at 31 December 2018, the Board consisted of a non-executive Chairman and four non-executive Directors. The names and biographies of those directors who held office at 31 December 2018 and at the date of this report appear on pages 28 and 29 and indicate their range of property, investment, commercial and financial experience. There is also a commitment to achieve the proper levels of diversity.

To assist the Board with orderly succession, the Board announced the appointment of Jill May as an additional non-executive Director with effect from 12 March 2019, subsequent to the financial year end. A resolution to elect Jill May as a Director will be proposed to shareholders at the Annual General Meeting ("AGM") on 13 June 2019. Sally-Ann Farnon will step down from the Board following the conclusion of the 2019 AGM.





## Strategic Report

### Strategic Overview

continued

ATOS, BIRMINGHAM



### KEY PERFORMANCE INDICATORS

The Board meets quarterly and at each meeting reviews performance against a number of key measures which are considered to be alternative performance measures (“APMs”). These APMs are in line with recognised industry performance measures both in the Real Estate and Investment Trust industry and help to assess the overall performance of the portfolio and the wider Group:

#### Property income and total return against the Quarterly Version of the IPD Balanced Monthly Funds Index (“the Index”).

The Index provides a benchmark for the performance of the Group’s property portfolio and enables the Board to assess how the portfolio is performing relative to the market. A comparison is made of the Group’s property returns against the Index over a variety of time periods (quarter, annual, three years and five years).

#### Property voids.

Property voids are unlet properties. The Board reviews the level of property voids within the Group’s portfolio on a quarterly basis and compares the level to the market average, as measured by the IPD. The Board seeks to ensure that, when a property becomes void, the Investment Manager gives proper priority to seeking a new tenant to maintain income.

#### Rent collection dates.

The Board assesses rent collection by reviewing the percentage of rents collected within 21 days of each quarter end.

#### Net asset value total return.

The net asset value (“NAV”) total return reflects both the net asset value growth of the Group and also the dividends paid to shareholders. The Board regards this as the best overall measure of value delivered to shareholders. The Board assesses the NAV total return of the Group over various time periods (quarter, annual, three years, five years) and compares the Group’s returns to those of its peer group of listed, closed-ended property investment companies.

#### Premium or discount of the share price to net asset value.

The Board closely monitors the premium or discount of the share price to the NAV and believes that a key driver to the level of the premium or discount is the Group’s long-term investment performance. However, there can be short-term volatility in the premium or discount and the Board takes powers at each Annual General Meeting (“AGM”) to enable it to issue or buy back shares with a view to limiting this volatility.

#### Dividend per share and dividend cover.

A key objective of the Group is to provide an attractive, sustainable level of income to shareholders and the Board reviews, at each Board meeting, the level of dividend per share and the dividend cover, in conjunction with detailed financial forecasts, to ensure that this objective is being met and is sustainable.

The Board considers the performance measures both over various time periods and against similar funds.

A record of these measures is disclosed in the Financial and Property Highlights, Chairman’s Statement and Investment Manager’s Report.



continued

## PRINCIPAL RISKS AND UNCERTAINTIES

The Board ensures that proper consideration of risk is undertaken in all aspects of the Group's business on a regular basis. During the year, the Board carried out an assessment of the risk profile of the Group, including consideration of risk appetite, risk tolerance and risk strategy. The Board regularly reviews the principal and emerging risks of the Group, seeking assurance that these risks are appropriately rated and ensuring that appropriate risk mitigation is in place.

The Group'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 the particular circumstances of the properties in which it is invested, and their tenants. The Board and Investment Manager seek to mitigate these risks through a strong initial due diligence process, continual review of the portfolio and active 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 other specific risks that are reviewed at each Board meeting. These are as follows:

### **The Group and its objectives become unattractive to investors, leading to widening of the discount.**

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

### **Net revenue falls such that the Group cannot sustain its level of dividend, for example due to tenant failure or inability to let properties.**

This risk is mitigated through regular review of forecast dividend cover and of tenant mix, risk and profile. Due diligence work on potential tenants is undertaken before entering into new lease arrangements and tenants are kept under constant review through regular contact and various reports both from the managing agents and the Investment Manager's own reporting process. Contingency plans are put in place at units that have tenants that are believed to be in financial trouble. The Group subscribes to the Investment Property Databank Iris Report which updates the credit and risk ranking of the tenants and income stream, and compares it to the rest of the UK real estate market. An emerging risk in the year was the poor performance of the retail sector due to a number of high profile administrations and store closures in this sector. The Group has partially mitigated this risk by having an underweight position to the retail sector with only 9.3% exposure to this sector against the benchmark weighting of 31.6%.

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

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

Macroeconomic uncertainty continued to be an emerging risk during 2018, particularly in relation to the UK's decision to leave the EU ("Brexit"). The initial economic implications of Brexit and the effect on the property market is considered further in the Chairman's Statement and Investment Manager's Report. The outcome and potential impact of Brexit is still unclear at the time of writing. However, the Board continues to closely monitor the potential effect of this on property values, tenants and also the impact of any resultant regulatory changes that may impact the Group.

### **Breach of loan covenants.**

This risk is mitigated by the Investment Manager monitoring the loan covenants on a regular basis and providing a quarterly certificate to the bank confirming compliance with the covenants. Compliance is also reviewed by the Board each quarter and there is regular dialogue between the Investment Manager and the bank on Group activity and performance.

EXPLORER 1 & 2, CRAWLEY



## Strategic Report

### Strategic Overview

continued



#### Loss on financial instruments.

The Group has entered into an interest rate swap arrangement. This swap instrument is valued and monitored on a daily basis by the counterparty bank. The Investment Manager checks the valuation of the swap instrument internally to ensure it is accurate. In addition, the credit rating of the bank that the swap is taken out with is assessed regularly.

Other risks faced by the Group include the following:

- ▶ Strategic – incorrect strategy, including sector and property allocation and use of gearing, could all lead to a poor return for shareholders.
- ▶ Tax efficiency – the structure of the Group or changes to legislation could result in the Group no longer being a tax efficient investment vehicle for shareholders.
- ▶ Regulatory – breach of regulatory rules could lead to the suspension of the Group's Stock Exchange Listing, financial penalties or a qualified audit report.
- ▶ 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 loss of shareholder confidence.
- ▶ Economic – inflation or deflation, economic recessions and movements in interest rates could affect property valuations and also bank borrowings.

The merger of Standard Life plc and Aberdeen Asset Management PLC creates additional operational risk for the Group. As highlighted on page 34, the Group appointed Aberdeen Standard Fund Managers Limited as its alternative investment fund manager ("AIFM") in December 2018. The appointment is on identical terms to the arrangements previously in place with Standard Life Investments (Corporate Funds) Limited. There have been no changes so far to the way the Investment Manager provides its services to the Group but the Board is keeping under close review any potential implications for the Group arising from the merger and the integration process.

The Board seeks to mitigate and manage all risks through continual review, policy setting and enforcement of contractual obligations. It also regularly monitors the investment environment and the management of the Group's property portfolio, levels of gearing and the overall structure of the Group.

Details of the Group's internal controls are described in more detail in the Corporate Governance Report on pages 32 to 35.

#### SOCIAL, COMMUNITY AND EMPLOYEE RESPONSIBILITIES

The Group has no direct social, community or employee responsibilities. The Group has no employees and accordingly no requirement to separately report in this area as the management of the portfolio has been delegated to the Investment Manager. In light of the nature of the Group's business there are no relevant human rights issues and hence there is no requirement for a human rights policy. The Board does, however, closely monitor the policies of its suppliers to ensure that proper provision is in place.

#### ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY

The Investment Manager acquires, develops and manages properties on behalf of the Group. It is recognised that these activities have both direct and indirect environmental and social impacts. The Board has adopted the Investment Manager's own Environmental, Social and Governance Policy ("ESG") and associated operational procedures and is committed to environmental management in all phases of the investment process.

The Investment Manager has identified four ESG megatrends that are highly relevant for real estate investment now and in the future: Environment & Climate Change, Governance & Engagement, Population & Urban Living and Technology & Connectivity. The identification of risks and opportunities for the Group in relation to each of the megatrends is embedded throughout the investment process and at all levels – from Group-level strategic planning to asset underwriting and individual asset ESG action plans.



## GLOBAL REAL ESTATE SUSTAINABILITY BENCHMARK

To facilitate this, the Investment Manager works in partnership with contractors, suppliers, tenants and consultants seeking continuous improvements in ESG performance and conducting regular reviews.

The Group was awarded a Green Star ranking from the Global Real Estate Sustainability Benchmark 2018 ("GRESB") and improved its score by 11% compared with 2017. A Green Star is awarded to entities that perform well in both categories of the GRESB assessment: Management & Policies and Implementation & Measurement.

Following the disclosure of ESG performance against the European Public Real Estate Association ("EPRA") Sustainability Best Practice Reporting guidelines in the 2017 Annual Report, the Group received both Gold and Most Improved awards from EPRA. These awards recognise the Group's strong commitment to ESG and transparency.

The full ESG disclosures for the Group, including energy, water and emissions performance for 2018, can be found in the EPRA Performance Measures on pages 76 to 83.

## HEALTH & SAFETY

Alongside these environmental principles the Group has a Health & Safety policy which demonstrates commitment to providing safe and secure buildings that promote a healthy working/customer experience that supports a healthy lifestyle. The Group, through the Investment Manager, manages and controls Health & 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 & Safety performance the Group can

DENBY 242, DENBY



be proud of and allow the Group to earn the confidence and trust of tenants, customers, employees, shareholders and society at large.

The Grenfell Tower fire in 2017 highlighted the absolute requirement for positive and proactive Health & Safety practices. The Group as part of ongoing management and due diligence processes, reviews the Health & Safety and cladding systems at each of its properties and has received advice that they are fully compliant.

## VIABILITY STATEMENT

The Board considers viability as part of its ongoing programme of monitoring risk.

The Board continually considers the prospects for the Company over the longer term. Based on the Company's current financial position, its operating model, and the diversified constituents of its portfolio, as well as the strong initial due diligence processes, the continued review of the portfolio and the active asset management initiatives, the Board believes that the Company has a sound basis upon which to continue to deliver returns over the long term.

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

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

- ▶ Detailed NAV, cash resources and income forecasts, prepared by the Investment Manager, for a five year period under both normal and stressed conditions;
- ▶ The Group's ability to pay its operational expenses, bank interest and dividends over a five year period;
- ▶ Future debt repayment dates and debt covenants, in particular those in relation to LTV and interest cover. The Company's two debt facilities are due to expire in 2023 and the Board is not aware of any reason why it would not be able to renew the loan facilities at that date or repay the loan if preferred; and
- ▶ The valuation and liquidity of the Group's property portfolio, the Investment Manager's portfolio strategy for the future and the market outlook.

The Board has also carried out a robust assessment of the principal risks faced by the Group, including the potential impact of Brexit, as detailed on pages 13 and 14. The Board takes any potential risks to the ongoing success of the Group, and its ability to perform, very seriously and works hard to ensure that risks are kept to a minimum at all times.

Based on the results of the analysis outlined above, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five year period of its assessment.

## APPROVAL OF STRATEGIC REPORT

The Strategic Report comprises the Financial and Portfolio Highlights, Performance Summary, Chairman's Statement, Strategic Overview and Investment Manager's Report. The Strategic Report was approved by the Board and signed on its behalf by:

**Robert Peto**  
Chairman  
17 April 2019



## Strategic Report

### Investment Manager's Report

#### UK REAL ESTATE MARKET

According to the IPD Quarterly Index for UK Commercial Property, the 12-month All Property total return to the end of December 2018 was 6.8% compared with 10.5% for 2017. Whilst 2018 was a weaker year for UK real estate, returns remained favourable in comparison to other asset classes. On-going uncertainties surrounding Brexit and the wider economy have caused investors to be more cautious and after a sustained period of strong returns (8.2% per annum annualised over the last 10 years), real estate is generally regarded as being at a late stage in the cycle albeit supported by continuing low interest rates and low yields from other asset classes.

The industrial sector continued to be the stand-out performer in the UK real estate market with a total return of 16.7%. Despite IPD data suggesting that rental growth is beginning to moderate the necessary drivers are still in place to support further rental growth for the sector, with vacancy rates remaining exceptionally low and interest in available space healthy.

The long-term structural challenges facing the retail sector are now being reflected across the market as retailers struggle to cope with changing shopping habits, higher costs and weaker consumer spending.

Retail failures and CVA's (Company Voluntary Arrangements) over the year, including a number of well-known high street names and casual dining operators, hit the headlines and caused investment sentiment to weaken. This is now weighing on performance with retail valuations falling. The divergence between the best and worst assets in the sector has widened and is likely to continue. The retail sector as a whole had a total return of -0.7% and a capital decline of 5.8% over 2018. It is expected that the sector will see further capital falls in 2019 with continued distress amongst retailers and poor investor sentiment.

The office sector provided a total return of 6.6% according to IPD with Central London offices having held up better than many forecasters expected given Brexit uncertainty and its perceived threat to tenant demand. The sector continues to benefit from relatively low supply with conversion to residential taking out a lot of poorer second rate accommodation.

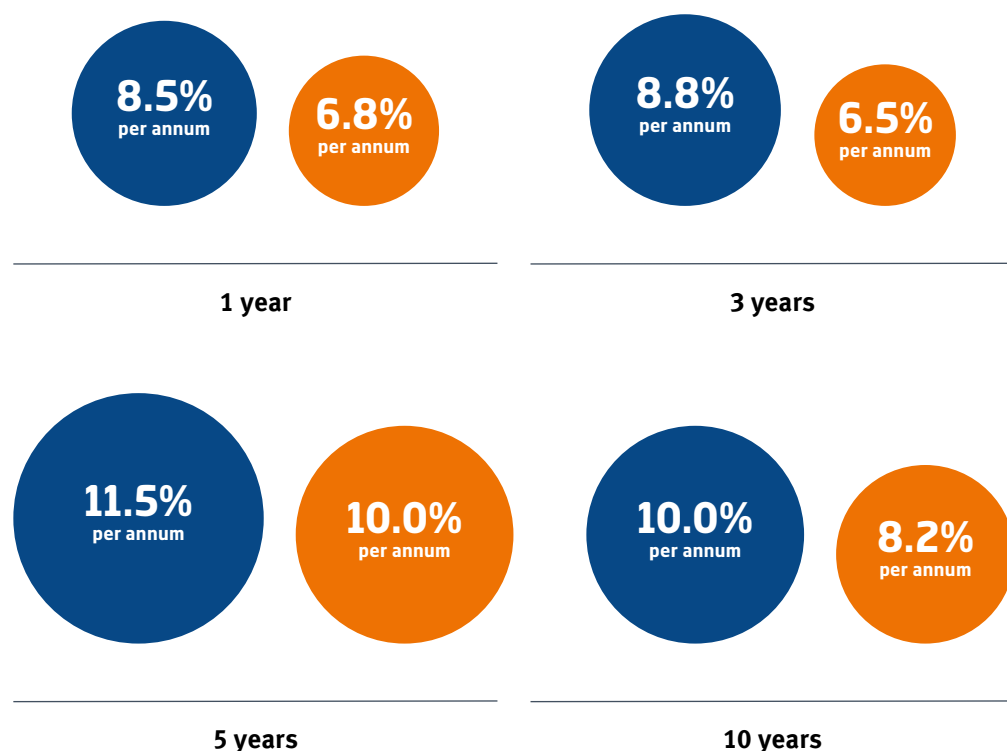
During the year the IPD "other" sector continued to outperform the wider market. As the name suggests the sector is made up from a number of asset types in the wider "alternatives" category, such as leisure, data centres, and hotels.

We continue to focus on asset management initiatives with the aim of preserving income and capital which are increasingly important in a late cycle environment.

**Jason Baggaley**

#### PORTFOLIO TOTAL RETURN

Source: Aberdeen Standard Investments, IPD



#### PERFORMANCE

There are a number of ways to look at the Company's performance. The portfolio level performance provides a direct comparison to the benchmark, and is therefore the easiest way to compare performance to the wider property market. The portfolio performance, to a large extent, drives the NAV total return which we believe is the best overall measure as it encompasses all the costs of the Company as well as the impact of gearing and is within the control of the Board and Investment Manager. Finally, the share price return and yield which amounts to the share price total return is an important measure for shareholders.

Building up these elements, we start with the portfolio level performance. We measure that against the Quarterly version of the IPD Monthly Index Funds. SLIPIT's size is below the average fund against the benchmark (£499 million against a benchmark median of £732 million), and has a smaller average asset size of £8.5 million v £17.8 million, but is one of the most active portfolios with net investment in the top 10% of the index.

The chart opposite shows how the portfolio has performed against the benchmark over a variety of timescales.

- Portfolio total return (per annum)
- Benchmark return (per annum)

The NAV total return is a better measure of performance for investors as it takes into account all of the costs of running the Company, investing in the properties, and their upkeep/improvement, as well as the impact of gearing. The table below shows the NAV total return over various time periods compared to the AIC peer group and open ended property funds for a comparison against alternative ways of investing in UK property.

The final table shows the share price total return performance, which of course may be the most relevant measure to an investor. Towards the end of the reporting period and into early 2019 we saw a greater level of volatility in the share price as the wider equity market reacted to the increased Brexit tension.

Over the majority of the year the Company's shares traded at a premium to NAV with the average premium for the year being 3.7%. However, over December 2018 the shares moved to a discount. The volatility appears to have been as part of the wider market stress with Brexit concerns coming to the fore, and especially impacting property stocks. By the end of March the share price had stabilised around NAV.

Jason Baggailey



<b>NAV Total Returns to 31 December 2018</b>	<b>1 year (%)</b>	<b>3 years (%)</b>	<b>5 years (%)</b>	<b>10 years (%)</b>
Standard Life Investments Property Income Trust	<b>9.6</b>	<b>28.7</b>	<b>86.7</b>	<b>187.0</b>
AIC Property Direct – UK sector (weighted average)	5.8	22.2	66.5	159.9
Investment Association Open Ended Commercial Property Funds sector	3.9	12.4	35.5	74.3
<b>Company's ranking in AIC Property Direct sector</b>	4	2	1	2

Source: AIC, Aberdeen Standard Investments

<b>Share Price Total Returns to 31 December 2018</b>	<b>1 year (%)</b>	<b>3 years (%)</b>	<b>5 years (%)</b>	<b>10 years (%)</b>
Standard Life Investments Property Income Trust	<b>-8.3</b>	<b>11.6</b>	<b>53.2</b>	<b>214.0</b>
FTSE All-Share Index	-9.5	19.5	22.1	138.4
FTSE All-Share REIT Index	-12.4	-8.6	25.1	115.0
AIC Property Direct – UK sector (weighted average)	-1.6	10.2	34.6	234.0

Source: AIC, Aberdeen Standard Investments

## VALUATION

The property portfolio was valued on a quarterly basis by Knight Frank LLP throughout the year. The portfolio was valued at £499.1 million as at 31 December 2018 with cash of £8.3 million, which compares with £433.2 million and £14.3 million respectively 12 months earlier. The Company also drew down £20 million of debt during the year from the revolving credit facility (£nil drawn as at 31 December 2017).

## Strategic Report

### Investment Manager's Report

continued

## INVESTMENT STRATEGY

The Board and Investment Manager remains focused on delivering an attractive level of income to shareholders, but also seeks to provide investors with a reasonable total return. We aim to meet these objectives by investing in assets that we believe will meet the company's objectives. The Investment Manager takes an active approach to asset management to help drive value and the security of future income streams.

Our investment decisions start with a top down analysis so that we concentrate on investing into and holding investments in the sectors that we believe have the strongest fundamentals. This analysis led us to go overweight industrial/underweight retail several years ago. Within the broad strategic overview of the top down approach all investment decisions are then made on a bottom up basis. Every property is unique, and we base buy/hold/sell decisions on how we believe that asset is going to perform, and whether it will meet our investment requirements. No asset is sacred, we aim to sell assets that we believe have peaked in their individual investment cycle, or which have too much risk compared to the potential returns.

When investing in new opportunities we take a long term approach. We aim to acquire assets that will meet the needs of current and future occupiers, and that are located in areas that are vibrant and will remain relevant. Although we will buy assets with a small amount of vacancy, or which require some capital expenditure to reposition, we do not generally look to undertake major refurbishment or any speculative development as that would be detrimental to meeting our income aims.

Over the last few years the Company has undertaken a significant number of investment transactions, as we have reduced risk at an asset level, and also increased the weighting to industrial and alternatives, whilst reducing exposure to retail. With market uncertainty around Brexit, and anticipated lower returns over the coming couple of years, we anticipate lower levels of turnover.

## PURCHASES

During the reporting period the Company completed eight purchases for a total sum of £87.9 million (including purchase costs):

### Timbmet, Shellingford

The Company acquired a 200,000 sq ft distribution facility for £11.5 million by way of a sale and leaseback to provide a 25 year lease with an initial yield of 6.5%. The property is located between Oxford and Swindon and provides the tenant with cost effective accommodation with good access to the national motorway network.

### Grand National Retail Park, Aintree

The name is a bit misleading on this purchase as it is in fact a leisure scheme with a PureGym, Premier Inn hotel, KFC, and Toby Carvery. The property is located adjacent to the racecourse, and the purchase price of £6.125 million reflected a yield of 6.8%.

### Flamingo Flowers, Sandy

The Company acquired a 125,000 sq ft industrial facility used for the preparation and distribution of cut flowers for £6 million. The property is let for a further 19 years, with indexation, and is let at a rent of £3.17 per sq ft providing an initial yield of 6.25%. The location is adjacent to a junction of the A1, just 35 miles north of the M25.

### 15 Basinghall Street, London

The Company acquired a City office building where 20% of the income is derived from two retail units, and two of the five office floors are vacant. The property is located close to Bank Tube station, and offers asset management opportunities. The purchase price of £12.15 million reflected an initial yield of 7% with a rental guarantee on the vacant space.

### Building 3300, Birmingham Business Park

The Company increased its exposure to the "other" sector with the purchase of a data centre with a very large power supply on the outskirts of Birmingham. The property was acquired by way of a sale and leaseback with a 20 year lease (tenant break in year 14 and two rights to renew for a further 10 years) and benefits from annual indexed rental increases. The purchase price of £12.2 million reflected an initial yield of 5.75%.

# 87.9 MILLION POUNDS

During the reporting period the Company completed eight purchases for a total sum of 87.9 million (including purchase costs).

### Shield Engineering, Burton Latimer

An industrial unit used for high end aluminium moulding located close to Kettering. The property was acquired by way of a sale and leaseback on a 20 year lease with indexation for £8.1 million, reflecting an initial yield of 7.15%.

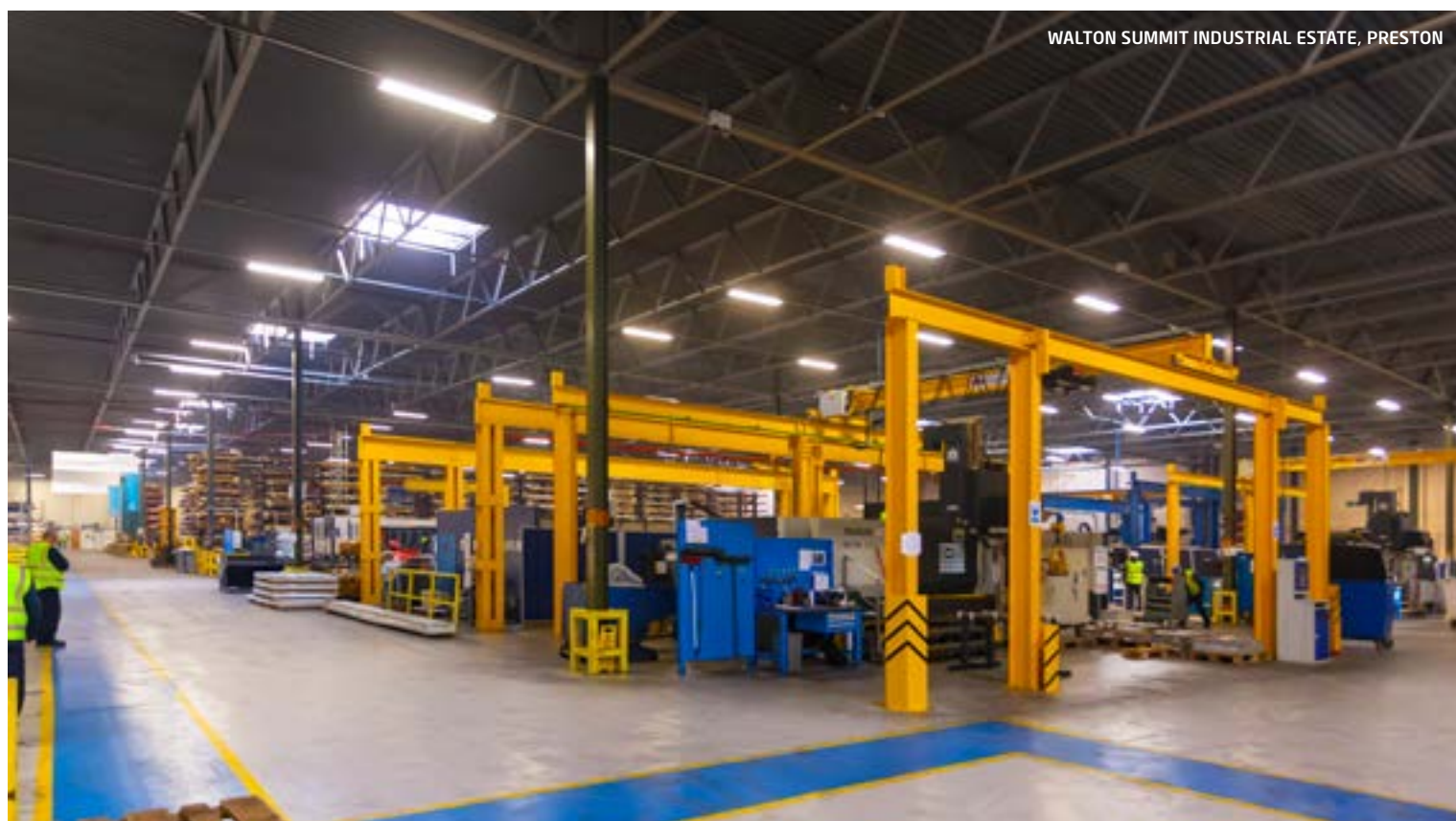
### Speedy Hire, Cambuslang

The Company purchased a logistics unit of 61,200 sq ft with a low site cover of 26% close to junction 2A of the M74, providing easy access to Glasgow and the Scottish motorway network. The purchase price of £5.03 million reflected an initial yield of 5.9%. The property is let to Speedy Hire for a further 5 years, and the lease has an outstanding rent review – upon settlement we expect the running yield to increase to 7%.

### 54 Hagley Road, Birmingham

Towards the end of the year the Company acquired its largest asset, a multi let office, for £23.75 million (an initial yield of 7.6%). The property has 18 tenants and is let at relatively low rents. We are going to invest in additional amenities for the building, and a new tram stop is due to be built outside the building in the next couple of years, further enhancing its connectivity – we believe these items give good scope for rental growth in the future.





## SALES

The Company completed the sale of four assets in the reporting period for a total of £44.9 million.

### Elstree Tower, Borehamwood

The Company sold the single let office for £20 million (valuation £18 million). The property was let to the single largest tenant in the portfolio, with a tenant break in 2020 and the potential need for significant capex. The sale enabled the Company to reduce future void and capex risk whilst realising a profit.

### Bathgate Retail Park, Bathgate

A small edge of town centre retail park let to three good tenants but with short leases, and concern over future occupancy. The property was sold for £5.3 million.

### Charter Court, Slough

Multi let office with some vacancy and need for significant capex on lease expiry. The sale price of £13.25 million reflected a yield of 6.4% and was ahead of valuation.

### Broadgate, Oldham

The Company sold a 100,000 sq ft industrial unit that had been vacant for over 18 months for £6.3 million. The sale price reflected the expected valuation on a letting, and enabled the Company to exit its largest void at a profit.

## ASSET MANAGEMENT

We pride ourselves in taking an active approach to managing our assets to protect and enhance income streams and maximise value. We believe we have a very experienced and capable asset management team that is integrated with the fund management team. We try to have a principal to principal relationship with tenants, and strive to ensure we provide occupiers with accommodation that is relevant and meets their needs. We believe in investing in our assets throughout their life so that depreciation is minimised, and tenants' needs can be satisfied. This is particularly important in offices, where the quality and style of accommodation is important for companies in how they present themselves to staff and customers. We seek to provide an environment that engages with the people working there, as we believe that is the best way to maximise occupancy and therefore income.

During the course of 2018 we completed 13 new lettings, securing £2.65 million per annum in rent, and restructured eight leases to secure longer income on £1.58 million of rent. At the end of the year the occupancy level was 94.1%, an improvement on the 92.3% a year before.

It is not surprising that the continued uncertainty of Brexit has impacted on tenants' decision making – letting transactions are taking longer and tenants are seeking more flexibility and only making

commitments when they absolutely have to. The retail occupational market is very thin, with only discount retailers taking space; the office market has perhaps been surprisingly resilient (we are certainly encouraged by viewing levels on the vacant accommodation we have); and the industrial/logistics demand has generally remained robust, but certainly should not be taken for granted.

At the year end the Company had a vacancy rate of 5.9% in the portfolio. We are not complacent about any of our voids as although we often manage to increase the rent from previous lease levels, the cost of having properties vacant impacts earnings.

## DEBT

The Company has two debt facilities from The Royal Bank of Scotland plc; a £110 million term loan, which is due to expire in April 2023, and a revolving credit facility (RCF) of £35 million, which also expires in April 2023.

As at the date of this report, £20 million of the RCF was drawn.

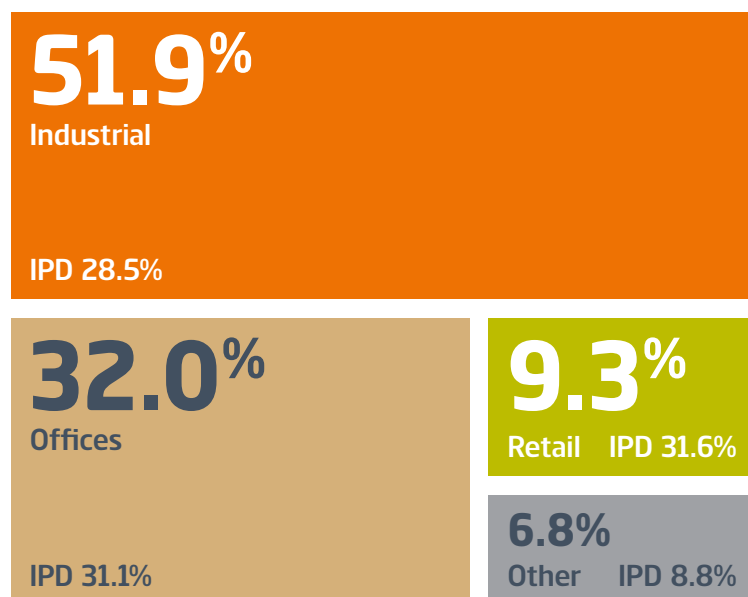
The Company's LTV as at 31 December 2018 was 24.4% (with a bank covenant limit of 60%). The all in cost of the term loan at that date was 2.7%. The term loan has an interest rate swap for the full amount, which at the reporting date held a negative value of £0.8 million.

# Strategic Report

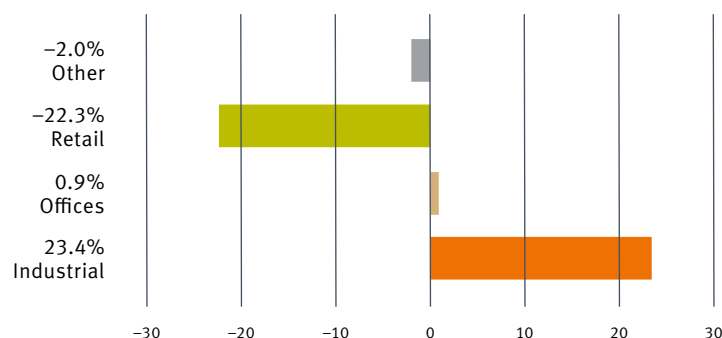
## Investment Manager's Report

continued

### Portfolio allocation by sector



### Relative Weighting versus IPD

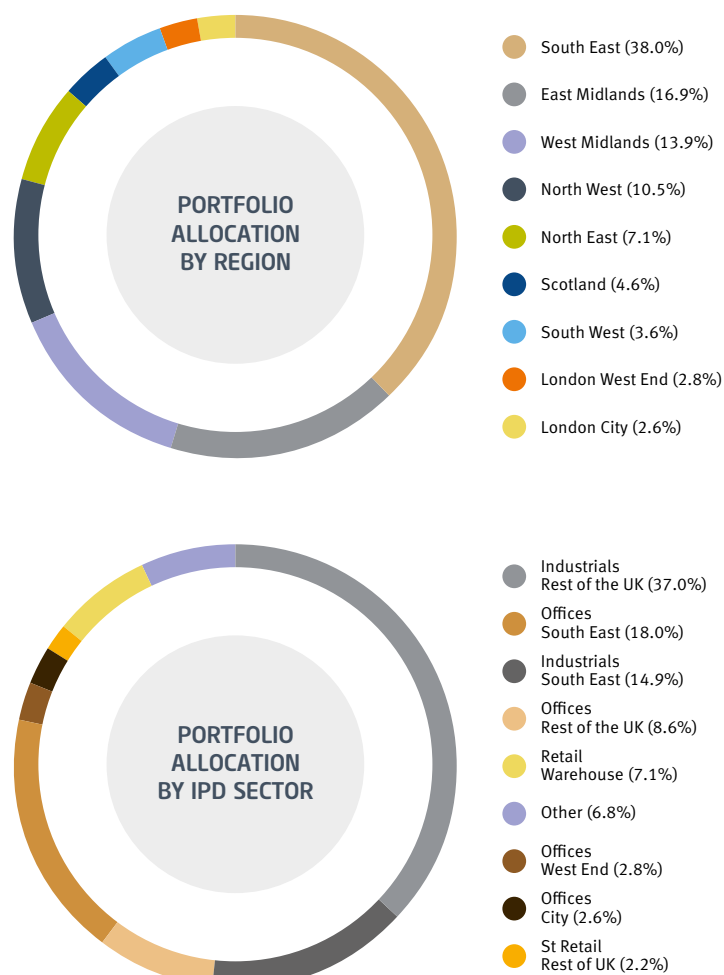


### OUTLOOK AND FUTURE STRATEGY

The uncertainty around Brexit is continuing to affect sentiment and in the fourth quarter it was noticeable that investors were taking an increasingly cautious approach to the market. Sector performance is increasingly polarised with the appreciation in the industrial sector and assets with long secure income streams struggling to off-set the continued decline in retail for most balanced funds.

The uncertainty around the near-term political outlook means the first half of 2019, will see limited investment and occupational activity. In our base case forecasts, assuming a smooth withdrawal from the EU can be achieved, we expect a more normal market in the second half of the year. There is a considerable weight of money still looking to access UK real estate, however it is waiting for more certainty before committing.

Our three year annualised forecast is for low single digit returns, with industrials continuing to outperform other sectors and retail remaining as the laggard. A commonly asked question is when





will retail be back to fair value/desirable to invest in again? Not yet, is the simple answer; the changes in the sector are structural, not cyclical, and valuations have not yet fully reflected this. Equally, one has to wonder how long industrials can continue to out-perform? For the foreseeable future is the answer, although they are now expensive to buy, with most of the future growth being factored into the purchase price. It has got to the stage where caution is required to invest in the industrial sector to ensure the assets will perform in line with the purchase assumptions – it is a sector that is now priced at a level where it is better to own them than have to buy them.

Income will now be the main component of returns, and in the low interest rate environment anticipated for the next few years, the elevated yield from real estate will remain a key driver of investment demand.

We continue to focus on asset management initiatives with the aim of preserving income and capital which are increasingly important in a late cycle environment. The Company's strategy is to invest in good quality assets in good locations that meet tenants' needs as this should provide a sustainable income stream.



## Strategic Report

### Investment Manager's Report

continued

#### TOP TEN TENANTS

<b>1</b>	<b>BAE Systems</b> Passing Rent: £1,257,640	4.5%	<b>6</b>	<b>Bong UK Limited</b> Passing Rent: £756,620	2.7%
<b>2</b>	<b>Technocargo Logistics Limited</b> Passing Rent: £1,242,250	4.4%	<b>7</b>	<b>ATOS IT Services Ltd</b> Passing Rent: £750,000	2.7%
<b>3</b>	<b>Public sector</b> Passing Rent: £1,158,858	4.1%	<b>8</b>	<b>Ricoh UK Limited</b> Passing Rent: £696,995	2.5%
<b>4</b>	<b>The Symphony Group Plc</b> Passing Rent: £1,080,000	3.8%	<b>9</b>	<b>CEVA Logistics Limited</b> Passing Rent: £652,387	2.3%
<b>5</b>	<b>Timbmet Limited</b> Passing Rent: £799,683	2.8%	<b>10</b>	<b>GW Atkins</b> Passing Rent: £625,000	2.2%
<b>Total: 9,019,433</b> <b>Total % of Total Rent: 32.0%</b>			<b>Total Group Passing Rent: £28,087,627</b>		

#### TOP TEN PROPERTIES

<b>1</b>	<b>54 Hagley Road</b> Birmingham	<b>£22m-£24m</b> Office (4.7%)	<b>6</b>	<b>Hollywood Green</b> London	<b>£14m-£16m</b> Other (2.9%)
<b>2</b>	<b>Denby 242</b> Denby	<b>£18m-£20m</b> Industrial (3.7%)	<b>7</b>	<b>Marsh Way</b> Rainham	<b>£14m-£16m</b> Industrial (2.9%)
<b>3</b>	<b>Symphony</b> Rotherham	<b>£18m-£20m</b> Industrial (3.6%)	<b>8</b>	<b>New Palace Place</b> London	<b>£14m-£16m</b> Office (2.8%)
<b>4</b>	<b>Chester House</b> Farnborough	<b>£14m-£16m</b> Office (3.0%)	<b>9</b>	<b>Timbmet</b> Shellingford	<b>£12m-£14m</b> Industrial (2.7%)
<b>5</b>	<b>Pinnacle</b> Reading	<b>£14m-£16m</b> Office (2.9%)	<b>10</b>	<b>Atos</b> Birmingham	<b>£12m-£14m</b> Other (2.6%)

#### LEASE EXPIRY PROFILE

Total 5 year band	0-5 years	6-10 years	11-15 years	16-20 years	21-25 years
Initial rent £	28,087,627	—	—	—	—
Rent expiring £	17,281,128	5,150,079	3,464,816	1,243,415	948,183
Rent expiring %	62%	18%	12%	5%	3%

# Strategic Report

## Investment Manager's Report

### Property Investments as at 31 December 2018

#	Name	Location	Sub-sector	Market value	Tenure	Area sq ft	Occupancy
1	54 Hagley Road	Birmingham	► Office	£22m–£24m	Leasehold	141,436	92.2%
2	Denby 242	Denby	► Industrial	£18m–£20m	Freehold	242,766	100%
3	Symphony	Rotherham	► Industrial	£18m–£20m	Leasehold	364,974	100%
4	Chester House	Farnborough	► Office	£14m–£16m	Leasehold	49,861	100%
5	Pinnacle	Reading	► Office	£14m–£16m	Freehold	39,032	64.3%
6	Hollywood Green	London	► Other	£14m–£16m	Freehold	64,002	100%
7	Marsh Way	Rainham	► Industrial	£14m–£16m	Leasehold	82,090	100%
8	New Palace Place	London	► Office	£14m–£16m	Leasehold	18,721	98.9%
9	Timbmet	Shellingford	► Industrial	£12m–£14m	Freehold	214,882	100%
10	Atos Data Centre	Birmingham	► Office	£12m–£14m	Freehold	40,146	100%
11	15 Basinghall Street	London	► Office	£12m–£14m	Freehold	17,485	63.2%
12	Tetron 141	Swadlincote	► Industrial	£12m–£14m	Freehold	141,459	100%
13	Howard Town Retail Park	High Peak	► Retail	£10m–£12m	Mixed	48,796	100%
14	Ocean Trade Centre	Aberdeen	► Industrial	£10m–£12m	Freehold	103,120	95.1%
15	One Station Square	Bracknell	► Office	£10m–£12m	Leasehold	42,429	85.8%
16	Explorer 1 & 2 and Mitre Court	Crawley	► Office	£10m–£12m	Freehold	43,720	85.4%
17	CEVA Logistics	Corby	► Industrial	£10m–£12m	Freehold	195,225	100%
18	82–84 Eden Street	Kingston Upon Thames	► Retail	£10m–£12m	Freehold	24,234	100%
19	Budbrooke Industrial Estate	Warwick	► Industrial	£10m–£12m	Freehold	89,939	100%
20	Foundry Lane	Horsham	► Industrial	£10m–£12m	Freehold	76,535	100%
21	Walton Summit Industrial Estate	Preston	► Industrial	£10m–£12m	Freehold	147,946	100%
22	3B–C Michigan Drive	Milton Keynes	► Industrial	£10m–£12m	Freehold	128,011	100%
23	101 Princess Street	Manchester	► Office	£10m–£12m	Freehold	41,096	100%
24	Bourne House	Staines	► Office	£10m–£12m	Freehold	26,363	100%
25	Foxholes Business Park	Hertford	► Industrial	£8m–£10m	Freehold	41,905	78.5%
26	The Kirkgate	Epsom	► Office	£8m–£10m	Freehold	26,458	23.7%
27	Shield	Kettering	► Industrial	£8m–£10m	Freehold	216,753	100%
28	Broad oak Business Park	Trafford	► Industrial	£6m–£8m	Freehold	66,955	100%
29	Swift House	Rugby	► Industrial	£6m–£8m	Leasehold	100,564	100%
30	Tetron 93	Swadlincote	► Industrial	£6m–£8m	Freehold	93,836	100%

# Strategic Report

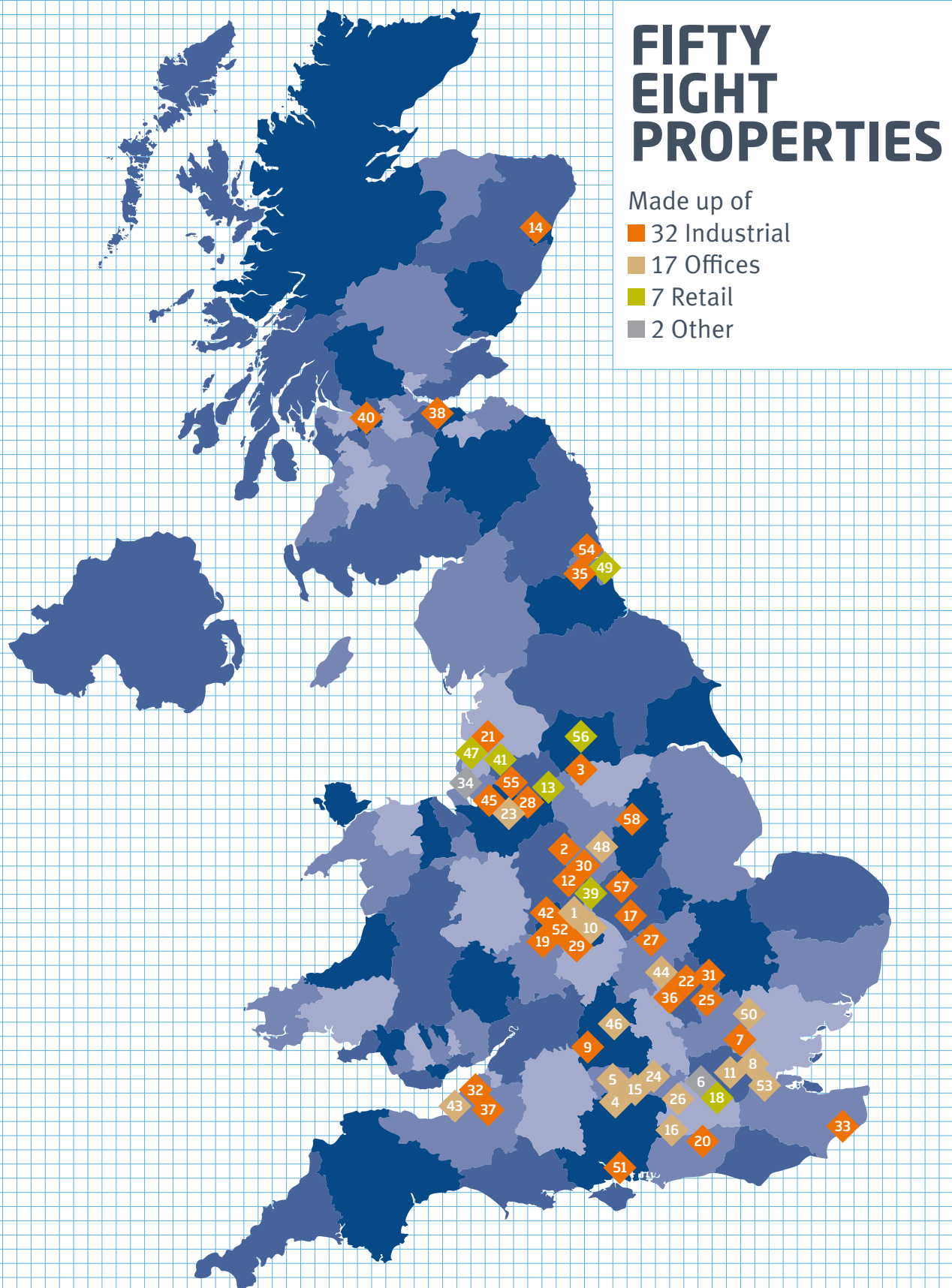
## Investment Manager's Report

Property Investments as at 31 December 2018

continued

#	Name	Location	Sub-sector	Market value	Tenure	Area sq ft	Occupancy
31	Flamingo Flowers Limited	Sandy	▶ Industrial	£6m–£8m	Freehold	125,774	100%
32	Kings Business Park	Bristol	▶ Industrial	£6m–£8m	Freehold	58,799	78.6%
33	P&O Warehouse	Dover	▶ Industrial	£6m–£8m	Freehold	84,376	100%
34	Grand National Retail Park	Liverpool	▶ Other	£6m–£8m	Freehold	38,223	100%
35	Stephenson Industrial Estate	Washington	▶ Industrial	£6m–£8m	Freehold	150,257	100%
36	Mount Farm	Milton Keynes	▶ Industrial	£6m–£8m	Freehold	74,709	100%
37	Wincanton	Bristol	▶ Industrial	£4m–£6m	Leasehold	196,914	100%
38	Units 1 & 2 Cullen Square	Livingston	▶ Industrial	£4m–£6m	Freehold	81,288	100%
39	Victoria Shopping Park	Hednesford	▶ Retail	£4m–£6m	Leasehold	37,096	100%
40	Speedy Hire Unit	Glasgow	▶ Industrial	£4m–£6m	Freehold	61,033	100%
41	The Point Retail Park	Rochdale	▶ Retail	£4m–£6m	Freehold	42,224	100%
42	Units H1, H2 & G, Nexus Point	Birmingham	▶ Industrial	£4m–£6m	Freehold	46,495	100%
43	31/32 Queen Square	Bristol	▶ Office	£4m–£6m	Freehold	13,124	100%
44	Silbury House	Milton Keynes	▶ Office	£4m–£6m	Freehold	25,205	100%
45	Opus 9 Industrial Estate	Warrington	▶ Industrial	£4m–£6m	Freehold	54,904	100%
46	Endeavor House	Kiddlington	▶ Office	£4m–£6m	Freehold	23,414	100%
47	Olympian Way	Bradford	▶ Retail	£4m–£6m	Leasehold	31,781	100%
48	Interfleet House	Derby	▶ Office	£4m–£6m	Freehold	28,735	100%
49	Middle Engine Lane	North Shields	▶ Retail	£4m–£6m	Freehold	21,846	100%
50	Anglia House	Bishops Stratford	▶ Office	£4m–£6m	Freehold	16,982	100%
51	Unit 2	Fareham	▶ Industrial	£4m–£6m	Leasehold	38,217	100%
52	21 Gavin Way	Birmingham	▶ Industrial	£4m–£6m	Freehold	36,376	100%
53	Persimmon House	Dartford	▶ Office	£2m–£4m	Freehold	14,957	100%
54	Unit 4 Monkton Business Park	Newcastle	▶ Industrial	£2m–£4m	Freehold	33,021	100%
55	Unit 4 Easter Park	Bolton	▶ Industrial	£2m–£4m	Leasehold	35,534	100%
56	26–28 Valley Road	Bradford	▶ Retail	£2m–£4m	Freehold	15,998	73.5%
57	Unit 14 Interlink Park	Bardon	▶ Industrial	£2m–£4m	Freehold	32,747	100%
58	Windsor Court & Crown Farm	Mansfield	▶ Industrial	<£2m	Leasehold	23,574	100%
<b>Total property portfolio</b>				<b>499,100,000</b>			





## Strategic Report Investment Manager's Report

Property Investments as at 31 December 2018

continued



54 HAGLEY ROAD, BIRMINGHAM





## Governance

### Board of Directors

#### Robert Peto Chairman

Robert Peto is a UK resident. He is a non-executive director of Lend Lease Europe GP Limited (Retail Fund), Western Heritable Investment Company Ltd and the commercial subsidiary of the Royal Bath & West Society and is non-executive chairman of GCP Student Living Plc. He was Chairman of DTZ Investment Management Ltd until 31 December 2017, Global President of RICS in 2010 to 2011, a member of the Bank of England Property Advisory Group from 2007 to 2011, chairman of DTZ UK from 1998 to 2008 and a member of the board of DTZ Holdings Plc from 1998 to 2009.



#### James Clifton-Brown Board member

James Clifton-Brown is a UK resident. He joined CBRE Global Investors in 1984 as a fund manager on the Courtaulds Pension Scheme Account (now Akzo Nobel Pension Scheme) and became the firm's UK Chief Investment Officer ("CIO") in 1996. He retired from this role on 30 April 2017. In his role as UK CIO, James had responsibility for the firm's UK house strategy and risk management as well as client and investor relationship management. Since 2004, he has also been a director on a number of boards relating to CBRE Global Investors Limited. He is a voting member on the USA and European Investment Committees of CBRE Global Investors.



#### Sally-Ann (Susie) Farnon Board member

Sally-Ann (Susie) Farnon, is a resident of Guernsey. She is a chartered accountant and was a banking and finance Partner with KPMG Channel Islands from 1990 until 2001, Head of Audit KPMG Channel Islands and a former member of The States of Guernsey Public Accounts Committee. She was Vice-Chairman of The Guernsey Financial Services Commission until 31 March 2015 and is a non-executive director of Breedon Group Ltd, HICL Infrastructure Company Ltd, Real Estate Credit Investments Ltd, Apax Global Alpha, BH Global Limited and Bailiwick Investments Limited.







### **Jill May**

Board member

(with effect from 12 March 2019)

Jill May is a UK resident. She is an External Member of the Prudential Regulation Committee of the Bank of England and is also a non-executive Director of Sirius Real Estate Limited, JPMorgan Claverhouse Investment Trust plc, Ruffer Investment Company, and the Institute of Chartered Accountants in England & Wales (ICAEW). Jill was a non-executive director of the CMA from its inception in 2013 until October 2016. Prior to this she spent 25 years in investment banking, 13 years in mergers and acquisitions with SG Warburg & Co. Ltd and 12 years at UBS AG.



### **Huw Evans**

Board member

Huw Evans is a resident of Guernsey. He qualified as a Chartered Accountant with KPMG (then Peat Marwick Mitchell) in 1983. He subsequently worked for three years in the corporate finance department of Schroders before joining Phoenix Securities Limited in 1986. Over the next twelve years he advised a wide range of companies in financial services and other sectors on mergers and acquisitions and more general corporate strategy. Since moving to Guernsey in 2005, he has acted as a non-executive director for a number of Guernsey based funds. He is currently Chairman of BH Macro Limited and is also a Director of VinaCapital Vietnam Opportunity Fund Limited.



### **Mike Balfour**

Board member

Mike Balfour is a UK resident. He is a member of the Institute of Chartered Accountants of Scotland and was chief executive at Thomas Miller Investment Ltd from 2010 to January 2017. Prior to this, he was chief executive at Glasgow Investment Managers and chief investment officer at Edinburgh Fund Managers Limited. Mike has 30 years of investment management experience and was appointed to the Board on 10 March 2017. He is also a director of Martin Currie Global Portfolio Trust Plc, Perpetual Income and Growth Investment Trust Plc, Fidelity China Special Situations PLC and chairs the Investment Committee of TPT Retirement Solutions.

## Governance

### Directors' Report

The Directors of Standard Life Investments Property Income Trust Limited ("the Company") present their Annual Report and Audited Consolidated Financial Statements for the year ended 31 December 2018.

### PRINCIPAL ACTIVITY AND STATUS

The Company was incorporated in Guernsey on 18 November 2003 and commenced activities on 19 December 2003. The Company is a closed ended investment company and is registered under the provisions of The Companies (Guernsey) Law, 2008 (as amended). The principal activity and status of the Company's subsidiaries is set out in note 9 on page 66.

The Company's registered number is 41352.

On 1 January 2015 the Company migrated its tax residence to the UK and became a UK REIT.

### LISTING

The Company is listed on the London Stock Exchange (premium listing).

The Company has complied with the relevant provisions of, and the requirements set out in, the United Kingdom Listing Authority ('UKLA') regulations throughout the year under review.

### THE GROUP

At 31 December 2018, the Group consisted of the Company and five subsidiaries: Standard Life Investments Property Holdings Limited, a company with limited liability incorporated in Guernsey; Standard Life Investments (SLIPIT) Limited Partnership, a limited partnership established in England; Standard Life Investments SLIPIT (General Partner) Limited, a company with limited liability incorporated in England; and Standard Life Investments SLIPIT (Nominee) Limited, a company with limited liability incorporated in England. In November 2018, the Group also acquired 100% of the share capital of Hagley Road Limited, a company incorporated in Jersey.

### RESULTS AND DIVIDEND

The Group generated an IFRS surplus of £30.9 million (2017: £45.5 million) in the year equating to earnings per share of 7.68p (2017: 10.91p). In addition the Group utilised cash of £6.1 million (2017: generated cash of £1.3 million) in the year and had cash at the year-end of £8.3 million (2017: £14.3 million). The Group paid out dividends totalling £19.2 million (2017: £18.6 million) in the year which were eighty nine percent covered by the net income of the Group.

### SUBSTANTIAL SHAREHOLDINGS

As at 31 December 2018 and 31 March 2019 the following entities had a holding of 3% or more of the Company's issued share capital.

	holdings (%)	
	31.12.18	31.03.19
Brewin Dolphin	10.5	10.8
Heartwood Group	7.1	7.0
Hargreaves Lansdown	6.7	7.3
Alliance Trust Savings	6.3	6.3
Mattioli Woods	5.0	5.8
BlackRock	4.6	4.5
AJ Bell	4.0	4.2
Brewin Dolphin (ND)	3.6	3.8
Interactive Investor	3.5	3.7

### DIRECTORS

The names and short biographies of the Directors of the Group at the date of this Report, all of whom served throughout the year ended 31 December 2018, including Jill May who was appointed on 12 March 2019, are shown on pages 28 and 29.

The Directors each hold the following number of ordinary shares in the Company:

	Ordinary Shares held	
	31.12.18	31.12.17
Robert Peto*	57,435	57,435
Sally-Ann Farnon	30,000	30,000
Huw Evans	60,000	60,000
Mike Balfour	84,260	24,260
James Clifton-Brown	21,500	21,500

\* includes 31,898 ordinary shares held by Mrs Peto

There have been no changes in the above interests between 31 December 2018 and 17 April 2019.

### DIRECTORS' INDEMNITY

The Group maintains insurance in respect of Directors' and Officers' liabilities in relation to their acts on behalf of the Group. The Company's Articles of Association provide, subject to the provisions of Guernsey legislation, for the Group to indemnify Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their position as Directors in which judgement is given in their favour or they are acquitted.

### DISCLOSURE OF INFORMATION TO AUDITOR

In the case of each of the persons who are Directors at the time when the Annual Report and Consolidated Financial Statements are approved, the following applies:

- ▶ so far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- ▶ he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.



## GOING CONCERN

The Group's strategy and business model, together with the factors likely to affect its future development, performance and position, including principal risks and uncertainties, are set out in the Strategic Report.

The Directors have reviewed detailed cash flow, income and expense projections in order to assess the Group's ability to pay its operational expenses, bank interest and dividends for the foreseeable future. The Directors have examined significant areas of possible financial risk including cash and cash requirements and the debt covenants, in particular those relating to LTV and interest cover. They have not identified any material uncertainties which cast significant doubt on the ability to continue as a going concern for a period of not less than 12 months from the date of the approval of the consolidated financial statements. The Directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future and the Board believes it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

## CORPORATE GOVERNANCE

The Directors report on Corporate Governance is detailed on pages 32 to 35 and forms part of the Directors' Report.

## CRIMINAL FINANCES ACT

The Directors are fully committed to complying with all legislation and appropriate guidelines designed to prevent tax evasion and the facilitation of tax evasion in the jurisdictions in which the Group, its service providers and business partners operate.

## SHARE CAPITAL AND VOTING RIGHTS

As at 31 December 2018 and 31 March 2019 there were 405,865,419 ordinary shares of 1p each in issue. All ordinary shares rank equally for dividends and distributions and carry one vote each. There are no restrictions concerning the transfer of ordinary shares in the Company, no special rights with regard to control attached to the ordinary shares, no agreements between holders of ordinary shares regarding their transfer known to the Company and no agreement which the Company is party to that affects its control following a takeover bid.

## ISSUE OF SHARES

As required by the Listing Rules, the Directors will only issue shares at prices which are not less than the net asset value of the ordinary shares unless such shares are first offered on a pre-emptive basis to existing shareholders or otherwise with the approval of shareholders.

## INDEPENDENT AUDITOR

Following a detailed tender process, as set out in the Audit Committee Report on page 37, it is proposed that Deloitte LLP will replace Ernst & Young LLP as the Company's auditors for the year ending 31 December 2019. A resolution to appoint Deloitte LLP as the Group's auditor will be proposed to the shareholders at the AGM on 13 June 2019.

## ANNUAL GENERAL MEETING

The notice of the Annual General Meeting, which will be held this year at 10.30am on 13 June 2019, may be found on pages 91 to 93.

The following resolutions are being proposed in relation to the approval of the Company's dividend policy, and in relation to the Directors' authorities to buy back and allot shares.

### Dividend policy (resolution 4)

As a result of the timing of payment of the Company's quarterly dividends in March, May, August and November, the Company's shareholders are unable to approve a final dividend each year. As an alternative, the Board will put the Company's dividend policy to shareholders for approval on an annual basis.

Resolution 4, which is an ordinary resolution, relates to the approval of the Company's dividend policy which is to pay four quarterly interim dividends.

### Directors authority to buy back shares (resolution 12)

The Company did not purchase any shares for cancellation during the financial year ending 31 December 2018. Unless renewed, the current authority of the Company to make market purchases of shares expires at the end of the Annual General Meeting.

Consequently, resolution 12 as set out in the notice of the Annual General Meeting seeks authority for the Company to make market purchases of up to 14.99 percent of the issued ordinary share capital, such

authority to last until the earlier of 13 December 2020 and the Annual General Meeting in 2020. Any buy back of ordinary shares will be made subject to Guernsey law, the UKLA's Listing Rules and within any guidelines established from time to time by the Board and the making and timing of any buy backs will be at the absolute discretion of the Board. Purchases of ordinary shares will only be made through the market for cash at prices below the prevailing net asset value of the ordinary shares (as last calculated) where the Directors believe such purchases will enhance shareholder value. The price paid will not be less than the nominal value of 1p per share. Such purchases will also only be made in accordance with the rules of the UK Listing Authority which provide that the price to be paid must not be more than the higher of; (i) 105 percent of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the ordinary shares for the five business days before the shares are purchased; and (ii) the higher of the last independent trade and the highest current independent bid on the trading venue on which the purchase is carried out. Any shares purchased under the authority will be cancelled or held in treasury.

### Directors authority to allot shares on a non pre-emptive basis (resolution 13)

Resolution 13 as set out in the notice of the Annual General Meeting gives the Directors, for the period until the conclusion of the annual general meeting in 2020 or if earlier on the expiry of 15 months from the passing of the resolution, the necessary authority to either allot securities or sell shares held in treasury, otherwise than to existing shareholders on a pro-rata basis, for cash, up to an aggregate nominal amount of £405,865. This is equivalent to approximately 10% of the issued ordinary share capital of the Company as at 17 April 2019. It is expected that the Company will seek this authority on an annual basis. The Directors will only exercise this authority if they believe it advantageous and in the best interests of shareholders and in no circumstances would result in a dilution to the net asset value per share.

The Directors believe that the resolutions being put to the shareholders at the Annual General Meeting are in the best interests of the shareholders as a whole. Accordingly the Directors recommend that shareholders vote in favour of all of the resolutions to be proposed at the Annual General Meeting.

Approved by the Board on

**17 April 2019**

**Robert Peto, Chairman**

## Governance

### Corporate Governance Report

#### INTRODUCTION

As a company incorporated in Guernsey with a premium listing of equity shares on the London Stock Exchange, the Company is required to comply with the UK Corporate Governance Code 2016 (the "UK Code") or explain any non-compliance. The Board believes that the Company has complied throughout the accounting period with the provisions set out in the UK Code, subject to the statements made in the Corporate Governance Report below.

The Guernsey Financial Services Commission published its Code of Corporate Governance (the "Guernsey Code") in September 2011. This code came into effect on 1 January 2012. By complying with the UK Code, the Company is deemed to have met the requirements of Guernsey Code and has therefore not reported further on its compliance with that code.

The Board has considered the principles and recommendations of the AIC's Code of Corporate Governance (the "AIC Code") and follows the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"), which provides a framework of best practice for investment companies. The Financial Reporting Council has confirmed that, by following the AIC Guide, investment company boards should fully meet their obligations in relation to the UK Code.

The AIC Code and the AIC Guide are available on the AIC's website, [www.theaic.co.uk](http://www.theaic.co.uk). The UK Code is available on the Financial Reporting Council's website, [www.frc.org.uk](http://www.frc.org.uk). The Guernsey Code is available on the Guernsey Financial Services Commission's website, [www.gfsc.gg](http://www.gfsc.gg).

The Board considers that it is appropriate to report against the principles and recommendations of the AIC Code by reference to the AIC Guide (which incorporates the UK Code). Except as disclosed below, the Group complied throughout the year with the recommendations of the AIC Code and the relevant provisions of the UK Code.

The UK Code contains provisions in relation to:

- ▶ the role of the chief executive
- ▶ executive directors' remuneration
- ▶ the need for an internal audit function

In accordance with the AIC Code and pre-ambles to the UK Code, the Board considers that these provisions are not relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. The Company has therefore not reported further on these provisions.

The Board notes the revised UK Code and AIC Code which were published during 2018 and 2019, respectively, and apply to accounting periods beginning on or after 1 January 2019. The Company will report its compliance against the revised AIC Code within its Annual Report to 31 December 2019.

#### THE BOARD

The Board comprises solely non-executive Directors of which Robert Peto is Chairman and Sally-Ann Farnon has been designated as Senior Independent Director. Upon Mrs Farnon's retirement in June 2019, Huw Evans will become the Senior Independent Director, and Mike Balfour will Chair the Audit Committee. Biographical details of each Director are shown on pages 28 and 29. All Directors are considered by the Board to be independent of the Investment Manager and free of any relationship which could materially interfere with the exercise of their independent judgement on issues of strategy, performance, resources and standards of conduct.

The Board has delegated day-to-day management of the assets to the Investment Manager. All decisions relating to the Group's investment policy, investment objective, dividend policy, gearing, corporate governance and strategy in general are reserved for the Board. The Board meets quarterly and receives full information on the Company's performance, financial position and any other relevant information. At least once a year, the Board also holds a meeting specifically to review the Group's strategy.

Individual Directors are entitled to have access to independent professional advice at the Group's expense where they deem it necessary to discharge their responsibilities as Directors. The Group maintains appropriate Directors and Officers liability insurance.

The Directors have access to the company secretarial and administration services of the Company Secretary, Northern Trust International Administration Services (Guernsey) Limited, through its appointed representatives. The Company Secretary is responsible to the Board for:

- ▶ ensuring that Board procedures are complied with;
- ▶ under the direction of the Chairman, ensuring good information flows to the Board and its Committees, as well as facilitating inductions and assisting with professional developments; and
- ▶ liaising, through the Chairman, on all corporate governance matters.

The Board has a procedure in place to deal with a situation where a Director has a conflict of interest. As part of this process, the Directors prepare a list of other positions held and all other conflict situations that may need authorising either in relation to the Director concerned or his/her connected persons. The Board considers each Director's situation and decides whether to approve any conflict, taking into consideration what is in the best interests of the Group and whether the Director's ability to act in accordance with his or her wider duties is affected. Each Director is required to notify the Company Secretary of any potential or actual conflict situations which require authorising by the Board. Any authorisations given by the Board are reviewed at each Board meeting.

#### CHAIRMAN AND SENIOR INDEPENDENT DIRECTOR

The Chairman is responsible for providing effective leadership to the Board, demonstrating objective judgement and promoting a culture of openness and debate. The Chairman facilitates the effective contribution, and encourages active engagement, by each Director. In conjunction with the Company Secretary, the Chairman ensures that Directors receive accurate, timely and clear information to assist them with effective decision-making. The Chairman leads the evaluation of the Board and individual Directors, and acts upon the results of the evaluation process by recognising strengths and addressing any weaknesses. The Chairman also engages with major shareholders and ensures that all Directors understand shareholder views.

The Senior Independent Director acts as a sounding board for the Chairman and acts as an intermediary for other directors, when necessary. Working closely with the Nomination Committee, the Senior Independent Director takes responsibility for an orderly succession process for the Chairman, and leads the annual appraisal of the Chairman's performance. The Senior Independent Director is also available to shareholders to discuss any concerns they may have.

## EXTERNAL AGENCIES

The Board has contractually delegated the following services to external firms:

- ▶ the function of Alternative Investment Fund Manager, including management of the investment portfolio
- ▶ accounting services
- ▶ company secretarial and administration services
- ▶ shareholder registration services

The contracts, including the investment management agreement with the Investment Manager, were entered into after full and proper consideration by the Directors of the quality and cost of services offered, including the financial control systems in operation in so far as they relate to the Group.

These contracts are reviewed regularly by the Management Engagement Committee. Key members of staff from the Investment Manager and Company Secretary attend Board meetings to brief the Directors on issues pertinent to the services provided.

## BOARD COMMITTEES

The Board has appointed a number of Committees – the Property Valuation Committee, the Audit Committee, the Management Engagement Committee, the Nomination Committee and the Remuneration Committee. Copies of their terms of reference, which clearly define the responsibilities and duties of each Committee, are available on request from the Company Secretary or may be downloaded from the Company's website at [www.slipit.co.uk](http://www.slipit.co.uk)

### Property Valuation Committee

The Property Valuation Committee, chaired by James Clifton-Brown, comprises the full Board and meets four times a year. The Committee is convened for the purpose of reviewing the quarterly independent property valuation reports prior to their submission to the Board. The Chairman of the Property Valuation Committee meets with the independent property valuer at least annually.

### Audit Committee

The Audit Committee, chaired by Sally-Ann Farnon, comprises the full Board and meets at least three times a year. The Audit Committee has set out a formal report on pages 36 and 37. Following Sally-Ann's retirement in June 2019, Mike Balfour will become Chair of the Audit Committee.

### Management Engagement Committee

The Management Engagement Committee is chaired by Huw Evans and comprises the full Board. The Committee meets at least twice a year to review the performance of the Investment Manager and other service providers, together with the terms and conditions of their appointments.

### Nomination Committee

The Nomination Committee, chaired by Mike Balfour, comprises the full Board and meets at least once a year. Appointments of new Directors are considered by the Committee taking account of the need to maintain a balanced Board. New Directors appointed to the Board receive a formal induction and appropriate training is arranged for new and current Directors as required. Although the Group does not have a formal policy on diversity, the Board and Committee are cognisant of the debate around the recommendations of the Davies Report on Women on Boards and the Hampton Alexander Review and recognises the benefits of diversity in its broadest sense and the value this brings to the Company in terms of skills, knowledge and experience.

During the year the Nominations Committee met twice which culminated in the appointment of Mrs Jill May on 12 March 2019. The recruitment process involved the appointment of Sapphire Partners Limited, a recruitment consultant, who co-ordinated a thorough and independent process based on the guidance given to it by the Committee.

### Remuneration Committee

The Remuneration Committee is chaired by Mike Balfour, comprises the full Board and meets at least once a year. The Committee reviews the level of Directors' fees, ensuring that they reflect the time commitment and responsibilities of the role and are fair and comparable with those of similar companies.

### Tenure Policy

The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board. The Board also takes the view that independence is not compromised by length of tenure on the Board. However, in accordance with corporate governance best practice and the need for regular refreshment and diversity on the Board, the Board does not expect any of the Group's Directors, including the Chairman, to serve on the Board for more than nine years.

All Directors are also subject to re-election on an annual basis.

There are no service contracts in existence between the Group and any Directors but each of the Directors was appointed by letter of appointment which sets out the main terms of his or her appointment.

Sally-Ann Farnon was appointed as a Director on 1 July 2010, Huw Evans was appointed on 11 April 2014, Robert Peto was appointed on 28 May 2014, Mike Balfour was appointed on 10 March 2017 and James Clifton-Brown was appointed on 17 August 2017. Jill May was appointed on 12 March 2019.

Pursuant to the Articles of Association of the Company, one third, or the number nearest to but not exceeding one third, of the Directors are required to retire and stand for re-election at the Annual General Meeting each year, provided that each Director shall retire and stand for re-election at the Annual General Meeting immediately following their appointment then at intervals of no more than three years. However, in accordance with the recommendations of the AIC Code and the UK Code, the Board has agreed that all Directors will retire annually and, if appropriate will seek re-election.

Huw Evans, Robert Peto, Mike Balfour and James Clifton-Brown will stand for re-election at the forthcoming Annual General Meeting. Jill May will stand for election having been appointed since the last General Meeting. The Board has reviewed the skills and experience of each Director and believes that each contributes to the long-term sustainable success of the Company. The Board has no hesitation in recommending their re-election/election to shareholders.

## Governance

### Corporate Governance Report

continued

#### PERFORMANCE OF THE BOARD

During the year, the performance of the Board, the Committee and the individual Directors was evaluated through an assessment process, led by the Chairman. The performance of the Chairman was evaluated by the other Directors, led by the Senior Independent Director.

This evaluation process sought to identify whether the Board demonstrates sufficient collective skill and expertise, independence and knowledge of the Group and that each Director exhibits the commitment required for the Group to achieve its objective.

The Board is satisfied with the resulting performance evaluation of the Board, each individual Director and the Chairman.

#### MEETING ATTENDANCE

The table below sets out the Directors' attendance at each scheduled quarterly Board and Committee meetings. The number of meetings which the Directors were eligible to attend are shown in brackets.

In addition to the scheduled meetings detailed below, there were a further 8 ad-hoc board and committee meetings held during the year.

#### INVESTMENT MANAGEMENT AGREEMENT

Following the merger of Standard Life plc with Aberdeen Asset Management PLC in August 2017, the Company appointed Aberdeen Standard Fund Managers Limited as its AIFM with effect from 10 December 2018. The appointment is on identical terms to the arrangements previously in place with Standard Life Investments (Corporate Funds) Limited and the terms of the previous management agreement have been novated across to Aberdeen Standard Fund Managements Limited.

Under the terms of the Investment Management Agreement between the Investment Manager and the Company ("the IMA"), the Investment Manager is entitled to an annual fee equal to 0.75% of total assets up to £200 million, 0.70% of total assets between £200 million and £300 million and 0.65% of total assets in excess of £300 million.

The IMA is terminable by either party on not less than one year's notice.

The Management Engagement Committee reviews the performance of, and contractual arrangements with, the Investment Manager on an annual basis. The Board has considered the appropriateness of the continuing appointment of the Investment Manager in view of the performance of the Investment Manager, the fees payable to the Investment Manager and the notice period under the IMA. The Board has concluded that the continuing appointment of the Investment Manager on the terms agreed is in the best interest of shareholders as a whole.

#### INTERNAL CONTROLS

The Board is ultimately responsible for the Group's system of internal controls and risk management and for reviewing its effectiveness. The Board confirms that there is an on-going process for identifying, evaluating and managing the significant risks faced by the Group in accordance with the Financial Reporting Council publication – Guidance on Risk Management, Internal Control and Related Financial and Business Reporting ('the FRC Guidance').

	Board	Audit Committee	Property Valuation Committee	Management Engagement Committee	Nomination Committee	Remuneration Committee
Robert Peto	4 (4)	4 (4)	4 (4)	2 (2)	2 (2)	1 (1)
Sally-Ann Farnon	4 (4)	4 (4)	4 (4)	2 (2)	2 (2)	1 (1)
Huw Evans	4 (4)	4 (4)	4 (4)	2 (2)	2 (2)	1 (1)
Mike Balfour	4 (4)	4 (4)	4 (4)	2 (2)	2 (2)	1 (1)
James Clifton-Brown	3 (4)	3 (4)	3 (4)	2 (2)	2 (2)	1 (1)



This process has been in place for the year under review and up to the date of approval of this Annual Report and Consolidated Financial Statements and is regularly reviewed by the Board and accords with the FRC Guidance. The process is based principally on a risk-based approach to internal control whereby a risk matrix is created that identifies the key functions carried out by the Board, the Investment Manager and the other service providers, the individual activities undertaken within those functions, the risk associated with each activity and the controls employed to minimise those risks. A risk rating is then applied. The risk matrix is regularly updated and the Board is provided with regular reports highlighting any material changes to risk ratings and confirming action which has been, or is being, taken.

Twice a year the Board, via the Audit Committee, carries out an assessment of internal controls by considering the risk matrix and documentation from the Investment Manager and the Company Secretary, including reports from their internal audit and compliance functions.

The Board has reviewed the effectiveness of the Investment Manager's system of internal control including its annual internal controls report prepared in accordance with the International Auditing and Assurance Standards Board's International Standard on Assurances Engagements ("ISAE") 3402, "Assurance Reports on Controls at a Service Organisation". This report sets out the Investment Manager's internal control policies and procedures with respect to the management of their clients' assets and contains a report from independent external auditors.

At each Board meeting, the Board monitors the investment performance of the Group in comparison to its stated objective and against comparable companies. The Board also reviews the Group's activities since the last Board meeting to ensure that the Investment Manager adheres to the agreed investment policy and guidelines and, if necessary, approves changes to such policy and guidelines. In addition, at each Board meeting, the Board receives reports from the Company Secretary in respect of compliance matters and duties performed on behalf of the Group.

The Board has adopted appropriate procedures designed to prevent bribery, including regular reviews of anti-bribery policies of suppliers.

The Board has also reviewed a statement from the Investment Manager detailing arrangements in place whereby the Investment Manager's staff may, in confidence, escalate concerns about possible improprieties in matters of financial reporting or other matters.

With effect from 7 July 2014, the Group entered into arrangements to comply with AIFMD. The Group appointed Standard Life Investments (Corporate Funds) Limited as its AIFM, which was replaced by Aberdeen Standard Fund Managers Limited on 10 December 2018, and Citibank Europe plc as its Depositary.

The Depositary's responsibilities include cash monitoring, safe keeping of any financial instruments held by the Group and monitoring the Group's compliance with investment limits and leverage requirements.

The AIFM has a permanent risk management function to ensure that effective risk management policies and procedures are in place to monitor compliance with risk limits. The AIFM has a risk policy which covers the risks associated with the management of the portfolio and the adequacy and appropriateness of this policy is reviewed at least annually by the AIFM. The AIFM presents a report to the Board, via the Audit Committee, on a six monthly basis confirming its compliance with AIFMD in relation to the Company.

## RELATIONS WITH SHAREHOLDERS

The Board welcomes correspondence from shareholders, addressed to the Company's registered office. All shareholders have the opportunity to put questions to the Board at the Annual General Meeting. This year's AGM is being held on Thursday 13 June 2019 at 10.30am at the Investment Manager's offices at Bow Bells House, 1 Bread Street, London EC4M 9HH. The Board hopes that as many shareholders as possible will be able to attend the meeting, which will include a 'Meet the Manager' session.

To promote a clear understanding of the Group, its objectives and financial results, the Board aims to ensure that information relating to the Group is disclosed in a timely manner and once published, quarterly factsheets, the interim report and annual report are available on the Company's website which can be found at: [www.slipit.co.uk](http://www.slipit.co.uk)

The Investment Manager continues to offer individual meetings to the largest institutional and private client manager shareholders and reports back to the Board on these meetings.

## ACCOUNTABILITY AND AUDIT

The Statement of Directors' Responsibilities in respect of the Consolidated Financial Statements is on page 40 and the Statement of Going Concern is included in the Directors' Report on page 31 and the Viability Statement can be found on page 15. The Independent Auditor's Report is on pages 42 to 46.

Approved by the Board on

**17 April 2019**  
**Robert Peto**  
**Chairman**

## Governance

### Audit Committee Report

#### ROLE OF THE AUDIT COMMITTEE

The main responsibilities of the Audit Committee are:

- ▶ monitoring the integrity of the consolidated financial statements of the Group and any public announcements relating to the Group's financial performance and reviewing significant reporting judgements contained in them;
- ▶ reviewing the effectiveness of the Group's internal financial controls and risk management systems and bringing material issues to the attention of the Board;
- ▶ reviewing an annual statement from the Investment Manager detailing the arrangements whereby the Investment Manager's staff may, in confidence, escalate concerns about possible improprieties in relation to financial reporting or other matters;
- ▶ making recommendations to the Board, for it to put to shareholders for their approval at a general meeting, in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- ▶ reviewing the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements;
- ▶ making recommendations to the Board in relation to the engagement of the external auditor to supply non-audit services, taking into account ethical guidance regarding the provision of non-audit services by the external audit firm;
- ▶ where requested by the Board, providing advice on whether the annual report and consolidated financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Audit Committee reports to the Board on its findings, identifying any matters in respect of which the Audit Committee considers that action or improvement is needed and making recommendations as to the steps to be taken.

#### COMPOSITION OF AUDIT COMMITTEE

The Audit Committee comprises the full Board, all of whom are independent at the year end and have recent and relevant financial experience. Three members of the Audit Committee are Chartered Accountants.

#### REVIEW OF SIGNIFICANT ISSUES AND RISKS

In planning its work, and reviewing the audit plan with the Auditor, the Audit Committee takes account of the most significant issues and risks, both operational and financial, likely to impact on the Group's consolidated financial statements. This included an assessment of the emerging risk, Brexit, and the impact this could have on the Group and its underlying portfolio.

The property investment portfolio is the most substantial figure on the Balance Sheet. The valuation of the properties, and in conjunction with this the confirmation of ownership and title, is therefore a key risk that requires the attention of the Audit Committee. Specifically the risk is that the properties are not recognised and measured in line with the Group's stated accounting policy on the valuation of investment properties. The investment properties are valued at the year end, and at each quarter end, by Knight Frank, independent international real estate consultants. The valuations are prepared in accordance with the RICS Valuation – Professional Standards, published by the Royal Institution of Chartered Surveyors, and are reviewed by the Property Valuation Committee (quarterly), the Audit Committee (six monthly) and the external auditor (annually).

Full details of the valuation methodology are contained in note 7 to the consolidated financial statements.

As rental income is the Group's major source of revenue and a significant item in the Statement of Comprehensive Income, a key risk relates to the recognition of rental income. Specifically the risk is that the Group does not recognise rental income in line with its stated policy on rental income recognition. The Audit Committee reviews the controls in place at the Investment Manager in respect of recognition of rental income on a six monthly basis and, along with the external auditor, reviews the rental income policy, the pattern of rental income received and the amount recognised in the consolidated financial statements at each year end.

#### REVIEW OF ACTIVITIES

The Audit Committee met four times during the year under review, in March, April, August and November 2018. Following the year end, the Audit Committee met in March 2019.

At each March and August meeting, the Audit Committee reviews the Group's compliance with the AIC Code and carries out a detailed assessment of the Group's internal controls, including:

- ▶ a review of the Group's risk framework, including its risk appetite statement and full risk matrix, enabling the on-going identification, evaluation and management of the significant risks facing the Group;
- ▶ a review of Investment Manager's internal controls report;
- ▶ a review of the Group's anti-bribery policy and those of its service providers; and
- ▶ a review of the Investment Manager's arrangements for staff to escalate concerns, in confidence, of possible improprieties.

At each March meeting, the Audit Committee reviews the Annual Report and Consolidated Financial Statements and receives the external auditor's audit findings report. The external auditor is in attendance at this meeting. Following its review, the Audit Committee provides advice to the Board on whether the Annual Report and Consolidated Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model, viability and strategy.

At each March and August meeting the Audit Committee reviews the compliance of the Investment Manager, as AIFM, and the depositary in relation to their obligations under AIFMD in respect of the Company.

At each August meeting, the Audit Committee reviews the Interim Report and Consolidated Financial Statements.

Each November, the Audit Committee meets with the external auditor and reviews the audit plan and identifies significant risks and audit responses to those risks.

## EXTERNAL AUDIT PROCESS

The Audit Committee meets twice a year with the external auditor. The audit partner for the Company is Mr Andrew Dann who has undertaken this role for five years. The auditor provides a planning report in advance of the annual audit and a report on the annual audit. The Audit Committee has the opportunity to question and challenge the auditor in respect of these reports.

The Audit Committee Chair also meets the audit partner in person or by telephone at least four times a year.

At least once a year, the Audit Committee has the opportunity to discuss any aspect of the auditor's work with the auditor in the absence of the Investment Manager. Overall the Committee believes the external audit process has been effective.

## AUDITOR ASSESSMENT AND INDEPENDENCE

The Audit Committee reviews the performance, cost effectiveness and general relationship with the external auditor each year. This review takes into consideration the standing, skills and experience of the audit firm and the audit team. In addition, on an annual basis, the Audit Committee reviews the independence and objectivity of the external auditor through the completion of a questionnaire which scores the auditor on various aspects of their performance.

The Audit Committee also reviews the provision of non-audit services by the external auditor. All non-audit work to be carried out by the external auditor has to be approved in advance by the Audit Committee, to ensure such services are not a threat to the independence and objectivity of the conduct of the audit.

The Group's external auditor is Ernst & Young LLP ("EY"). The Company first appointed EY as auditor for the year ended 31 December 2009, following a tender process carried out during 2009. In accordance with regulatory requirements EY rotates the Senior Statutory Auditor responsible for the audit every five years. There are no contractual obligations which restrict the Audit Committee's choice of external auditor.

During the year ended 31 December 2018, EY received fees of £nil in relation to non-audit services (2017: £4,500). The Audit Committee does not consider that the provision of such non-audit services is a threat to the objectivity and independence of the conduct of the audit.

## AUDITOR ROTATION

In accordance with regulatory requirements, a mandatory competitive tender for the audit of the Group was held in November 2018. Following the tender process, and on the recommendation of the Audit Committee, it is the Board's intention to propose to shareholders at the AGM on 13 June 2019 that Deloitte LLP be appointed as the Group's auditor.

**Sally-Ann Farnon**  
**Audit Committee Chairman**  
 17 April 2019

## Governance

### Directors' Remuneration Report

#### REMUNERATION COMMITTEE

The Remuneration Committee comprises the full Board and is chaired by Mike Balfour. The Committee considers, at least annually, the level of Directors' fees and makes recommendations to the Board. The Board determines the level of Directors' fees in accordance with Group's Remuneration Policy, as detailed below, and in accordance with the UK Corporate Governance Code.

#### REMUNERATION POLICY

The Group's Remuneration Policy is that fees payable to Directors should reflect the time spent by the Board on the Group's affairs and the responsibilities borne by the Directors and should be fair and comparable with those of similar companies. The level of fees should also be sufficient to attract and retain the high calibre of Directors needed to oversee the Group properly and to reflect its specific circumstances.

Directors are remunerated in the form of fees payable quarterly in arrears. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

The fees for the Directors are determined within the limit set out on the Company's Articles of Incorporation. The current limit is an aggregate of £250,000 per annum and may not be changed without seeking shareholder approval at general meeting. The Board has not received any views from shareholders in respect of the aggregate or individual levels of Directors' remuneration.

The Board consists entirely of non-executive Directors and the Board has agreed that all Directors will retire annually and, if appropriate, seek re-election. There are no service contracts in existence between the Group and any Directors but each Director was appointed by a letter of appointment which sets out the main terms of his or her appointment. A Director may resign by notice in writing to the Board at any time; there are no set notice periods and no compensation payable to a Director on leaving office.

The Directors' Remuneration Policy and the level of Directors' fees are reviewed annually by the Remuneration Committee. This review includes consideration of the appropriate level of fees for each Director, taking into account the time, commitment and committee responsibilities of each Director and fees paid to directors of comparable companies invested in real estate.

The Directors' fees for 2019 have been agreed by the Board, on the recommendation of the Remuneration Committee, as follows: £44,000 for the Chairman (2018: £42,000), £39,000 for the Audit Committee Chairman (2018: £37,500) and £35,000 for each of the other Directors (2018: £33,500).

It is intended that the above Remuneration Policy will continue to apply for the forthcoming financial year and subsequent years. The Remuneration Policy was approved by shareholders at the Annual General Meeting on 2 June 2016. The Remuneration Policy will be put to a shareholder's vote at the AGM on 13 June 2019 and will be put to shareholders vote at least once every three years.

At the Annual General Meeting in June 2018 the results in respect of the resolution to approve the Group's Remuneration Report were as follows:

Percentage of votes cast for	Percentage of votes cast against
99.9	0.1

#### DIRECTORS' FEES

The Directors who served during the year received fees as shown in the table opposite.

	2018 £	2017 £
Robert Peto	42,000	40,000
Sally-Ann Farnon	37,500	36,000
Huw Evans	33,500	32,000
Mike Balfour	33,500	32,000
James Clifton-Brown	33,500	32,000
Employers national insurance contributions	12,363	11,962
	192,363	183,962
Directors' expenses	9,935	11,049
	202,298	194,011



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

	31.12.18	31.12.17
Aggregate Directors' Remuneration	£192,363	£183,962
Aggregate Shareholder Distributions	£19,235,894	£18,596,413

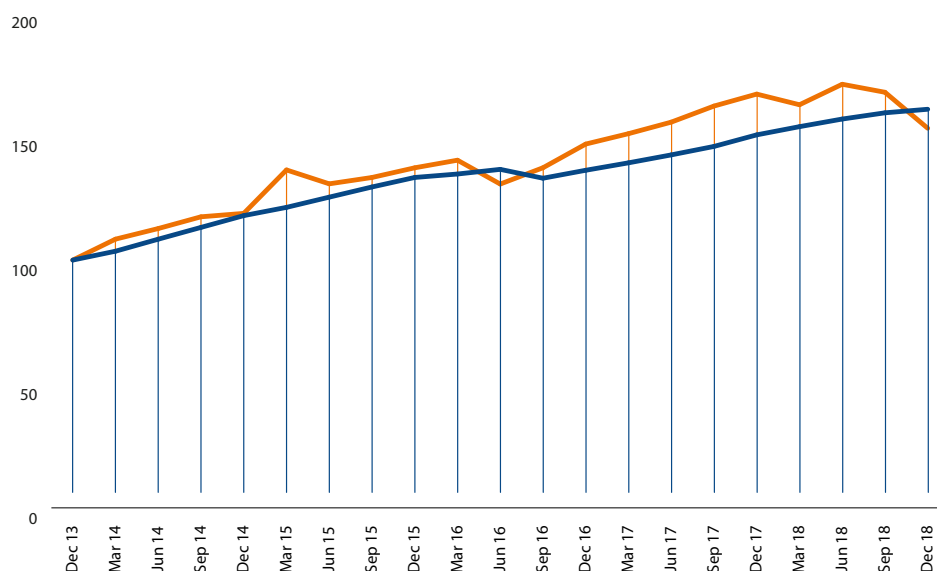
## DIRECTORS' SHAREHOLDINGS

The Directors' interests in the Company's ordinary shares are shown in the Directors' Report on page 30.

## COMPANY PERFORMANCE

The Board is responsible for the Group's investment strategy and performance, although the management of the Group's investment portfolio is delegated to the Investment Manager through the investment management agreement, as referred to in the Corporate Governance Report on page 34. The graph to the right compares the total return (assuming all dividends re-invested) to ordinary shareholders compared with the total return on the IPD Quarterly Index over the five years to 31 December 2018.

SLIPIT Share price total return  
IPD Benchmark total return



An ordinary resolution for the approval of the Directors' Remuneration Report will be put to shareholders at the forthcoming Annual General Meeting.

Approved by the Board on

**17 April 2019**

**Mike Balfour**  
Director

## Governance

### Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group Consolidated Financial Statements for each year which give a true and fair view, in accordance with the applicable Guernsey law and those International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

In preparing those Consolidated 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;
- ▶ make judgement and estimates that are reasonable and prudent;
- ▶ 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 IFRSs as adopted by the European Union 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 IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the Group Consolidated Financial Statements; and
- ▶ prepare the Group Consolidated Financial Statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Consolidated Financial Statements.

The Directors are responsible for keeping adequate accounting records, that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time, the financial position of the Group and to enable them to ensure that the 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, error and non compliance with law and regulations.

The maintenance and integrity of the Company's website is the responsibility of the Directors; the work carried out by the auditors does not involve considerations of these matters and, accordingly, the auditors accept no responsibility for any change that may have occurred to the Consolidated Financial Statements since they were initially presented on the website. Legislation in Guernsey governing the preparation and dissemination of the consolidated financial statements may differ from legislation in other jurisdictions.

#### Responsibility Statement of the Directors in respect of the Consolidated Annual Report under the Disclosure and Transparency Rules.

The Directors each confirm to the best of their knowledge that:

- ▶ the Consolidated Financial Statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- ▶ the management report, which is incorporated into the Strategic Report, Directors' Report and Investment Manager's Report, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that they face.

#### Statement under the UK Corporate Governance Code.

The Directors each confirm to the best of their knowledge and belief that the Annual Report and Consolidated Financial Statements taken as a whole are fair, balanced and understandable and provide the information necessary to assess the Group's performance, business model and strategy.

Approved by the Board on

**17 April 2019**

**Robert Peto**  
**Chairman**

Financial Statements

# **INDEPENDENT AUDITOR'S REPORT**

## Financial Statements

### Independent Auditor's Report

#### OPINION

We have audited the financial statements of Standard Life Investments Property Income Trust Limited (the 'Company') and its subsidiaries (together the 'Group') for the year ended 31 December 2018 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

In our opinion, the financial statements:

- ▶ give a true and fair view of the state of the Group's affairs as at 31 December 2018 and of its profit for the year then ended;
- ▶ have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- ▶ have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

#### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### CONCLUSIONS RELATING TO PRINCIPAL RISKS, GOING CONCERN AND VIABILITY STATEMENT

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- ▶ the disclosures in the annual report set out on pages 13 and 14 that describe the principal risks and explain how they are being managed or mitigated;
- ▶ the directors' confirmation set out on page 15 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- ▶ the directors' statement set out on page 31 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- ▶ whether the directors' statement in relation to going concern required under the Listing Rules is materially inconsistent with our knowledge obtained in the audit; or
- ▶ the directors' explanation set out on page 15 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.



## OVERVIEW OF OUR AUDIT APPROACH

Key audit matters	<ul style="list-style-type: none"> <li>▶ Risk of incorrect valuation of investment properties</li> <li>▶ Risk of incorrect recognition of rental income including incorrect accounting for lease incentive and rental uplifts</li> </ul>
Materiality	<ul style="list-style-type: none"> <li>▶ Overall Group materiality of £3.7 million which represents 1% of net assets (2017: £3.4 million)</li> </ul>

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

RISK	OUR RESPONSE TO THE RISK	KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE
<p><b>Risk of incorrect valuation of investment properties</b> (per the Audit Committee report set out on page 36 and the accounting policy set out on page 52).</p> <p>The Group's investment properties portfolio consists of UK properties, freehold and leasehold, with a combined fair value of £495.2 million (2017: £404.3 million), net of adjustments for lease incentives of £3.9 million (2017: £3.7 million).</p> <p>The Group's accounting policy is for the fair value of investment properties to be determined by independent real estate valuation experts using recognised valuation techniques. The fair values are based on recent real estate transactions with similar characteristics and locations to those of the Group's assets. The Group's accounting policy is for the valuation of investment properties to be reduced by the total of the unamortised lease incentive balances.</p> <p>There is a risk of incorrect valuation of the property portfolio which could result in the Balance Sheet and Income Statement being materially misstated.</p>	<p><b>We have performed the following procedures:</b></p> <p>We obtained an understanding of the Investment Manager's processes and controls surrounding property valuation by performing our walkthrough procedures and evaluating the design and implementation of controls.</p> <p>We agreed the value of all the properties held at 31 December 2018 to the open market valuations included in the valuation report provided by Group's independent valuer.</p> <p>We have read the valuation report provided by the Group's independent valuer to agree the appropriateness and suitability of the reported values and the changes in value from the previous accounting period.</p> <p>We have assessed the independence and competence of the independent valuer as required by auditing standards.</p> <p>We have engaged our property valuation specialists to perform review of a judgementally selected sample (including all seven retail sector properties) of property valuations, which included:</p> <ul style="list-style-type: none"> <li>▶ validating the assumptions used by the independent valuer in undertaking their valuation and an assessment of the valuation methodologies adopted; and</li> <li>▶ challenging the key inputs and assumptions relating to equivalent yield and rental rates with reference to published market data and comparable transaction evidence through market activity.</li> </ul>	<p><b>The results of our procedures are:</b></p> <p>We have no material matters to communicate in respect of our procedures performed over the risk of incorrect valuation of investment properties.</p>

## Financial Statements

### Independent Auditor's Report

continued

RISK	OUR RESPONSE TO THE RISK	KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE
<p><b>Risk of incorrect recognition of rental income including incorrect accounting for lease incentives and rental uplifts</b> (per the Audit Committee report set out on page 36 and the accounting policy set out on page 52).</p> <p>Revenue is earned in the form of rental income from the investment properties and is recognised on an accruals basis.</p> <p>During the year, the Group recognised £27.8 million of rental income (2017: £28.5 million). Of this, £0.7 million related to the rent adjustment in the year (2017: £0.1 million) which is required by Standard Interpretations Committee (SIC)-15 in relation to International Account Standard (IAS) 17 Leases.</p> <p>There is an opportunity to incorrectly account for lease incentives and rental uplifts through incorrect interpretation or manipulation of the clauses detailed in signed rental agreements. Given this, we consider there to be a fraud risk, in accordance with Auditing Standards, in this area of our audit.</p>	<p><b>We have performed the following procedures:</b></p> <p>We obtained an understanding of the Manager's processes and controls surrounding revenue recognition by performing our walkthrough procedures to evaluate the design and implementation of controls.</p> <p>We performed an analytical review of rental income comparing actual income per the consolidated financial statements to our expectations.</p> <p>We held discussions with the Investment Manager to confirm our understanding of rental income and the tenancy agreements. Using statistical technique, we selected a random sample of tenants and verified the rental rates to tenancy agreements for the recalculation of rental income recognised in the Group's consolidated financial statements.</p> <p>Using statistical technique, we selected a random sample of rental income journals and performed our tests to identify unauthorised or inappropriate journals; and</p> <p>Using statistical technique, we selected a random sample of tenants and recalculated the rental adjustments required for lease incentives and rental uplifts as required by SIC-15 in relation to IAS 17. In addition, we also considered the appropriateness of the allocation of adjustments between revenue and capital.</p>	<p><b>The results of our procedures are:</b></p> <p>We have no material matters to communicate in respect of our procedures performed over the risk of incorrect recognition of rental income including incorrect accounting for lease incentives and rental uplifts.</p>

There have been no changes to the areas of key focus raised in the above risk table from the prior year.

## AN OVERVIEW OF THE SCOPE OF OUR AUDIT

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Group. This enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

## OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £3.7 million (2017: £3.4 million), which is 1% (2017: 1%) of net assets. We believe that net assets provide us with materiality aligned to the key measurement of the Group's performance.

During the course of our audit, we reassessed initial materiality and updated the materiality based on the Group's consolidated results as at 31 December 2018.

### Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely £2.8 million (2017: £2.6 million). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

### Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.2 million (2017: £0.2 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

## OTHER INFORMATION

The other information comprises the information included in the annual report set out on pages 76 to 83, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements



## Financial Statements

### Independent Auditor's Report

continued

or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

#### Fair, balanced and understandable set out on page 40

The statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

#### Audit committee reporting set out on page 36

The section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or

#### Directors' statement of compliance with the UK Corporate Governance Code set out on page 32

The parts of the directors' statement required under the Listing Rules relating to the Group's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

#### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- ▶ proper accounting records have not been kept by the Group, or proper returns adequate for our audit have not been received from branches not visited by us; or
- ▶ the financial statements are not in agreement with the Group's accounting records and returns; or
- ▶ we have not received all the information and explanations we require for our audit.

#### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 40, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditors-responsibilities](http://www.frc.org.uk/auditors-responsibilities). This description forms part of our auditor's report.

#### Use of our report

This report is made solely to the Group's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Group's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Andrew Jonathan Dann, FCA

for and on behalf of Ernst & Young LLP  
Guernsey, Channel Islands

17 April 2019

#### NOTES

1. The maintenance and integrity of the Standard Life Investments Property Income Trust Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## FINANCIAL STATEMENTS

## Financial Statements

### Consolidated Statement of Comprehensive Income for the year ended 31 December 2018

	Notes	2018 £	2017 £
Rental income		27,773,205	28,526,725
Service charge income		1,665,737	1,553,410
Surrender premium		—	14,688
Valuation gain from investment properties	7	12,057,044	23,174,903
Gain/(Loss) on disposal of investment properties		1,861,161	(138,237)
Investment management fees	4	(3,381,779)	(3,136,218)
Valuers fees	4	(91,396)	(71,844)
Auditors' fees	4	(78,500)	(74,500)
Directors' fees and subsistence	21	(202,298)	(194,011)
Service charge expenditure		(1,665,737)	(1,553,410)
Other direct property expenses		(3,154,578)	(1,848,130)
Other administration expenses		(426,768)	(434,466)
<b>Operating profit</b>		<b>34,356,091</b>	<b>45,818,910</b>
Finance income	5	58,411	2,752
Finance costs	5	(3,468,125)	(3,356,428)
<b>Profit for the period before taxation</b>		<b>30,946,377</b>	<b>42,465,234</b>
<b>Taxation</b>			
Tax charge		—	—
<b>Profit for the period, net of tax</b>		<b>30,946,377</b>	<b>42,465,234</b>
<b>Other Comprehensive Income</b>			
Net change in fair value of swaps reclassified to profit and loss	14	—	—
Valuation gain on cash flow hedge	14	1,440,836	1,317,743
<b>Total other comprehensive surplus</b>		<b>1,440,836</b>	<b>1,317,743</b>
<b>Total comprehensive gain for the period, net of tax</b>		<b>32,387,213</b>	<b>43,782,977</b>
<b>Earnings per share</b>		<b>2018 (p)</b>	<b>2017 (p)</b>
Basic and diluted earnings per share	18	7.68	10.91
EPRA earnings per share	18	4.22	4.99

All items in the above Consolidated Statement of Comprehensive Income derive from continuing operations.

The notes on pages 52 to 74 are an integral part of these Consolidated Financial Statements.

## Financial Statements

### Consolidated Balance Sheet as at 31 December 2018

ASSETS	Notes	2018 £	2017 £
<b>Non-current assets</b>			
Investment properties	7	495,245,556	404,252,083
Lease incentives	7	2,896,409	3,657,917
Rental deposits held on behalf of tenants		840,633	995,942
		<b>498,982,598</b>	<b>408,905,942</b>
<b>Current assets</b>			
Investment properties held for sale	8	—	25,300,000
Trade and other receivables	10	4,939,071	20,256,944
Cash and Cash equivalents	11	8,264,972	14,334,504
		<b>13,204,043</b>	<b>59,891,448</b>
<b>Total Assets</b>		<b>512,186,641</b>	<b>468,797,390</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	12	11,906,363	10,451,289
Interest rate swap	14	451,714	887,699
		<b>12,358,077</b>	<b>11,338,988</b>
<b>Non-current liabilities</b>			
Bank borrowings	13	129,249,402	109,107,044
Interest rate swap	14	352,249	1,357,100
Rent deposits due to tenants		840,633	995,942
		<b>130,442,284</b>	<b>111,460,086</b>
<b>Total liabilities</b>		<b>142,800,361</b>	<b>122,799,074</b>
<b>Net assets</b>		<b>369,386,280</b>	<b>345,998,316</b>
<b>EQUITY</b>		<b>2018 £</b>	<b>2017 £</b>
<b>Capital and reserves attributable to Company's equity holders</b>			
Share capital	16	227,431,057	217,194,412
Retained earnings	17	6,156,881	8,364,603
Capital reserves	17	37,959,970	22,600,929
Other distributable reserves	17	97,838,372	97,838,372
<b>Total equity</b>		<b>369,386,280</b>	<b>345,998,316</b>

Approved by the Board on 17 April 2019 and signed on its behalf by: **Robert Peto**, Chairman  
The notes on pages 52 to 74 are an integral part of these Consolidated Financial Statements.



## Financial Statements

### Consolidated Statement of Changes in Equity for the year ended 31 December 2018

	Notes	Share Capital £	Retained Earnings £	Capital Reserves £	Other Distributable Reserves £	Total equity £
<b>Opening balance 1 January 2018</b>		<b>217,194,412</b>	<b>8,364,603</b>	<b>22,600,929</b>	<b>97,838,372</b>	<b>345,998,316</b>
Profit for the year		—	30,946,377	—	—	30,946,377
Other comprehensive income		—	—	1,440,836	—	1,440,836
Total comprehensive income for the period		—	30,946,377	1,440,836	—	32,387,213
Ordinary shares issued net of issue costs	16	10,236,645	—	—	—	10,236,645
Dividends paid	19	—	(19,235,894)	—	—	(19,235,894)
Valuation gain from investment properties	7	—	(12,057,044)	12,057,044	—	—
Gain on disposal of investment properties	7	—	(1,861,161)	1,861,161	—	—
<b>Balance at 31 December 2018</b>		<b>227,431,057</b>	<b>6,156,881</b>	<b>37,959,970</b>	<b>97,838,372</b>	<b>369,386,280</b>

The notes on pages 52 to 74 are an integral part of these Consolidated Financial Statements.

### Consolidated Statement of Changes in Equity for the year ended 31 December 2017

	Notes	Share Capital £	Retained Earnings £	Capital Reserves £	Other Distributable Reserves £	Total equity £
<b>Opening balance 1 January 2017</b>		<b>204,820,219</b>	<b>7,532,448</b>	<b>(1,753,480)</b>	<b>97,838,372</b>	<b>308,437,559</b>
Profit for the year		—	42,465,234	—	—	42,465,234
Other comprehensive income		—	—	1,317,743	—	1,317,743
Total comprehensive income for the period		—	42,465,234	1,317,743	—	43,782,977
Ordinary shares issued net of issue costs	16	12,374,193	—	—	—	12,374,193
Dividends paid	19	—	(18,596,413)	—	—	(18,596,413)
Valuation gain from investment properties	7	—	(23,174,903)	23,174,903	—	—
Loss on disposal of investment properties	7	—	138,237	(138,237)	—	—
<b>Balance at 31 December 2017</b>		<b>217,194,412</b>	<b>8,364,603</b>	<b>22,600,929</b>	<b>97,838,372</b>	<b>345,998,316</b>

The notes on pages 52 to 74 are an integral part of these Consolidated Financial Statements.

## Financial Statements

### Consolidated Cash Flow Statement for the year ended 31 December 2018

Cash flows from operating activities	Notes	2018 £	2017 £
Profit for the year before taxation		30,946,377	42,465,234
Movement in lease incentives		(735,921)	(114,820)
Movement in trade and other receivables		16,441,217	(18,529,129)
Movement in trade and other payables		1,243,386	1,726,346
Finance costs	5	3,524,503	3,356,428
Finance income	5	(58,411)	(2,752)
Valuation gain from investment properties	7	(12,057,044)	(23,174,903)
(Gain)/loss on disposal of investment properties	7	(1,861,161)	138,237
<b>Net cash inflow from operating activities</b>		<b>37,442,946</b>	<b>5,864,641</b>
<b>Cash flows from investing activities</b>			
Interest received	5	58,411	2,752
Purchase of investment properties	7	(64,023,051)	(50,012,676)
Additions through business acquisition	7	(23,913,188)	—
Capital expenditure on investment properties	7	(8,170,795)	(2,187,601)
Net proceeds from disposal of investment properties	7	44,861,161	72,086,763
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(51,187,462)</b>	<b>19,889,238</b>
<b>Cash flows from financing activities</b>			
Proceeds on issue of ordinary shares	16	10,314,000	12,467,700
Transaction costs of issue of shares	16	(77,355)	(93,507)
Bank borrowing	13	20,000,000	—
Repayment of RCF	13	—	(15,000,000)
Bank borrowing arrangement costs	13	(52,490)	(55,000)
Interest paid on bank borrowing	5	(2,546,435)	(2,089,843)
Payments on interest rate swaps	5	(726,842)	(1,106,369)
Dividends paid to the Company's shareholders	19	(19,235,894)	(18,596,413)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>7,674,984</b>	<b>(24,473,432)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(6,069,532)</b>	<b>1,280,447</b>
Cash and cash equivalents at beginning of year	11	14,334,504	13,054,057
<b>Cash and cash equivalents at end of year</b>	<b>11</b>	<b>8,264,972</b>	<b>14,334,504</b>

The notes on pages 52 to 74 are an integral part of these Consolidated Financial Statements.

# Financial Statements

## Notes to the Consolidated Financial Statements for the year ended 31 December 2018

### 1 GENERAL INFORMATION

Standard Life Investment Property Income Trust Limited ("the Company") and its subsidiaries (together "the Group") carries on the business of property investment through a portfolio of freehold and leasehold investment properties located in the United Kingdom. The Company is a limited liability company incorporated in Guernsey, Channel Islands. The Company has its listing on the London Stock Exchange.

The address of the registered office is Trafalgar Court, Les Banques, St Peter Port, Guernsey.

These audited Consolidated Financial Statements were approved for issue by the Board of Directors on 17 April 2019.

### 2 ACCOUNTING PRINCIPLES

#### 2.1 Basis of preparation

The audited Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"), and all applicable requirements of The Companies (Guernsey) Law, 2008. 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 pounds sterling and all values are not rounded except when otherwise indicated.

#### Changes in accounting policy and disclosure

The accounting policies adopted are consistent with those in the previous financial year. The following amendments to existing standards and interpretations were effective for the year, but were either not applicable to or did not have a material impact on the Group:

- ▶ Annual Improvements to IFRS Standards 2014-2016 Cycle – Amendments to IFRS 1 – Deletion of short-term exemptions for first-time adopters
- ▶ Annual Improvements to IFRS Standards 2014-2016 Cycle – Amendments to IAS 28 – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
- ▶ Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- ▶ Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- ▶ Amendments to IAS 40: Transfers of Investment Property
- ▶ IFRIC 22 Foreign Currency Transactions and Advance Consideration

#### New standards and interpretations applied

The following new and amended standards in issue are adopted by the EU and have been applied by the Group:

	Effective date
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018

#### 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 risk 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. There has been no financial impact of the new standard to the group.

### IFRS 15 – Revenue from Contracts with Customers

IFRS 15 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 'Leases' are excluded from the scope of IFRS 15. Rental income derived from operating leases is therefore outwith the scope of IFRS 15.

The Group has a non-rental revenue stream of service charge income, which is within scope of the standard (see note 2.3 L for further details). Service charge income is shown on the face of the Consolidated Income Statement as a result of implementing the standard. Comparative figures have been included accordingly. There has been no financial impact of the new standard to the Group.

### New standards, amendments and interpretation not yet effective

#### IFRS 16 – Leases

IFRS 16 'Leases' replaces IAS 17 'Leases' and is effective for annual periods beginning on or after 1 January 2019. The key changes are the lessee and lessor accounting models are no longer symmetrical.

The Group will not make any adjustments to the recognition of leases, where it acts as lessor in the lease agreement.

The Group has made an assessment of the leases, where the Group acts as intermediate lessor in the lease agreement, and does not anticipate that this standard will have any material impact on the Group's financial statements as presented for the current year.

There are a number of other changes to Accounting Standards from 2019 onwards but no material impact is expected.

### 2.2 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 reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainties about these 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 periods. The most significant estimates and judgements are set out opposite.

### Fair value of investment properties

Investment properties are stated at fair value as at the Balance Sheet date. Gains or losses arising from changes in fair values are included in the Consolidated Statement of Comprehensive Income in the year in which they arise. The fair value of investment properties is determined by external real estate valuation experts using recognised valuation techniques. The fair values are determined having regard to any recent real estate transactions where available, with similar characteristics and locations to those of the Group's assets.

In most cases however, the determination of the fair value of investment properties requires the use of valuation models which use a number of judgements and assumptions. The only model used was the income capitalisation method. Under the income capitalisation method, a property's fair value is judged based on the normalised net operating income generated by the property, which is divided by the capitalisation rate (discounted by the investor's rate of return). Under the income capitalisation method, over (above market rent) and under-rent situations are separately capitalised (discounted).

The sensitivity analysis on page 66 (note 7) details the decrease in the valuation of investment properties if equivalent yield increases by 25 basis points or rental rates (ERV) decreases by 5%.

### Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the Consolidated Balance Sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair value. The judgements include considerations of liquidity and model inputs such as credit risk (both own and counterparty's), correlation and volatility.

Changes in assumptions about these factors could affect the reported fair value of financial instruments. The models are calibrated regularly and tested for validity using prices from any observable current market transactions in the same instrument (without modification or repackaging) or based on any available observable market data.

The valuation of interest rate swaps used in the Balance Sheet is provided by The Royal Bank of Scotland plc. These values are validated by comparison to internally generated valuations prepared using the fair value principles outlined above.



## Financial Statements

### Notes to the Consolidated Financial Statements for the year ended 31 December 2018

continued

The sensitivity analysis on page 66 (note 7) details the increase and decrease in the valuation of interest rate swaps if market rate interest rates had been 100 basis points higher and 100 basis points lower.

#### Business combinations

During the year ended 31 December 2018, the Group acquired subsidiaries that own real estate. At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of services provided by the subsidiaries. The Group assessed the acquisition of Hagley Road Limited, a Jersey Limited Company, as detailed in note 9, as a purchase of a business because the strategic management function and associated processes were purchased along with the investment properties.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.

#### 2.3 Summary of significant accounting policies A Basis of consolidation

The audited Consolidated Financial Statements comprise the financial statements of Standard Life Investments Property Income Trust Limited and its material wholly owned subsidiary undertakings.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with subsidiaries and has the ability to affect those returns through its power over the subsidiary. Specifically, the Group controls a subsidiary if, and only if, it has:

- ▶ Power over the subsidiary (i.e. existing rights that give it the current ability to direct the relevant activities of the subsidiary)
- ▶ Exposure, or rights, to variable returns from its involvement with the subsidiary
- ▶ The ability to use its power over the subsidiary to affect its returns

The Group assesses whether or not it controls a subsidiary if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

#### B Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Consolidated Financial Statements are presented in pound sterling, which is also the Company's functional currency.

#### C Revenue Recognition

Revenue is recognised as follows;

##### i) Bank interest

Bank interest income is recognised on an accruals basis.

##### ii) Rental income

Rental income from operating leases is net of sales taxes and value added tax ("VAT") recognised on a straight line basis over the lease term including lease agreements with stepped rent increases. The initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income. The cost of any lease incentives provided are recognised over the lease term, on a straight line basis as a reduction of rental income. The resulting asset is reflected as a receivable in the Consolidated Balance Sheet. The valuation of investment properties is reduced by the total of the unamortised lease incentive balances. Any remaining lease incentive balances in respect of properties disposed of are included in the calculation of the profit or loss arising at disposal.

Contingent rents, being those payments that are not fixed at the inception of the lease, for example increases arising on rent reviews, are recorded as income in periods when they are earned. Rent reviews which remain outstanding at the year end are recognised as income, based on estimates, when it is reasonable to assume that they will be received.

The surrender premiums received for the year ended 2018 were £nil (2017: £14,688) as detailed in the Statement of Comprehensive Income and related to a tenant break during the year.

### iii) Property disposals

Where revenue is obtained by the sale of properties, it is recognised once the sale transaction has been completed, regardless of when contracts have been exchanged.

### D Expenditure

All expenses are accounted for on an accruals basis. The investment management and administration fees, finance and all other revenue expenses are charged through the Consolidated Statement of Comprehensive Income as and when incurred. The Group also incurs capital expenditure which can result in movements in the capital value of the investment properties. The movements in capital expenditure are reflected in the Statement of Comprehensive Income as a valuation gain/(loss). In 2018, there were no non-income producing properties (2017: nil).

### E 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 other comprehensive income or in equity is recognised in other comprehensive income and in equity respectively, and not in the income statement. Positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation, if any, are reviewed periodically and provisions are established where appropriate.

The Group recognises liabilities for current taxes based on estimates of whether additional taxes will be due. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made.

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. In determining the expected manner of realisation of an asset the Directors consider that the Group will recover the value of investment property through sale. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

### F Investment property

Investment properties comprise completed property and property under construction or re-development that is held to earn rentals or for capital appreciation or both. Property held under a lease is classified as investment property when the definition of an investment property is met.

Investment properties are measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment properties are stated at fair value. Fair value is based upon the market valuation of the properties as provided by the external valuers as described in note 2.2. Gains or losses arising from changes in the fair values are included in the Consolidated Statement of Comprehensive Income in the year in which they arise. For the purposes of these financial statements, in order to avoid double counting, the assessed fair value is:

- i) Reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or minimum lease payments.
- ii) Increased by the carrying amount of any liability to the superior leaseholder or freeholder (for properties held by the Group under operating leases) that has been recognised in the Balance Sheet as a finance lease obligation.

Acquisitions of investment properties are considered to have taken place on completion of contracts.

Investment properties are derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognised in the Consolidated Statement of Comprehensive Income in the year of retirement or disposal.

Gains or losses on the disposal of investment properties are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period financial statements.

## Financial Statements

### Notes to the Consolidated Financial Statements for the year ended 31 December 2018

continued

#### G Investment properties held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary (i.e. disposal group) are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

#### H Trade and other receivables

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. A provision for impairment of trade receivables is calculated through the expected credit loss method in accordance with IFRS 9. As part of this expected credit loss process the following is taken into account: Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through use of an allowance account, and the amount of the loss is recognised in the Consolidated Statement of Comprehensive Income in other direct property expenses.

#### I 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.

#### J Borrowings and interest expense

All loans and borrowings are initially recognised at the fair value of the consideration received, less issue costs where applicable. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on settlement. Borrowing costs are recognised within finance costs in the Consolidated Statement of Comprehensive Income as incurred.

#### K Accounting for derivative financial instruments and hedging activities

Interest rate swaps are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions. The Group also documents its assessment both at hedge inception and on an ongoing basis of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income in the Consolidated Statement of Comprehensive Income. The gains or losses relating to the ineffective portion are recognised in operating profit in the Consolidated Statement of Comprehensive Income.

Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expenses are recognised.

When a derivative is held as an economic hedge for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current consistent with the classification of the underlying item. A derivative instrument that is a designated and effective hedging instrument is classified consistent with the classification of the underlying hedged item.

#### L Service charge

The Group has appointed a managing agent to deal with the service charge at the investment properties. Under IFRS 15 the Group acts as the principal for the collection of service charge income and the associated expenditure. As a result the Consolidated Statement of Comprehensive Income includes both the gross service charge received in the year and the expenditure associated with the service charge. Other direct property expenses includes the service charge expense incurred by the Group on its vacant properties.

#### M Other financial liabilities

Trade and other payables are recognised and carried at invoiced value as they are considered to have payment terms of 30 days or less and are not interest bearing. The balance of trade and other payables are considered to meet the definition of an accrual and have been expensed through the Income Statement or Balance Sheet depending on classification. VAT payable at the Balance Sheet date will be settled within 31 days of the Balance Sheet date with Her Majesty's Revenue and Customs ("HMRC") and deferred rental income is rent that has been billed to tenants but relates to the period after the Balance Sheet date. Rent deposits recognised in note 12 are those that are due within one year as a result of upcoming tenant expiries.

### 3 FINANCIAL RISK MANAGEMENT

The Group's principal financial liabilities are loans and borrowings. The main purpose of the Group's loans and borrowings is to finance the acquisition and development of the Group's property portfolio. The Group has rent and other receivables, trade and other payables and cash and short-term deposits that arise directly from its operations.

The Group is exposed to market risk (including interest rate risk and real estate risk), credit risk, capital risk and liquidity risk. The Group is not exposed to currency risk or price risk. The Group is engaged in a single segment of business, being property investment in one geographical area, the United Kingdom. Therefore the Group only engages in one form of currency being pound sterling. The Group currently invests in direct non-listed property and is therefore not exposed to price risk.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

#### Market risk

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices. The financial instruments held by the Group that are affected by market risk are principally the interest rate swap.

#### i) Interest Rate risk

As described on page 58 the Group invests cash balances with RBS and Citibank. These balances expose the Group to cash flow interest rate risk as the Group's income and operating cash flows will be affected by movements in the market rate of interest. There is considered to be no fair value interest rate risk in regard to these balances.

The bank borrowings as described in note 13 also expose the Group to cash flow interest rate risk. The Group's policy is to manage its cash flow interest rate risk using interest rate swaps, in which the Group has agreed to exchange the difference between fixed and floating interest amounts based on a notional principal amount (see note 14). The Group has £110 million of fixed rate borrowings that have been fixed via an interest rate swap (see note 14). At the year end the Group had also utilised £20 million of its revolving credit facility the interest rate on which is fixed for the length of time the RCF is utilised.

The bank borrowings are carried at amortised cost and the Group considers this to be a close approximation to fair value. The fair value of the bank borrowings is affected by changes in the market interest rate. The fair value of the interest rate swap is exposed to changes in the market interest rate as their fair value is calculated as the present value of the estimated future cash flows under the agreements. The accounting policy for recognising the fair value movements in the interest rate swaps is described in note 2.2.

Trade and other receivables and trade and other payables are interest free and have settlement dates within one year and therefore are not considered to present a fair value interest rate risk.

The tables below set out the carrying amount of the Group's financial instruments excluding the amortisation of borrowing costs as outlined in note 13. Bank borrowings have been fixed due to an interest rate swap and is detailed further in note 14:

At 31 December 2018	Fixed Rate £	Variable Rate £	Interest Rate £
Cash and cash equivalents	—	8,264,972	0.020%
Bank borrowings	130,000,000	—	2.650%

At 31 December 2017	Fixed Rate £	Variable Rate £	Interest Rate £
Cash and cash equivalents	—	14,334,504	0.020%
Bank borrowings	110,000,000	—	2.725%

At 31 December 2018, if market rate interest rates had been 100 basis points higher with all other variables held constant, the profit for the year would have been £117,350 lower (2017: £143,345 higher) as a result of the higher interest income on cash and cash equivalents off set by the higher interest expense on the RCF. Other Comprehensive Income and the Capital Reserve would have been £3,136,020 higher (2017: £5,604,283 higher) as a result of an increase in the fair value of the derivative designated as a cash flow hedge of floating rate borrowings.

At 31 December 2018, if market rate interest rates had been 100 basis points lower with all other variables held constant, the profit for the year would have been £117,350 higher (2017: £143,345 lower) as a result of the lower interest income on cash and cash equivalents off set by the lower interest expense on the RCF. Other Comprehensive Income and the Capital Reserve would have been £4,985,212 lower (2017: £5,941,013 lower) as a result of a decrease in the fair value of the derivative designated as a cash flow hedge of floating rate borrowings.

#### ii) Real estate risk

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

a) The cost of the 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.

b) 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 on page 58). 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.

c) The exposure of the fair values of the portfolio to market and occupier fundamentals. The Group aims to manage such risks by taking an active approach to asset management (working with tenants to extend leases and minimise voids), capturing profit (selling when the property has delivered a return to the Group that the Group believes has been maximised and the proceeds can be reinvested into more attractive opportunities) and identifying new investments (generally at yields that are accretive to the revenue account and where the Group believes there will be greater investment demand in the medium term).



## Financial Statements

### Notes to the Consolidated Financial Statements for the year ended 31 December 2018

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#### Credit risk

Credit risk is the risk that a counterparty will be unable to meet a commitment that it has entered into with the Group. In the event of default by an occupational tenant, the Group will suffer a rental income shortfall and incur additional related costs. The Investment Manager regularly reviews reports produced by Dun and Bradstreet and other sources, including the IPD IRIS report, to be able to assess the credit worthiness of the Group's tenants and aims to ensure that there are no excessive concentrations of credit risk and that the impact of default by a tenant is minimised. In addition to this, the terms of the Group's bank borrowings require that the largest tenant accounts for less than 20% of the Group's total rental income, that the five largest tenants account for less than 50% of the Group's total rental income and that the ten largest tenants account for less than 75% of the Group's total rental income. The maximum credit risk from the tenant arrears of the Group at the financial year end was £2,937,105 (2017: £1,421,341) as detailed in note 10 on page 67. Rental deposits are placed in separate bank accounts and are therefore assessed to have low credit risk.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty bank with a maximum exposure equal to the carrying value of these instruments. As at 31 December 2018 £5,709,167 (2017: £6,969,884) was placed on deposit with The Royal Bank of Scotland plc ("RBS"), £2,555,805 (2017: £7,364,620) was held with Citibank. The credit risk associated with the cash deposits placed with RBS is mitigated by virtue of the Group having a right to off-set the balance deposited against the amount borrowed from RBS should RBS be unable to return the deposits for any reason. Citibank is rated A-1 Stable by Standard & Poor's and P-2 Stable by Moody's. RBS is rated A-2 Stable by Standard & Poor's and P-2 by Moody's.

#### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in realising assets or otherwise raising funds to meet financial commitments. The investment properties in which the Group invests are not traded in an organised public market and may be illiquid.

As a result, the Group may not be able to liquidate its investments in these properties quickly at an amount close to their fair value in order to meet its liquidity requirements.

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

The disclosed amounts for interest-bearing loans and interest rate swaps in the below table are the estimated net undiscounted cash flows.

The Group's liquidity position is regularly monitored by management and is reviewed quarterly by the Board of Directors.

Year ended 31 December 2018	On demand £	12 months £	1 to 5 years £	> 5 years £	Total £
Interest-bearing loans	—	22,435,855	117,792,177	—	140,228,032
Interest rate swaps	—	599,907	1,949,698	—	2,549,605
Trade and other payables	4,322,483	—	—	—	4,322,483
Rental deposits due to tenants	—	660,926	549,525	291,108	1,501,559
	<b>4,322,483</b>	<b>23,696,688</b>	<b>120,291,400</b>	<b>291,108</b>	<b>148,601,679</b>

Year ended 31 December 2017	On demand £	12 months £	1 to 5 years £	> 5 years £	Total £
Interest-bearing loans	—	2,085,600	8,342,400	110,521,400	120,949,400
Interest rate swaps	—	911,900	3,647,600	227,975	4,787,475
Trade and other payables	3,245,930	—	—	—	3,245,930
Rental deposits due to tenants	—	586,189	395,688	600,254	1,582,131
	<b>3,245,930</b>	<b>3,583,689</b>	<b>12,385,688</b>	<b>111,349,629</b>	<b>130,564,936</b>

### Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, increase or decrease borrowings or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by gross assets and has a limit of 65% set by the Articles of Association of the Company. Gross assets are calculated as non-current and current assets, as shown in the Consolidated Balance Sheet.

The gearing ratios at 31 December 2018 and at 31 December 2017 were as follows:

At 31 December 2018	2018 £	2017 £
Total borrowings (excluding unamortised arrangement fees)	130,000,000	110,000,000
Gross assets	512,186,641	468,797,390
Gearing ratio (must not exceed 65%)	25.38%	23.5%

### Fair values

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

	Carrying Amount		Fair Value	
Financial Assets	2018 £	2017 £	2018 £	2017 £
Cash and cash equivalents	8,264,972	14,334,504	8,264,972	14,334,504
Trade and other receivables	4,939,071	20,256,944	4,939,071	20,256,944
<b>Financial Liabilities</b>				
Bank borrowings	129,249,402	109,107,044	130,055,982	111,678,649
Interest rate swaps	803,963	2,244,799	803,963	2,244,799
Trade and other payables	5,824,041	4,828,061	5,824,041	4,828,061

## Financial Statements

### Notes to the Consolidated Financial Statements for the year ended 31 December 2018

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The fair value of the financial assets and liabilities are included at an estimate of the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used to estimate the fair value:

- ▶ Cash and cash equivalents, trade and other receivables and trade and other payables are the same as fair value due to the short-term maturities of these instruments.
- ▶ The fair value of bank borrowings is estimated by discounting future cash flows using rates currently available for debt on similar terms and remaining maturities. The fair value approximates their carrying values gross of unamortised transaction costs. This is considered as being valued at level 2 of the fair value hierarchy and has not changed level since 31 December 2017.
- ▶ The fair value of rental deposit liabilities is the same as the current value as the monies owed are held in separate bank accounts.

- ▶ The fair value of the interest rate swap contract is estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. This is considered as being valued at level 2 of the fair value hierarchy and has not changed level since 31 December 2016. The definition of the valuation techniques are explained in the significant accounting judgements, estimates and assumptions on page 53.

The following table shows an analysis of the fair values of financial instruments recognised in the Balance Sheet by the level of the fair value hierarchy\*:

\*Explanation of the fair value hierarchy:

- Level 1** Quoted (unadjusted) market prices in active markets for identical assets or liabilities.  
**Level 2** Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.  
**Level 3** Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Year ended 31 December 2018	Level 1	Level 2	Level 3	Total fair value
Interest rate swap	—	803,963	—	803,963

Year ended 31 December 2017	Level 1	Level 2	Level 3	Total fair value
Interest rate swap	—	2,244,799	—	2,244,799

## 4 FEES

### Investment management fees

Under the terms of the Investment Management Agreement between the Investment Manager and the Company ("the IMA"), the Investment Manager is entitled to 0.75% of total assets up to £200 million; 0.70% of total assets between £200 million and £300 million; and 0.65% of total assets in excess of £300 million. The total fees charged for the year amounted to £3,381,779 (2017: £3,136,218). The amount due and payable at the year end amounted to £875,512 excluding VAT (2017: £807,005 excluding VAT).

### Administration, secretarial fees

On 19 December 2003 Northern Trust International Fund Administration Services (Guernsey) Limited ("Northern Trust") was appointed administrator, secretary and registrar to the Group. Northern Trust is entitled to an annual fee, payable quarterly in arrears, of £65,000. Northern Trust is also entitled to reimbursement of reasonable out of pocket expenses. Total fees and expenses charged for the year amounted to £65,000 (2017: £65,000). The amount due and payable at the year end amounted to £16,250 (2017: £16,250).

### Valuers' fee

Knight Frank LLP ("the Valuers"), external international real estate consultants, were appointed as valuers in respect of the assets comprising the property portfolio. The total valuation fees charged for the year amounted to £91,396 (2017: £71,844) of which minimum fees of £2,500 per property (2017: £2,500) were incurred due for new properties added to the portfolio. The amount due and payable at the year end amounted to £20,356 excluding VAT (2017: £37,158 excluding VAT).

The annual fee is equal to 0.017 percent of the aggregate value of property portfolio paid quarterly

### Auditor's fee

At the year end date Ernst & Young LLP continued as independent auditor of the Group. The audit fees for the year amounted to £78,500 (2017: £74,500) and relate to audit services provided for the 2018 financial year. Ernst & Young LLP also did not provide any non-audit services in the year (2017: nil).

## 5 FINANCE INCOME AND COSTS

	2018 £	2017 £
Interest income on cash and cash equivalents	58,411	2,752
Finance income	58,411	2,752
Interest expense on bank borrowings	2,546,435	2,089,843
Payments on interest rate swap	726,842	1,106,369
Amortisation of arrangement costs (see note 13)	194,848	160,216
Finance costs	3,468,125	3,356,428

Of the finance costs above, £555,692 of the interest expense on bank borrowings and £113,800 of payments on interest rate swaps were accruals at 31 December 2018 and are included in Trade and other payables.

## 6 TAXATION

### UK REIT Status

The Group migrated tax residence to the UK and elected to be treated as a UK REIT with effect from 1 January 2015. As a UK REIT, the income profits of the Group's UK property rental business are exempt from corporation tax as are any gains it makes from the disposal of its properties, provided they are not held for trading or sold within three years of completion of development. The Group is otherwise subject to UK corporation tax at the prevailing rate.

As the principal company of the REIT, the Company is required to distribute at least 90% of the income profits of the Group's UK property rental business. There are a number of other conditions that also require to be met by the Company and the Group to maintain REIT tax status. These conditions were met in the period and the Board intends to conduct the Group's affairs such that these conditions continue to be met for the foreseeable future.

Accordingly, deferred tax is no longer recognised on temporary differences relating to the property rental business.

The Company and its Guernsey subsidiary have obtained exempt company status in Guernsey so that they are exempt from Guernsey taxation on income arising outside Guernsey and bank interest receivable in Guernsey.

A reconciliation between the tax charge and the product of accounting profit multiplied by the applicable tax rate for the year ended 31 December 2018 and 2017 is, as follows:

	2018 £	2017 £
Surplus before tax	30,946,377	42,465,234
Tax calculated at UK statutory corporation tax rate of 19% (2017: 19.25%)	5,879,812	8,174,558
UK REIT exemption on net income	(3,235,353)	(3,864,098)
Valuation (gain) in respect of investment properties not subject to tax	(2,644,459)	(4,461,169)
Excess management expenses not utilised	—	150,709
Current income tax charge	—	—



## Financial Statements

### Notes to the Consolidated Financial Statements for the year ended 31 December 2018

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#### 7 INVESTMENT PROPERTIES

	UK Industrial 2018 £	UK Office 2018 £	UK Retail 2018 £	UK Other 2018 £	Total 2018 £
Market value at 1 January	213,135,000	150,450,000	69,625,000	—	433,210,000
Sector reallocation	—	—	(12,650,000)	12,650,000	—
Purchase of investment properties	32,038,597	12,740,385	(1,650)	19,245,719	64,023,051
Additions through business acquisition	—	23,913,188	—	—	23,913,188
Capital expenditure on investment properties	2,648,041	5,242,632	408	279,714	8,170,795
Opening market value of disposed investment properties	(5,600,000)	(32,100,000)	(5,300,000)	—	(43,000,000)
Valuation loss from investment properties	16,233,616	(586,989)	(5,113,656)	1,524,073	12,057,044
Movement in lease incentives receivable	694,746	(29,216)	(30,102)	100,494	735,922
Market value at 31 December	259,150,000	159,630,000	46,530,000	33,800,000	499,110,000
Adjustment for lease incentives	(1,787,864)	(1,153,339)	(304,908)	(618,333)	(3,864,444)
Carrying value at 31 December	257,362,136	158,476,661	46,225,092	33,181,667	495,245,556

The valuations were performed by Knight Frank LLP, accredited external valuers with recognised and relevant professional qualifications and recent experience of the location and category of the investment properties being valued. The valuation model in accordance with Royal Institute of Chartered Surveyors ('RICS') requirements on disclosure for Regulated Purpose Valuations has been applied (RICS Valuation – Professional Standards January 2014 published by the Royal Institution of Chartered Surveyors – revised April 2015). These valuation models are consistent with the principles in IFRS 13. The market value provided by Knight Frank at the year end was £499,110,000 (2017: £433,210,000) however an adjustment has been made for lease incentives of £3,864,444 (2017: £3,657,917) that

are already accounted for as an asset and included in non-current (£2,896,409) and current assets (£968,035). Valuation gains and losses from investment properties are recognised in the Consolidated Statement of Comprehensive Income for the period and are attributable to changes in unrealised gains or losses relating to investment properties held at the end of the reporting period. The purchase of Hagley Road for £23.9 million was accomplished through the acquisition of the shares of a Jersey Limited Company (see note 9). During the year one asset whose main purpose is leisure was reclassified from Retail to the Other sector in line with IPD guidelines. Further details on acquisitions and disposals are given in the Investment Manager's report on pages 18 and 19.

	UK Industrial 2017 £	UK Office 2017 £	UK Retail 2017 £	Total 2017 £
Market value at 1 January	181,735,000	150,475,000	97,735,000	429,945,000
Purchase of investment properties	15,767,982	34,244,694	—	50,012,676
Capital expenditure on investment properties	1,500,705	547,156	139,740	2,187,601
Opening market value of disposed investment properties	(1,975,000)	(39,700,000)	(30,550,000)	(72,225,000)
Valuation gain from investment properties	15,734,294	5,217,229	2,223,380	23,174,903
Movement in lease incentives receivable	372,019	(334,079)	76,880	114,820
Market value at 31 December	213,135,000	150,450,000	69,625,000	433,210,000
Investment property recognised as held for sale	—	(20,000,000)	(5,300,000)	(25,300,000)
Market value net of held for sale at 31 December	213,135,000	130,450,000	64,325,000	407,910,000
Adjustment for lease incentives	(1,093,118)	(1,711,950)	(852,849)	(3,657,917)
Carrying value at 31 December	212,041,882	128,738,050	63,472,151	404,252,083

In the Consolidated Cash Flow Statement, proceeds from disposal of investment properties comprise:

	2018 £	2017 £
Opening market value of disposed investment properties	43,000,000	72,225,000
Gain/(loss) on disposal of investment properties	1,861,161	(138,237)
Net proceeds from disposal of investment properties	44,861,161	72,086,763

## Financial Statements

### Notes to the Consolidated Financial Statements for the year ended 31 December 2018

continued

#### Valuation methodology

The fair value of completed investment properties are determined using the income capitalisation method.

The income capitalisation method is based on capitalising the net income stream at an appropriate yield. In establishing the net income stream the valuers have reflected the current rent (the gross rent) payable to lease expiry, at which point the valuer has assumed that each unit will be re-let at their opinion of ERV. The valuers have made allowances for voids where appropriate, as well as deducting non recoverable costs where applicable. The appropriate yield is selected on the basis of the location of the building, its quality, tenant credit quality and lease terms amongst other factors.

No properties have changed valuation technique during the year. At the Balance Sheet date the income capitalisation method is appropriate for valuing all assets.

The Group appoints suitable valuers (such appointment is reviewed on a periodic basis) to undertake a valuation of all the direct real estate investments on a quarterly basis. The valuation is undertaken in accordance with the then current RICS guidelines and requirements as mentioned earlier.

The Investment Manager meets with the valuers on a quarterly basis to ensure the valuers are aware of all relevant information for the valuation and any change in the investment over the quarter. The Investment Manager then reviews and discusses the draft valuations with the valuers to ensure correct factual assumptions are made. The valuers report a final valuation that is then reported to the Board.

The management group that determines the Company's valuation policies and procedures for property valuations is the Property Valuation Committee as detailed on page 33. The Committee reviews the quarterly property valuation reports produced by the valuers (or such other person as may from time to time provide such property valuation services to the Group) before its submission to the Board, focusing in particular on:

- ▶ significant adjustments from the previous property valuation report;
- ▶ reviewing the individual valuations of each property;
- ▶ compliance with applicable standards and guidelines including those issued by RICS and the UKLA Listing Rules;
- ▶ reviewing the findings and any recommendations or statements made by the valuer;
- ▶ considering any further matters relating to the valuation of the properties.

The Chairman of the Committee makes a brief report of the findings and recommendations of the Committee to the Board after each Committee meeting. The minutes of the Committee meetings are circulated to the Board. The Chairman submits an annual report to the Board summarising the Committee's activities during the year and the related significant results and findings.

All investment properties are classified as Level 3 in the fair value hierarchy. There were no movements between levels during the year.

There are currently no restrictions on the realisability of investment properties or the remittance of income and proceeds of disposal.

The table on page 65 outlines the valuation techniques and inputs used to derive Level 3 fair values for each class of investment properties. The table includes:

- ▶ The fair value measurements at the end of the reporting period.
- ▶ The level of the fair value hierarchy (e.g. Level 3) within which the fair value measurements are categorised in their entirety.
- ▶ A description of the valuation techniques applied.
- ▶ Fair value measurements, quantitative information about the significant unobservable inputs used in the fair value measurement.
- ▶ The inputs used in the fair value measurement, including the ranges of rent charged to different units within the same building.

Country & Class	Fair Value £	Valuation Technique	Key Unobservable Input	Range (weighted average)
<b>UK Industrial</b> Level 3	259,150,000	Income Capitalisation	<ul style="list-style-type: none"> <li>▶ Initial Yield</li> <li>▶ Reversionary Yield</li> <li>▶ Equivalent Yield</li> <li>▶ Estimated rental value per sq m</li> </ul>	0.00% to 9.06% (5.01%) 4.31% to 9.06% (6.12%) 4.25% to 8.18% (5.95%) £2.75 to £215.75 (£191.20)
<b>UK Office</b> Level 3	159,630,000	Income Capitalisation	<ul style="list-style-type: none"> <li>▶ Initial Yield</li> <li>▶ Reversionary Yield</li> <li>▶ Equivalent Yield</li> <li>▶ Estimated rental value per sq m</li> </ul>	0.00% to 9.00% (4.95%) 4.95% to 9.40% (6.97%) 4.75% to 8.66% (6.62%) £14.00 to £525.00 (£376.99)
<b>UK Retail</b> Level 3	46,530,000	Income Capitalisation	<ul style="list-style-type: none"> <li>▶ Initial Yield</li> <li>▶ Reversionary Yield</li> <li>▶ Equivalent Yield</li> <li>▶ Estimated rental value per sq m</li> </ul>	4.98% to 7.51% (6.11%) 4.68% to 7.39% (5.81%) 5.28% to 7.46% (6.49%) £17.50 to £528.00 (£102.18)
<b>UK Other</b> Level 3	33,800,000	Income Capitalisation	<ul style="list-style-type: none"> <li>▶ Initial Yield</li> <li>▶ Reversionary Yield</li> <li>▶ Equivalent Yield</li> <li>▶ Estimated rental value per sq m</li> </ul>	4.99% to 6.55% (5.47%) 4.98% to 6.90% (5.53%) 5.00% to 6.89% (5.63%) £18.68 to £108.00 (£40.62)
<b>499,110,000</b>				

#### Descriptions and definitions

The table above includes the following descriptions and definitions relating to valuation techniques and key observable inputs made in determining the fair values.

#### Estimated rental value (ERV)

The rent at which space could be let in the market conditions prevailing at the date of valuation.

#### Equivalent yield

The equivalent yield is defined as the internal rate of return of the cash flow from the property, assuming a rise or fall to ERV at the next review or lease termination, but with no further rental change.

#### Initial yield

Initial yield is the annualised rents of a property expressed as a percentage of the property value.

#### Reversionary yield

Reversionary yield is the anticipated yield to which the initial yield will rise (or fall) once the rent reaches the ERV.



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### Notes to the Consolidated Financial Statements for the year ended 31 December 2018

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The table below shows the ERV per annum, area per square foot, average ERV per square foot, initial yield and reversionary yield as at the Balance Sheet date.

	2018	2017
ERV p.a.	£34,380,532	£30,925,950
Area sq ft	4,374,342	3,799,885
Average ERV per sq ft	£7.86	£8.14
Initial Yield	5.1%	5.5%
Reversionary Yield	4.5%	4.7%

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

	2018 £	2017 £
Increase in equivalent yield of 25 bps	(40,894,000)	(18,981,000)
Decrease of 5% rental income	(16,563,503)	(11,071,600)

Below is a list of how the interrelationships in the sensitivity analysis above can be explained. In both cases outlined in the sensitivity table the estimated Fair Value would increase (decrease) if:

- ▶ The ERV is higher (lower)
- ▶ Void periods were shorter (longer)
- ▶ The occupancy rate was higher (lower)
- ▶ Rent free periods were shorter (longer)
- ▶ The capitalisation rates were lower (higher)

## 8 INVESTMENT PROPERTIES HELD FOR SALE

As at 31 December 2018 there were no investment properties held for sale (2017: £25,300,000).

## 9 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

The Company owns 100 per cent of the issued ordinary share capital of Standard Life Investments Property Holdings Limited, a company with limited liability incorporated and domiciled in Guernsey, Channel Islands, whose principal business is property investment.

During the year ended 31 December 2018, the Company acquired Hagley Road Limited, a company with limited liability incorporated and domiciled in Jersey, Channel Islands, whose principal business is property investment. Investment property to the value of £23,913,188 was acquired along with current liabilities of £489,079.

The Group undertakings consist of the following 100% owned subsidiaries at the Balance Sheet date:

- ▶ Standard Life Investments Property Holdings Limited, a property investment company with limited liability incorporated in Guernsey, Channel Islands.
- ▶ Standard Life Investments (SLIPIT) Limited Partnership, a property investment limited partnership established in England.
- ▶ Standard Life Investments SLIPIT (General Partner) Limited, a company with limited liability incorporated in England. This Company is the GP for the Limited Partnership.
- ▶ Standard Life Investments SLIPIT (Nominee) Limited, a company with limited liability incorporated and domiciled in England.
- ▶ Hagley Road Limited, a property investment company with limited liability incorporated in Jersey, Channel Islands.

## 10 TRADE AND OTHER RECEIVABLES

	2018 £	2017 £
Trade receivables	3,036,500	1,424,216
Less: provision for impairment of trade receivables	(99,395)	(2,875)
Trade receivables (net)	2,937,105	1,421,341
Rental deposits held on behalf of tenants	660,926	586,189
Cash held by Solicitors	—	17,727,355
Other receivables (including lease incentives)	1,341,040	522,059
Total trade and other receivables	4,939,071	20,256,944

Reconciliation for changes in the provision for impairment of trade receivables:

	2018 £	2017 £
Opening balance	(2,875)	(33,952)
Charge for the year	(96,520)	(2,875)
Reversal of provision	—	33,952
Closing balance	(99,395)	(2,875)

The estimated fair values of receivables are the discounted amount of the estimated future cash flows expected to be received and approximate their carrying amounts.

The trade receivables above relate to rental income receivable from tenants of the investment properties. When a new lease is agreed with a tenant the Investment Manager performs various money laundering checks and makes a financial assessment to determine the tenant's ability to fulfil its obligations under the lease agreement for the foreseeable future. The majority of tenants are invoiced for rental income quarterly in advance and are issued with invoices at least 21 days before the relevant quarter starts. Invoices become due on the first day of the quarter and are considered past due if payment is not received by this date. Other receivables are considered past due when the given terms of credit expire.

Amounts are considered impaired using the expected credit loss method. Movement in the balance considered to be impaired has been included in other direct property costs in the Consolidated Statement of Comprehensive Income. As of 31 December 2018, trade receivables of £99,395 (2017: £2,875) were considered impaired and provided for.

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### Notes to the Consolidated Financial Statements for the year ended 31 December 2018

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The ageing of these receivables is as follows:

	2018 £	2017 £
0 to 3 months	(55,115)	2,875
3 to 6 months	(21,619)	—
Over 6 months	(22,661)	—
Closing balance	(99,395)	2,875

As of 31 December 2018, trade receivables of £2,937,105 (2017: £1,421,341) were less than 3 months past due but considered not impaired.

## 11 CASH AND CASH EQUIVALENTS

	2018 £	2017 £
Cash held at bank	2,555,805	7,364,620
Cash held on deposit with RBS	5,709,167	6,969,884
	8,264,972	14,334,504

Cash held at banks earns interest at floating rates based on daily bank deposit rates. Deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the applicable short-term deposit rates.

## 12 TRADE AND OTHER PAYABLES

	2018 £	2017 £
Trade and other payables	4,322,482	3,245,930
VAT payable	751,530	892,068
Deferred rental income	6,171,425	5,727,102
Rental deposits due to tenants	660,926	586,189
	11,906,363	10,451,289

Trade payables are non-interest bearing and are normally settled on 30-day terms.

### 13 BANK BORROWINGS

	2018 £	2017 £
Loan facility and drawn down outstanding balance	130,000,000	110,000,000
Opening carrying value	109,107,044	124,001,828
Borrowings during the year	20,000,000	—
Repayment of RCF	—	(15,000,000)
Arrangements costs of additional facility	(52,490)	(55,000)
Amortisation of arrangement costs	194,848	160,216
Closing carrying value	129,249,402	109,107,044

Reconciliation of movements in liabilities from financing activities	At 1 Jan 2018 (£)	Cash flows (£)	Changes in fair value (£)	Other Changes (£)	At 31 Dec 2018 (£)
Borrowings	109,107,044	19,947,510	—	194,848	129,249,402
Derivative financial instruments	2,244,799	—	(1,440,836)	—	803,963
	111,351,843	19,947,510	(1,440,836)	194,848	130,053,365

Reconciliation of movements in liabilities from financing activities	At 1 Jan 2017 (£)	Cash flows (£)	Changes in fair value (£)	Other Changes (£)	At 31 Dec 2017 (£)
Borrowings	124,001,828	(15,055,000)	—	160,216	109,107,044
Derivative financial instruments	3,562,542	—	(1,317,743)	—	2,244,799
	127,564,370	(15,055,000)	(1,317,743)	160,216	111,351,843

On 28 April 2016 the Group entered into an agreement to extend £145 million of its existing £155 million debt facility with RBS. The debt facility consists of a £110 million seven year term loan facility and a £35 million five year RCF. The RCF may by agreement be extended by one year on two occasions and in the year this option was exercised with the RCF extended out to April 2023, the same maturity date as the term-loan. £130 million has been drawn down by the Group at 31 December 2018. Interest is payable on the Term Loan at 3 month LIBOR plus a margin of 1.375%. The Group has entered into a swap arrangement which fixes the interest rate on the term loan of 2.725%. Interest is payable on the RCF at relevant LIBOR plus a margin of 1.45%.

Under the terms of the loan facility there are certain events which would entitle RBS to terminate the loan facility and demand repayment of all sums due. Included in these events of default is the financial undertaking relating to the LTV percentage. The new loan agreement notes that the LTV percentage is calculated as the loan amount less the amount of any sterling cash deposited within the security of RBS divided by the gross secured property value, and that this percentage should not exceed 60% for the period to and including 27 April 2021 and should not exceed 55% after 27 April 2021 to maturity. All loan covenants were comfortably met during the year ended December 2018.

## Financial Statements

### Notes to the Consolidated Financial Statements for the year ended 31 December 2018

continued

	2018 £	2017 £
Loan amount	130,000,000	110,000,000
Cash held by Solicitors	—	(17,727,355)
Cash	(8,264,972)	(14,334,504)
	121,735,028	77,938,141
Investment property valuation	499,110,000	433,210,000
LTV percentage	24.4%	18.0%

Other loan covenants that the Group is obliged to meet include the following:

- ▶ that the net rental income is not less than 150% of the finance costs for any three month period;
- ▶ that the largest single asset accounts for less than 15% of the Gross Secured Asset Value;
- ▶ that the largest ten assets accounts for less than 75% of the Gross Secured Asset Value;
- ▶ that sector weightings are restricted to 55%, 45% and 75% for the Office, Retail and Industrial sectors respectively;
- ▶ that the largest tenant accounts for less than 20% of the Group's annual net rental income;
- ▶ that the five largest tenants account for less than 50% of the Group's annual net rental income;
- ▶ that the ten largest tenants account for less than 75% of the Group's annual net rental income.

During the year, the Group did not default on any of its obligations and loan covenants under its loan agreement.

The loan facility is secured by fixed and floating charges over the assets of the Company and its wholly owned subsidiaries, Standard Life Investments Property Holdings Limited and Standard Life Investments (SLIPIT) Limited Partnership.

#### 14 INTEREST RATE SWAP

As part of the refinancing of loans (see note 13), on 28 April 2016 the Group completed an interest rate swap of a notional amount of £110,000,000 with RBS. The interest rate swap effective date is 28 April 2016 and has a maturity date of 27 April 2023.

Under the swap the Group has agreed to receive a floating interest rate linked to 3 month LIBOR and pay a fixed interest rate of 1.35%.

	2018 £	2017 £
Opening fair value of interest rate swaps at 1 January	(2,244,799)	(3,562,542)
Valuation gain on interest rate swaps	1,440,836	1,317,743
Closing fair value of interest rate swaps at 31 December	(803,963)	(2,244,799)

The split of the swap liability is listed below.

	2018 £	2017 £
Current liabilities	(451,714)	(887,699)
Non-current liabilities	(352,249)	(1,357,100)
Interest rate swap with a start date of 28 April 2016 maturing on 27 April 2023	(803,963)	(2,244,799)

Please see page 76 for further EPRA disclosures.



## 15 LEASE ANALYSIS

The Group has entered into leases on its property portfolio. This property portfolio as at 31 December 2018 had an average lease expiry of six years. Leases include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Some leases contain options to break before the end of the lease term.

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

	2018 £	2017 £
Within one year	28,144,983	25,353,460
After one year, but not more than five years	75,726,933	62,905,498
More than five years	71,988,615	32,278,558
Total	175,860,531	120,537,516

The largest single tenant at the year end accounts for 4.5% (2017: 5.0%) of the current annual passing rent.

## 16 SHARE CAPITAL

Under the Company's Articles of Incorporation, the Company may issue an unlimited number of ordinary shares of 1 pence each, subject to issuance limits set at the AGM each year. As at 31 December 2018 there were 405,865,419 ordinary shares of 1p each in issue (2017: 394,865,419). All ordinary shares rank equally for dividends and distributions and carry one vote each. There are no restrictions concerning the transfer of ordinary shares in the Company, no special rights with regard to control attached to the ordinary shares, no agreements between holders of ordinary shares regarding their transfer known to the Company and no agreement which the Company is party to that affects its control following a takeover bid.

Allotted, called up and fully paid:	2018 £	2017 £
Opening balance	217,194,412	204,820,219
Shares issued	10,314,000	12,467,700
Issue costs associated with new ordinary shares	(77,355)	(93,507)
Closing balance	227,431,057	217,194,412

	2018 Number of shares	2017 Number of shares
Opening balance	394,865,419	380,690,419
Issued during the year	11,000,000	14,175,000
Closing balance	405,865,419	394,865,419

## Financial Statements

### Notes to the Consolidated Financial Statements for the year ended 31 December 2018

continued

#### 17 RESERVES

The detailed movement of the below reserves for the years to 31 December 2018 and 31 December 2017 can be found in the Consolidated Statement of Changes in Equity on page 50.

##### Retained earnings

This is a distributable reserve and represents the cumulative revenue earnings of the Group less dividends paid to the Company's shareholders.

##### Capital reserves

This reserve represents realised gains and losses on disposed investment properties and unrealised valuation gains and losses on investment properties and cash flow hedges since the Company's launch.

##### Other distributable reserves

This reserve represents the share premium raised on launch of the Company which was subsequently converted to a distributable reserve by special resolution dated 4 December 2003. This balance has been reduced by the allocation of preference share finance costs.

#### 18 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the year net of tax attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

The earnings per share for the year is set out in the table below. In addition one of the key metrics the Board considers is dividend cover. This is calculated by dividing the net revenue earnings in the year (surplus for the year net of tax excluding all capital items and the swaps breakage costs) divided by the dividends payable in relation to the financial year. For 2018 this equated to a figure of 89% (2017: 104%).

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2018 £	2017 £
Surplus for the year net of tax	30,946,377	42,465,235
	2018 £	2017 £
Weighted average number of ordinary shares outstanding during the year	403,172,131	389,272,679
Earnings per ordinary share (p)	7.68	10.91
Surplus for the year excluding capital items	17,028,172	19,428,568
EPRA earnings per share (p)	4.22	4.99

## 19 DIVIDENDS AND PROPERTY INCOME DISTRIBUTION GROSS OF INCOME TAX

<b>Non Property Income Distributions</b>	<b>2018 £</b>	<b>2017 £</b>
0.668p per ordinary share paid in March 2018 relating to the quarter ending 31 December 2017 (2017: 0.84p)	2,692,811	3,258,910
0.421p per ordinary share paid in November 2018 relating to the quarter ending 30 September 2018 (2017: nil)	1,708,693	—
<b>Property Income Distributions</b>		
0.552p per ordinary share paid in March 2018 relating to the quarter ending 31 December 2017 (2017: 0.35p)	2,104,262	1,357,879
1.19p per ordinary share paid in May 2018 relating to the quarter ending 31 March 2018 (2017: 1.19p)	4,797,073	4,626,903
1.19p per ordinary share paid in August 2018 relating to the quarter ending 30 June 2018 (2017: 1.19p)	4,811,949	4,665,723
0.769p per ordinary share paid in November 2018 relating to the quarter ending 30 September 2018 (2017: 1.19p)	3,121,106	4,686,998
	<b>19,235,894</b>	<b>18,596,413</b>

On 29 March 2019 a dividend in respect of the quarter to 31 December 2018 of 1.19 pence per share was paid totalling £4,829,798. The dividend was split as a property income dividend of 0.125 pence per share and a non property income dividend of 1.065 pence per share.

## Financial Statements

### Notes to the Consolidated Financial Statements for the year ended 31 December 2018

continued

#### 20 RECONCILIATION OF CONSOLIDATED NAV TO PUBLISHED NAV

The NAV attributable to ordinary shares is published quarterly and is based on the most recent valuation of the investment properties.

	2018	2017
Number of ordinary shares at the reporting date	405,865,419	394,865,419
	<b>2018 £</b>	<b>2017 £</b>
Total equity per audited consolidated financial statements	369,386,280	345,998,316
NAV per share (p)	91.0	87.6

#### 21 RELATED PARTY DISCLOSURES

##### Directors' remuneration

The remuneration of Directors is detailed opposite which includes pay as you earn tax and national insurance contributions. Further details on the Directors can be found in the Directors' Remuneration Report and the Corporate Governance Report.

	2018	2017
Robert Peto	42,000	40,000
Sally-Ann Farnon	37,500	36,000
Huw Evans	33,500	32,000
Mike Balfour	33,500	32,000
James Clifton-Brown	33,500	32,000
Employers national insurance contributions	12,363	11,962
	192,363	183,962
Directors expenses	9,935	10,049
	202,298	194,011

##### Investment Manager

Management of the property portfolio is contractually delegated to Aberdeen Standard Fund Manger Limited up to 10 December 2018 – Standard Life Investments (Corporate Funds) Limited as Investment Manager and the contract with the Investment Manager can be terminated by the Group on not less than one year's notice. Transactions with the Investment Manager in the year are detailed out in note 4.

#### 22 SEGMENTAL INFORMATION

The Board has considered the requirements of IFRS 8 'operating segments'. The Board is of the view that the Group is engaged in a single segment of business, being property investment and in one geographical area, the United Kingdom.

Additional Information

## **UNAUDITED EPRA PERFORMANCE MEASURES & ADDITIONAL INFORMATION**



## Additional Information

### EPRA Performance Measures

	2018 £	2017 £
EPRA earnings	17,028,172	19,428,568
EPRA earnings per share (p)	4.22	4.99
EPRA NAV	370,190,243	348,243,115
EPRA NAV per share (p)	91.2	88.2
EPRA NNNAV	368,579,700	343,426,711
EPRA NNNAV per share (p)	90.8	87.0
EPRA Net Initial Yield	4.7%	5.4%
EPRA topped-up Net Initial Yield	5.2%	5.5%
EPRA Vacancy Rate	5.9%	7.7%
EPRA Cost Ratios – including direct vacancy costs	26.4%	20.2%
EPRA Cost Ratios – excluding direct vacancy costs	18.5%	16.9%

A. EPRA EARNINGS	2018 £	2017 £
Earnings per IFRS income statement	30,946,377	42,465,234
<b>Adjustments to calculate EPRA Earnings, exclude:</b>		
Net changes in value of investment properties	(12,057,044)	(23,174,903)
Gain on disposal of investment properties	(1,861,161)	138,237
Close-out costs of interest rate SWAP	—	—
EPRA Earnings	17,028,172	19,428,568
Basic number of shares (weighted average)	403,172,131	389,272,679
EPRA Earnings per share (p)	4.22	4.99

B. EPRA NET ASSET VALUE	2018 £	2017 £
IFRS NAV	369,386,280	345,998,316
<b>Exclude:</b>		
Fair value of financial instruments	803,963	2,244,799
EPRA NAV	370,190,243	348,243,115
Basic number of shares	405,865,419	394,865,419
EPRA NAV per share (p)	91.2	88.2

<b>C. EPRA TRIPLE NET ASSET VALUE (NNNAV)</b>	<b>2018 £</b>	<b>2017 £</b>
EPRA NAV	370,190,243	348,243,115
Fair value of financial instruments	(803,963)	(2,244,799)
Fair value of debt	(806,580)	(2,571,605)
EPRA NNNAV	368,579,700	343,426,711
EPRA NNNAV per share (p)	90.8	87.0
Fair value of debt per financial statements	130,055,982	111,678,649
Carrying value	129,249,402	109,107,044
Fair value of debt adjustment	806,580	2,571,605

<b>D. EPRA NET INITIAL YIELD AND 'TOPPED UP' NIY DISCLOSURE</b>	<b>2018 £</b>	<b>2017 £</b>
Investment property – wholly owned	499,110,000	433,210,000
Allowance for estimated purchasers' costs	33,939,480	29,458,280
<b>Gross up completed property portfolio valuation</b>	<b>533,049,480</b>	<b>462,668,280</b>
Annualised cash passing rental income	28,087,627	26,654,667
Property outgoings	(3,154,578)	(1,848,130)
<b>Annualised net rents</b>	<b>24,933,049</b>	<b>24,806,537</b>
Add: notional rent expiration of rent free periods or other lease incentives	2,882,229	613,714
<b>Topped-up net annualised rent</b>	<b>27,815,278</b>	<b>25,420,251</b>
EPRA NIY	4.7%	5.4%
EPRA "topped-up" NIY	5.2%	5.5%

<b>E. EPRA COST RATIOS</b>	<b>2018 £</b>	<b>2017 £</b>
Administrative/property operating expense line per IFRS income statement	7,335,319	5,759,169
EPRA Costs (including direct vacancy costs)	7,335,319	5,759,169
Direct vacancy costs	(2,188,641)	(949,144)
EPRA Costs (excluding direct vacancy costs)	5,146,678	4,810,025
Gross Rental income less ground rent costs	27,773,205	28,541,413
EPRA Cost Ratio (including direct vacancy costs)	26.4%	20.2%
EPRA Cost Ratio (excluding direct vacancy costs)	18.5%	16.9%

## Additional Information

### ESG Performance

#### APPROACH TO ESG

Standard Life Investments Property Income Trust (SLIPIT) aims to invest responsibly, to achieve environmental and social benefits alongside returns. The Company adopts Aberdeen Standard Investment's approach to ESG which sets commitments to:

- ▶ Identify, assess, monitor and control environmental, societal and regulatory risks at key stages of the investment, development and asset management operations.
- ▶ Ensure effective governance and responding to and complying with all regulatory requirements.
- ▶ Share our knowledge and engage with central government, with local government and with other bodies in order to encourage best practice in the market and to steer government policy.
- ▶ Work in partnership with our key stakeholder groups – our investors, occupiers, employees, suppliers and the communities we serve.

#### EPRA SUSTAINABILITY BEST PRACTICE RECOMMENDATIONS GUIDELINES

We have adopted the 2017 EPRA Sustainability Best Practice Recommendations Guidelines (sBPR) to inform the scope of indicators we report against. We have reported against all EPRA sBPR indicators that are material to the Company. We also report additional data not required by the EPRA sBPR where we believe it to be relevant (e.g. like-for-like greenhouse gas emissions).

A full outline of the scope of reporting and materiality review in relation to EPRA sBPR indicators is included in pages 79 to 83.

#### OPERATIONAL PERFORMANCE SUMMARY

We have processes in place to ensure operational sustainability performance is monitored and actions are implemented to drive continual improvement. Like-for-like landlord electricity and gas consumption reduced year-on-year across the Company's assets, by 10% and 11% respectively. This helped drive a significant reduction in like-for-like greenhouse gas emissions. Like-for-like water consumption also reduced year-on-year and 99.9% of waste was diverted from landfill.

Full details of performance against material EPRA sBPR indicators are included in pages 79 to 83.



#### 2018 GRESB ASSESSMENT

The GRESB Assessment is the leading global sustainability benchmark for real estate vehicles. The Company has been submitted to GRESB since 2012. In the 2018 assessment, its score improved by 11% compared with 2017 with improvements in the Performance Indicators and Monitoring and EMS categories in particular. The Company achieved a Green Star rating and a Three Star ranking.

This section details the Company's sustainability performance using the EPRA Sustainability Best Practice Recommendations Guidelines (sBPR).

#### EXPLANATORY NOTES ON METHODOLOGY

##### Organisational boundary and data coverage

Sustainability data in this report covers the calendar years of 2017 and 2018. For the purposes of sustainability reporting, we have included single-let assets within the organisational boundary even though operational control is limited and we do not generally have sight of tenant utility data. It was judged that these should be included to enable the reporting of consumption data associated with any void units. The coverage numbers in the tables following therefore appear low due to the inclusion of all of the Company's assets in the totals. Where there is no data coverage for a sector (for example, there is a single-let data centre asset for which there is no landlord consumption), the sector is excluded from the table but the number of relevant assets is included in the total possible coverage number.

The like-for-like portfolio is determined on the basis of assets that were held for two full reporting years and, in line with EPRA guidance, no exclusions are made on the basis of changes in occupancy. This can result in large fluctuations in landlord procured energy for sectors with a high proportion of single let assets where the Company only becomes responsible for procurement when a unit is vacant. This should be borne in mind when interpreting the information in the tables following.

Note that the Company does not employ any staff and does not have its own premises; these corporate aspects fall within the scope of the Investment Manager.

##### Normalisation

Net lettable area (NLA) is used as the denominator for all intensities reported in this section. This is the most appropriate choice for the Company's portfolio as it is the most widely available metric. It enables year-on-year comparisons within the portfolio to be made.

##### Renewable energy

There are landlord-owned solar PV installations at three assets in the Company, with several more schemes due to be completed in 2019. Planned schemes will take the Company's total installed PV capacity to just under 1 MWp. Most of these schemes are at single-let industrial assets where we have pro-actively engaged with occupiers to install PV and supply them with zero-carbon electricity.

In the reporting period, landlord-procured electricity reflected the fuel mix of the relevant suppliers which was approximately 98% renewable. From 1 April 2019, the Company moved to fully renewable tariffs with its electricity suppliers.

##### Auditing and assurance

Our utilities data which feeds into our sustainability reporting is validated by our Utilities Bureau Consultant and checked by our Sustainability Consultant. We have not sought third party assurance for the sustainability data included in this report although this is something we will look introduce in future years.

#### MATERIALITY

We have undertaken a review of materiality against each of the EPRA sBPR indicators. The table opposite indicates the outcome of the review.

Code	Performance Measures	Review outcome
<b>Environmental</b>		
Elec-Abs	Total electricity consumption	Material
Elec-LfL	Like-for-like total electricity consumption	Material
DH&C-Abs	Total district heating & cooling consumption	Not material – none of the Company's assets are connected to district energy supplies
DH&C-LfL	Like-for-like total district heating & cooling consumption	
Fuels-Abs	Total fuel consumption	Material
Fuels-LfL	Like-for-like total fuel consumption	Material
Energy-Int	Building energy intensity	Material
GHG-Dir-Abs	Total direct greenhouse gas (GHG) emissions	Material
GHG-Indir-Abs	Total indirect greenhouse gas (GHG) emissions	Material
GHG-Int	Greenhouse gas (GHG) emissions intensity from building energy consumption	Material
Water-Abs	Total water consumption	Material
Water-LfL	Like-for-like total water consumption	Material
Water-Int	Building water intensity	Material
Waste-Abs	Total weight of waste by disposal route	Material
Waste-LfL	Like-for-like total weight of waste by disposal route	Material
Cert-Tot	Type and number of sustainably certified assets	Material
<b>Social</b>		
Diversity-Emp	Employee gender diversity	Not material – SLIPIT does not have any employees
Diversity-Pay	Gender pay ratio	
Emp-Training	Employee training and development	
Emp-Dev	Employee performance appraisals	
Emp-Turnover	New hires and turnover	
H&S-Emp	Employee Health & Safety	
H&S-Asset	Asset Health & Safety assessments	Material
H&S-Comp	Asset Health & Safety compliance	Material
Comty-Eng	Community engagement, impact assessments and development programs	Material
<b>Governance</b>		
Gov-Board	Composition of the highest governance body	Material – see main body of report (page 14–15 for content related to Governance)
Gov-Selec	Process for nominating and selecting the highest governance body	
Gov-Col	Process for managing conflicts of interest	

## Additional Information

### Environmental Indicators

continued

#### LIKE-FOR-LIKE ENERGY CONSUMPTION

Landlord electricity consumption across like-for-like assets decreased by 10% year-on-year. The like-for-like portfolio is relatively small this year due to acquisitions and disposals. The downward trend in consumption was largely driven by office assets in Queen Square in Bristol and Endeavour House in Kiddlington. Gas consumption also reduced year-on-year.

We have implemented a number of energy saving initiatives across the portfolio and identified more for future roll-out as part of asset five year plans. These include lighting upgrades, BMS optimisation and plant replacement.

Note: the large fluctuation in electricity and gas consumption for Industrial assets is due to consumption for periods when units were vacant.

		Landlord Electricity (kWh)			Occupier Electricity i.e. sub-metered to occupiers (kWh)			Total Landlord obtained Electricity (kWh)			Landlord-obtained Gas (kWh)			Energy Intensity (kWh/m <sup>2</sup> )		
Indicator references		Elec-LfL			Elec-LfL			Elec-LfL			Fuels-LfL			Energy-Int		
Sector	Coverage (assets)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)
Industrial, Business Parks	4 of 11	13,868	23,395	69%	No sub-metered consumption		N/A	13,868	23,395	69%	15,987	2,891	-82%	0.81	0.71	-12%
Industrial, Distribution Warehouse	3 of 13	51,229	44,061	-14%	No sub-metered consumption		N/A	51,229	44,061	-14%	2,758	19,949	623%	2.1	2.5	19%
Offices	2 of 11	93,682	72,435	-23%	184,782	187,003	1%	278,464	259,438	-7%	104,153	86,892	-17%	112.7	102.0	-9%
Retail, Unit Shops	1 of 2	40,823	38,235	-6%	No sub-metered consumption		N/A	40,823	38,235	-6%	No landlord meters		N/A	6.9	6.4	-6%
Retail, Warehouses	2 of 6	21,344	21,817	2%	No sub-metered consumption		N/A	21,344	21,817	2%	No meters		N/A	2.6	2.7	2%
<b>Totals</b>	<b>12 of 43</b>	<b>220,946</b>	<b>199,943</b>	<b>-10%</b>	<b>184,782</b>	<b>187,003</b>	<b>1%</b>	<b>405,728</b>	<b>386,946</b>	<b>-5%</b>	<b>122,898</b>	<b>109,732</b>	<b>-11%</b>	<b>6.6</b>	<b>6.2</b>	<b>-6%</b>

#### LIKE-FOR-LIKE WASTE GENERATION AND TREATMENT

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

In total across the four like-for-like assets at which we manage waste, 366 tonnes of non-hazardous waste was generated in 2017 with 44.5% recycled, 55.4% recovered via energy from waste and 0.1% landfilled.

		Total Waste (tonnes)		Waste to Landfill (tonnes)		Waste Recovered (tonnes)		Waste Recycled (tonnes)	
Indicator references		Waste-LfL		Waste-LfL		Waste-LfL		Waste-LfL	
Sector	Coverage (assets)	2017	2018	2018	2018	2018	2018	2018	2018
Offices	3 of 11	57	61	0.6%	0.3	46%	28	54%	33
Retail, Unit Shops	1 of 2	307	305	0%	0	57%	175	43%	130
<b>Totals</b>	<b>4 of 43</b>	<b>365</b>	<b>366</b>	<b>0.1%</b>	<b>0.3</b>	<b>55.4%</b>	<b>203</b>	<b>44.5%</b>	<b>163</b>



## LIKE-FOR-LIKE GREENHOUSE GAS EMISSIONS

The like-for-like energy consumption figures opposite translate into an 11% reduction in Scope 1 greenhouse gas (GHG) emissions and a 27% reduction in Scope 2 emissions. The reduction in Scope 2 emissions is driven by the reduction in landlord electricity consumption and also an improvement in the carbon intensity of the UK electricity grid between 2017 and 2018.

Note: the large fluctuations in emissions for Industrial assets is due to consumption for periods when units were vacant.

		Scope 1 Emissions (tCO <sub>2</sub> )			Scope 2 Emissions (tCO <sub>2</sub> )			Scope 3 Emissions (tCO <sub>2</sub> )			Emissions Intensity Scopes 1, 2 & 3 (kgCO <sub>2</sub> /m <sup>2</sup> )		
Indicator references		No relevant EPRA indicator											
Sector	Coverage (assets)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)
Industrial, Business Parks	4 of 11	2.9	0.5	−82%	5	7	36%	0	1	24%	0.2	0.2	−7%
Industrial, Distribution Warehouse	3 of 13	1	4	624%	18	12	−31%	2	1	−37%	1	1	−15%
Offices	2 of 11	19	16	−17%	33	21	−38%	74	59	−20%	37	28	−24%
Retail, Unit Shops	1 of 2	No meters		N/A	14	11	−25%	1	1	−31%	3	2	−25%
Retail, Warehouses	2 of 6	No meters		N/A	8	6	−18%	1	1	−25%	1	1	−18%
Totals	12 of 43	23	20	−11%	78	57	−27%	78	62	−20%	2	2	−22%

## ABSOLUTE WASTE GENERATION AND TREATMENT

The only difference in absolute waste management data compared to the like-for-like portfolio opposite is the addition of three office assets that were acquired in 2017 (Pinnacle in Reading, 101 Princess Street in Manchester and One Station Square in Bracknell).

			Total Waste (tonnes)		Waste to Landfill (tonnes)		Waste Recovered (tonnes)		Waste Recycled (tonnes)	
Indicator references			Waste-Abs		Waste-Abs		Waste-Abs		Waste-Abs	
Sector	Coverage 2017 (assets)	Coverage 2017 (assets)	2017	2018	2018	2018	2018	2018	2018	2018
Offices	5 of 19	5 of 19	88	172	0.2%	0.3	73%	126	27%	46
Retail, Unit Shops	1 of 2	1 of 2	307	305	0%	0	57%	175	43%	130
<b>Totals</b>	<b>6 of 61</b>	<b>6 of 62</b>	<b>395</b>	<b>477</b>	<b>0.1%</b>	<b>0.3</b>	<b>63%</b>	<b>301</b>	<b>36.9%</b>	<b>176</b>

## Additional Information

### Environmental Indicators

continued

#### ABSOLUTE ENERGY CONSUMPTION

Absolute landlord electricity and gas consumption increased by 41% and 38% respectively year-on-year. This was driven by the acquisition of several multi-let office assets in 2017 and 2018 where the Company is responsible for procuring energy. There was also an increase in landlord gas consumption at distribution warehouse assets which was associated with periods of vacancy.

In the reporting period, landlord-procured electricity reflected the fuel mix of the relevant suppliers which was around 98% renewable. From 1 April 2019, the Company moved to fully renewable tariffs with its electricity suppliers. Gas consumed was not from renewable sources.

Indicator references			Landlord Electricity (kWh)			Occupier Electricity i.e. sub-metered to occupiers (kWh)			Total landlord-obtained Electricity (kWh)			Landlord-obtained Gas (kWh)			Energy Intensity (kWh/m <sup>2</sup> )		
			Elec-Abs			Elec-Abs			Elec-Abs			Fuels-Abs			Energy-Int		
Sector	Coverage 2017 (assets)	Coverage 2018 (assets)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)
Industrial, Business Parks	5 of 13	5 of 13	16,293	23,854	46%	No sub-metered consumption		N/A	16,293	23,854	46%	15,987	8,602	-46%	0.9	0.7	-20%
Industrial, Distribution Warehouse	2 of 16	4 of 19	83,711	81,421	-3%	No sub-metered consumption		N/A	83,711	81,421	-3%	578,496	821,618	42%	38.4	25.4	-34%
Offices	8 of 19	10 of 19	1,115,040	1,631,213	46%	1,605,239	1,900,814	18%	2,720,279	3,532,027	30%	1,304,243	1,796,127	38%	172.6	119.3	-31%
Retail, Unit Shops	2 of 2	2 of 2	40,823	38,235	-6%	No sub-metered consumption		N/A	40,823	38,235	-6%	No landlord meters		N/A	6.9	6.4	-6%
Retail, Warehouses	3 of 11	4 of 8	21,344	26,062	22%	No sub-metered consumption		N/A	21,344	26,062	22%	No landlord meters		N/A	2.6	2.3	-13%
<b>Totals</b>	<b>20 of 61</b>	<b>24 of 62</b>	<b>1,277,211</b>	<b>1,800,785</b>	<b>41%</b>	<b>1,605,239</b>	<b>1,900,814</b>	<b>18%</b>	<b>2,882,450</b>	<b>3,701,599</b>	<b>28%</b>	<b>1,898,726</b>	<b>2,626,347</b>	<b>38%</b>	<b>52.2</b>	<b>44.0</b>	<b>-16%</b>

#### WATER CONSUMPTION

Water consumption at like-for-like assets decreased by 11% year-on-year. This was driven by a reduction at 31/32 Queen Square in Bristol which is the only like-for-like office asset with landlord water consumption. All water for the Company is sourced from mains supply.

Note that data coverage is lower for water than for energy as it is uncommon to have landlord meters at assets with no internal common parts or shared services.

			Absolute Water Consumption (m³)					Lfl Water Consumption (m³)					
Indicator references			Water-Abs; Water-Int					Water-Lfl; Water-Int					
Sector	Coverage 2017 (assets)	Coverage 2018 (assets)	2017 (m³)	2017 (litres/m²)	2018 (m³)	2018 (litres/m²)	Change (%)	Coverage (assets)	2017 (m³)	2017 (litres/m²)	2018 (m³)	2018 (litres/m²)	Change (%)
Industrial, Distribution Warehouse	2 of 16	2 of 19	18	2	116	8	549%	1 of 13	18	2	20	2	11%
Offices	5 of 19	9 of 19	7,382	355	14,880	350	102%	1 of 11	579	475	505	414	-13%
Retail, Unit Shops	1 of 2	1 of 2	64	11	91	15	43%	1 of 2	79	13	78	13	-1%
Totals	8 of 61	12 of 62	7,464	205	15,087	239	102%	3 of 43	676	40	603	36	-11%

## ABSOLUTE GREENHOUSE GAS EMISSIONS

Absolute Scope 1 GHG emissions increased by 38% whilst absolute Scope 2 emissions increased by 14%. As noted opposite for absolute energy consumption, the increase in Scope 1 and 2 emissions is due to the effect of acquisitions and periods of vacancy.

			Scope 1 Emissions (tCO <sub>2</sub> )			Scope 2 Emissions (tCO <sub>2</sub> )			Scope 3 Emissions (tCO <sub>2</sub> )			Emissions Intensity Scopes 1, 2 & 3 (kgCO <sub>2</sub> /m <sup>2</sup> )		
Indicator references			GHG-Indir-Abs			GHG-Indir-Abs			GHG-Dir-Abs			GHG-Int		
Sector	Coverage 2017 (assets)	Coverage 2018 (assets)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)	2017	2018	Change (%)
Industrial, Business Parks	5 of 13	5 of 13	2.9	1.6	−46%	6	7	18%	1	1	7%	0.2	0.2	−23%
Industrial, Distribution Warehouse	2 of 16	4 of 19	107	151	42%	29	23	−22%	3	2	−29%	8.0	5.0	−38%
Offices	8 of 19	10 of 19	240	330	38%	392	462	18%	654	623	−5%	55.2	31.7	−43%
Retail, Unit Shops	2 of 2	2 of 2	No landlord meters		N/A	14	11	−25%	1	1	−31%	2.6	2.0	−25%
Retail, Warehouses	3 of 11	4 of 8	No landlord meters		N/A	8	7	−2%	1	1	−10%	1.0	0.7	−30%
Totals	20 of 61	24 of 62	350	483	38%	449	510	14%	659	627	−5%	15.9	11.3	−29%

## SUSTAINABILITY CERTIFICATIONS

Two office assets in the Company have BREEAM Very Good ratings: Bourne House in Staines and 54 Hagley Road in Birmingham. These assets account for 6% of the Company by net lettable area.

Energy Performance Certificate (EPC) ratings for assets in England owned by the Company are shown opposite. There is one remaining G-rated unit in the Company for which there is a comprehensive plan to improve the rating before the next lease event in 2029.

EPC Rating	% Net Lettable Area
A	4.4%
B	13.7%
C	42.9%
D	26.2%
E	12.9%
F	0%
G	0.7%

## SOCIAL INDICATORS

### Health & Safety

Every asset in the portfolio (i.e. 100% coverage) was subject to a Health & Safety inspection during the reporting year, with no incidents of non-compliance with regulations identified.

### Community Engagement

Our community engagement activities are focused around development or construction projects the Company undertakes. We do not routinely implement community engagement activities at standing assets.

## Information for Investors and Additional Performance Measures

### Glossary

<b>AIC</b>	Association of Investment Companies. The trade body representing closed-ended investment companies.
<b>Annual rental income</b>	Cash rents passing at the Balance Sheet date.
<b>Average debt maturity</b>	The weighted average amount of time until the maturity of the Group's debt facilities.
<b>Break option</b>	A break option (alternatively called a 'break clause' or 'option to determine') is a clause in a lease which provides the landlord or tenant with a right to terminate the lease before its contractual expiry date, if certain criteria are met.
<b>Contracted rent</b>	The contracted gross rent receivable which becomes payable after all the occupied incentives in the letting have expired.
<b>Covenant strength</b>	This refers to the quality of a tenant's financial status and its ability to perform the covenants in a Lease.
<b>Dividend</b>	A sum of money paid regularly by the Company to its shareholders. The Company currently pays dividends to shareholders quarterly.
<b>Dividend cover</b>	The ratio of the company's net surplus after tax (excluding capital items) to the dividends paid.
<b>Dividend yield</b>	Annual dividend expressed as a percentage of share price on any given day.
<b>Earnings per share (EPS)</b>	Surplus for the period attributable to shareholders divided by the weighted average number of shares in issue during the period.
<b>EPRA European Public Real Estate Association</b>	The industry body representing listed companies in the real estate sector.
<b>ERV</b>	The estimated rental value of a property, provided by the property valuers.
<b>Fair value</b>	Fair value is defined by IFRS 13 as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'.
<b>Fair value movement</b>	Fair value movement is the accounting adjustment to change the book value of an asset or liability to its market value, and subsequent changes in market value.
<b>Gearing ratio</b>	Calculated as gross borrowings (excluding swap valuation) divided by total assets. The Articles of Association of the Company have a 65% gearing ratio limit.
<b>Group</b>	Standard Life Investments Property Income Trust Limited and its subsidiaries.
<b>IFRS</b>	International Financial Reporting Standards.
<b>Index linked</b>	The practice of linking the review of a tenant's payments under a lease to a published index, most commonly the Retail Price Index (RPI) but also the Consumer Price Index (CPI).
<b>IPD</b>	Investment Property Databank. An independent organisation supplying an expansive range of regional and global indexes, research, performance modelling, data metrics and risk analytics across direct property, listed and unlisted vehicles, joint ventures, separate accounts and debt.
<b>IPD Benchmark</b>	Quarterly version of IPD Monthly Index Funds.
<b>Loan to value</b>	Calculated as net borrowings (gross borrowings less cash excluding swap valuation) divided by portfolio value. SWAP valuations at fair value are not considered relevant in gearing calculations.

<b>NAV</b>	Net Asset Value is the equity attributable to shareholders calculated under IFRS.
<b>NAV total return</b>	The return to shareholders, expressed as a percentage of opening NAV, calculated on a per share basis by adding dividends paid in the period to the increase or decrease in NAV. Dividends are assumed to have been reinvested in the quarter they are paid, excluding transaction costs.
<b>Net initial yield (NIY)</b>	The net initial yield of a property is the initial net income at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase.
<b>Over-rented</b>	Space where the passing rent is above the ERV.
<b>Passing rent</b>	The rent payable at a particular point in time.
<b>Portfolio fair value</b>	The market value of the Group's property portfolio, which is based on the external valuation provided by Knight Frank LLP.
<b>Portfolio total return</b>	Combining the Portfolio Capital Return (the change in property value after taking account of property sales, purchases and capital expenditure in the period) and Portfolio Income Return (net property income after deducting direct property expenditure), assuming portfolio income is re-invested.
<b>Portfolio yield</b>	Passing rent as a percentage of gross property value.
<b>Premium/Discount to NAV</b>	The difference between the share price and NAV per share, expressed as a percentage of NAV. Premium representing a higher share price compared to NAV per share, discount the opposite.
<b>Rack-rented</b>	Space where the passing rent is the same as the ERV.
<b>REIT</b>	A Real Estate Investment Trust (REIT) is a single company REIT or a group REIT that owns and manages property on behalf of shareholders. In the UK, a company or group of companies can apply for 'UK-REIT' status, which exempts the company from corporation tax on profits and gains from their UK qualifying property rental businesses.
<b>Rent free</b>	A period within a lease (usually from the lease start date on new leases) where the tenant does not pay any rent.
<b>Rent review</b>	A rent review is a periodic review (usually five yearly) of rent during the term of a lease. The vast majority of rent review clauses require the assessment of the open market, or rack rental value, at the review date, in accordance with specified terms, but some are geared to other factors, such as the movement in an Index.
<b>Reversionary yield</b>	Estimated rental value as a percentage of the gross property value.
<b>RICS</b>	The Royal Institution of Chartered Surveyors, the global professional body promoting and enforcing the highest international standards in the valuation, management and development of land, real estate, construction and infrastructure.
<b>Share price</b>	The value of each of the company's shares at a point in time as quoted on the Main Market of the London Stock Exchange.
<b>Share price total return</b>	The return to shareholders, expressed as a percentage of opening share price, calculated on a per share basis by adding dividends paid in the period to the increase or decrease in share price. Dividends are assumed to have been reinvested in the quarter they are paid, excluding transaction costs.
<b>Void rate</b>	The quantum of ERV relating to properties which are unlet and generating no rental income. Stated as a percentage of total portfolio ERV.



## Information for Investors

### Information for Investors

#### AIFMD/PRE-INVESTMENT DISCLOSURE DOCUMENT (“PIDD”)

The Company has appointed Aberdeen Standard Fund Managers Limited as its alternative investment fund manager and Citibank Europe plc as its depositary under the AIFMD. AIFMD requires Aberdeen Standard Fund Managers Limited, as the alternative investment fund manager (“AIFM”) of Standard Life Investments Property Income Trust Limited, to make available to investors certain information prior to such investors’ investment in the Company. Details of the leverage and risk policies which the Company is required to have in place under AIFMD are published in the Company’s PIDD, which can be found on its website. The periodic disclosures required to be made by the AIFM under AIFMD are set out on pages 88 and 89.

#### INVESTOR WARNING: BE ALERT TO SHARE FRAUD AND BOILER ROOM SCAMS

Aberdeen Standard Investments has been contacted by investors informing them that they have received telephone calls and emails from people who have offered to buy their investment trust shares, purporting to work for Aberdeen Standard Investments.

Aberdeen Standard Investments has also been notified of emails claiming that certain investment companies under their management have issued claims in the courts against individuals. These may be scams which attempt to gain your personal information with which to commit identity fraud or could be “boiler room” scams where a payment from you is required to release the supposed payment for your shares. These calls/senders do not work for Aberdeen Standard Investments and any third party making such offers/claims has no link with Aberdeen Standard Investments.

Aberdeen Standard Investments does not “cold-call” investors in this way. If you have any doubt over whether a caller is genuine, do not offer any personal information, end the call and contact the Customer Services Department (see below for their contact details).

The Financial Conduct Authority provides advice with respect to share fraud and boiler room scams: [www.fca.org.uk/consumers/scams](http://www.fca.org.uk/consumers/scams)

#### SHARE REGISTER ENQUIRIES

Shareholders who hold their shares in certificated form can check their shareholding with the Registrar.

Notifications of changes of address and all enquiries regarding certificates or dividend cheques should be sent in writing to the Registrar whose details are shown on page 90.

#### KEEPING YOU INFORMED

The Company’s shares are listed on the London Stock Exchange and the share price is quoted daily in the Financial Times.

Details of the Company may also be found on the Company’s own dedicated website at: [www.slipit.co.uk](http://www.slipit.co.uk)

This provides information on the Company’s share price performance, capital structure, stock exchange announcement and an Investment Manager’s monthly factsheet. Alternatively you can call 0808 500 0040 (free when dialing from a UK landline) for trust information.

If you have any questions about your Company, the Investment Manager or performance, please telephone the Customer Services Department (direct private investors) on 0808 500 0040. Alternatively, please send an email to [inv.trusts@aberdeen-asset.com](mailto:inv.trusts@aberdeen-asset.com) or write to Aberdeen Standard Investments, PO Box 11020, Chelmsford, Essex CM99 2DB. In the event of queries regarding holdings of shares, lost certificates, dividend payments, registered details, shareholders holding their shares in the Company directly should contact the Registrar, Computershare Investor Services (Guernsey) Limited on +44 (0) 370 707 4040 or by writing to the address on page 90. Calls may be recorded and monitored randomly for security and training purposes. Changes of address must be notified to the Registrar in writing.

#### HOW TO INVEST IN THE COMPANY

Individual investors can buy and sell shares in the Company directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. Alternatively, for retail clients, shares can be bought directly through Aberdeen Standard Investments’ Plan for Children, Investment Trust Share Plan or Investment Trust ISA.

#### Aberdeen Standard Investments Plan for Children

Aberdeen Standard Investments runs an Investment Plan for Children (the “Children’s Plan”) which covers a number of investment companies under its management including the Company. Anyone can invest in the Children’s Plan, including parents, grandparents and family friends (subject to the eligibility criteria as stated within the terms and conditions). All investments are free of dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £150 per trust, while regular savers may invest from £30 per month. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in the Children’s Plan, and regular savers can stop or suspend participation by instructing Aberdeen Standard Investments in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts. Investors have full voting and other rights of share ownership.

#### Aberdeen Standard Investments Trust Share Plan

Aberdeen Standard Investments runs a Share Plan (the “Plan”) through which shares in the Company can be purchased. There are no dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £250, while regular savers may invest from £100 per month. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in a Plan, and regular savers can stop or suspend participation by instructing Aberdeen Standard Investments in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts. Investors have full voting and other rights of share ownership.

### Aberdeen Standard Investments Trust ISA

Aberdeen Standard Investments operates an Investment Trust ISA ("ISA") through which an investment may be made of up to £20,000 in the tax year 2019/2020.

There are no brokerage or initial charges for the ISA, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Selling costs are £15 + VAT. The annual ISA administration charge is £24 + VAT, calculated annually and applied on 31 March (or the last business day in March) and collected soon thereafter either by direct debit or, if there is no valid direct debit mandate in place, from the available cash in the Plan prior to the distribution or reinvestment of any income, or, where there is insufficient cash in the Plan, from the sale of investments held in the Plan. Investors have full voting and other rights of share ownership. Under current legislation, investments in ISAs can grow free of capital gains tax.

### ISA transfer

You can choose to transfer previous tax year investments to the Aberdeen Standard Investments Investment Trust ISA which can be invested in the Company while retaining your ISA wrapper. The minimum lump sum for an ISA transfer is £1,000 and is subject to a minimum per trust of £250.

### LITERATURE REQUEST SERVICE

For literature and information on the Investment Plan for Children, Share Plan, ISA or ISA Transfer including application forms for the Company and the Manager's investment trust products, please contact:

Aberdeen Standard Investments Trust Administration  
PO Box 11020  
Chelmsford  
Essex, CM99 2DB  
Tel: 0808 500 00 40  
(free when dialling from a UK landline)

Terms and conditions for the Aberdeen Standard Investments managed savings products can also be found under the literature section of [www.invtrusts.co.uk](http://www.invtrusts.co.uk)

### ONLINE DEALING DETAILS

#### Investor information

There are a number of other ways in which you can buy and hold shares in this investment company outwith Aberdeen Standard Investments savings products.

#### Online dealing

There are a number of online dealing platforms for private investors that offer share dealing, ISAs and other means to invest in the company. Real-time execution-only stockbroking services allow you to trade online, manage your portfolio and buy UK listed shares. These sites do not give advice. Some comparison websites also look at dealing rates and terms. Some well-known online providers, which can be found through internet search engines, include:

AJ Bell Youinvest; Alliance Trust Savings; Barclays Stockbrokers/Smart Investor; Charles Stanley Direct; Equiniti/Shareview; Halifax Share Dealing; Hargreave Hale; Hargreaves Lansdown; iDealing; Interactive Investor/TD Direct; Selftrade; The Share Centre; Stocktrade.

#### Discretionary private client stockbrokers

If you have a large sum to invest, you may wish to contact a discretionary private client stockbroker. They can manage your entire portfolio of shares and will advise you on your investments. To find a private client stockbroker visit the Wealth Management Association at [thewma.co.uk](http://thewma.co.uk)

#### Independent Financial Advisers

To find an adviser who recommends on investment trusts, visit [www.unbiased.co.uk](http://www.unbiased.co.uk)

#### Regulation of Stockbrokers

Before approaching a stockbroker, always check that they are regulated by the Financial Conduct Authority: Tel: 0800 111 6768 or at [www.fca.org.uk/firms/systems-reporting/register/search](http://www.fca.org.uk/firms/systems-reporting/register/search)  
Email: [register@fca.org.uk](mailto:register@fca.org.uk)

## Information for Investors

### Information for Investors

#### Suitable for Retail/NMPI Status

The Company's shares are intended for investors, primarily in the UK, including retail investors, professionally-advised private clients and institutional investors who are seeking exposure to UK commercial property, and who understand and are willing to accept the risks of exposure to this asset class. Investors should consider consulting a financial adviser who specialises in advising on the acquisition of shares and other securities before acquiring shares. Investors should be capable of evaluating the risks and merits of such an investment and should have sufficient resources to bear any loss that may result.

The Company currently conducts its affairs, and intends to continue to do so for the foreseeable future, in order that the shares issued by Standard Life Investments Property Income Trust Limited can be recommended by a financial adviser to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream pooled investments (NMPs).

#### EFFECT OF REIT STATUS ON PAYMENT OF DIVIDENDS

REITs do not pay UK corporation tax in respect of rental profits and chargeable gains relating to property rental business. However, REITs are required to distribute at least 90% of their qualifying income (broadly calculated using the UK tax rules) as a Property Income Distribution ("PID").

Certain categories of shareholder may be able to receive the PID element of their dividends gross, without deduction of withholding tax. Categories which may claim this exemption include: UK companies, charities, local authorities, UK pension schemes and managers of PEPs, ISAs and Child Trust Funds.

Further information and the forms for completion to apply for PIDs to be paid gross are available from the Registrar.

Where the Group pays an ordinary dividend, in addition to the PID, this will be treated in the same way as dividends from non-REIT companies.

#### RETAIL DISTRIBUTION

On 1 January 2014, the FCA introduced rules relating to the restrictions on the retail distribution of unregulated collective investment schemes and close substitutes (non-mainstream investment products). UK investment trusts are excluded from these restrictions.

#### NOTE

Please remember that past performance is not a guide to the future. Stock market movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount they originally invested.

As with all equity investments, the value of real estate investment trusts purchased will immediately be reduced by the difference between the buying and selling prices of the shares, the market maker's spread.

Investors should further bear in mind that the value of any tax relief will depend on the individual circumstances of the investor and that tax rates and reliefs, as well as the tax treatment of ISAs may be changed by future legislation.

#### AIFMD Disclosures (unaudited)

The Company has appointed Aberdeen Standard Fund Managers Limited as its alternative investment fund manager with effect from 10 December 2018 and Citibank Europe plc as its depositary under the AIFMD. Prior to 10 December 2018, the Company's AIFM was Standard Life Investments (Corporate Funds) Limited. The AIFM and the Company are required to make certain disclosures available to investors in accordance with the Alternative Investment Fund Managers Directive ("AIFMD"). Those disclosures that are required to be made pre-investment are included within a pre-investment disclosure document ("PIDD") which can be found on the Company's website [www.slipit.co.uk](http://www.slipit.co.uk). There have been no material changes to the disclosures contained within the PIDD since its last publication in December 2018.

	Gross method	Commitment method
Maximum level of leverage	400%	250%
Actual level at 31 December 2018	167%	137%

The periodic disclosures as required under the AIFMD to investors are made below:

- ▶ Information on the investment strategy, geographic and sector investment focus and principal exposures are included in the Strategic Report.
- ▶ None of the Company's assets are subject to special arrangements arising from their illiquid nature.
- ▶ The Strategic Report, note 3 to the Financial Statements and the PIDD together set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected.
- ▶ There are no new arrangements for managing the liquidity of the Company or any material changes to the liquidity management systems and procedures employed by ASFML.
- ▶ All authorised Alternative Investment Fund Managers are required to comply with the AIFMD Remuneration Code. In accordance with the Remuneration Code, the AIFM's remuneration policy is available from Aberdeen Standard Fund Managers Limited on request (see contact details on page 90) and the remuneration disclosures in respect of the AIFM's reporting period for the period ended 31 December 2018 are available on the Company's website.

### Leverage

The table above sets out the current maximum permitted limit and actual level of leverage for the Company.

There have been no breaches of the maximum level during the period and no changes to the maximum level of leverage employed by the Company. There is no right of re-use of collateral or any guarantees granted under the leveraging arrangement. Changes to the information contained either within this Annual Report or the PIDD in relation to any special arrangements in place, the maximum level of leverage which ASFML may employ on behalf of the Company; the right of use of collateral or any guarantee granted under any leveraging arrangement; or any change to the position in relation to any discharge of liability by the Depositary will be notified via a regulatory news service without undue delay in accordance with the AIFMD.

*The information on pages 86 to 89 has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) by Aberdeen Standard Fund Managers Limited which is authorised and regulated by the Financial Conduct Authority.*

### OTHER INFORMATION

The Company is a member of the Association of Investment Companies. The Association publishes a Monthly Information Service which contains a wide range of detailed information including statistical and performance data on all its members. A sample copy can be obtained free of charge from the AIC, 9th Floor, 24 Chiswell Street, London, EC1Y 4YY (telephone: 020 7282 5555) along with full details of other publications available from the AIC. Alternatively, visit their website on [www.theaic.co.uk](http://www.theaic.co.uk)

## Information for Investors

### Directors and Company Information

#### DIRECTORS

Robert Peto <sup>1</sup>  
 Sally-Ann Farnon <sup>2</sup>  
 Huw Evans <sup>3</sup>  
 Mike Balfour <sup>4</sup>  
 James Clifton-Brown <sup>5</sup>  
 Jill May (appointed 12 March 2019)

#### REGISTERED OFFICE

Trafalgar Court  
 Les Banques  
 St Peter Port  
 Guernsey GY1 3QL

#### REGISTERED NUMBER

41352

#### ADMINISTRATOR & SECRETARY

**Northern Trust International  
 Fund Administration Services  
 (Guernsey) Limited**

PO Box 255  
 Trafalgar Court  
 Les Banques  
 St Peter Port  
 Guernsey GY1 3QL

#### REGISTRAR

**Computershare Investor  
 Services (Guernsey) Limited**

Le Truchot  
 St Peter Port  
 Guernsey GY1 1WD

#### INVESTMENT MANAGER

**Aberdeen Standard Fund Managers Limited**

Bow Bells House  
 1 Bread Street  
 London EC4M 9HH

#### INDEPENDENT AUDITORS

**Ernst & Young LLP**

Royal Chambers  
 St Julian's Avenue  
 St Peter Port  
 Guernsey GY1 4AF

#### SOLICITORS

**Dickson Minto W.S.**

16 Charlotte Square  
 Edinburgh EH2 4DF

**Walkers (Guernsey) LLP**

New Street  
 Guernsey GY1 2PF

#### BROKER

**Winterflood Securities Limited**

The Atrium Building  
 Cannon Bridge  
 25 Dowgate Hill  
 London EC4R 2GA

#### PRINCIPAL BANKERS

**The Royal Bank of Scotland plc**

135 Bishopsgate  
 London EC2M 3UR

#### PROPERTY VALUERS

**Knight Frank LLP**

55 Baker Street  
 London W1U 8AN

#### DEPOSITARY

**Citibank Europe plc**

Canada Square  
 London E14 5LB

<sup>1</sup> Chairman of the Board

<sup>2</sup> Chairman of the Audit Committee and designated as  
 Senior Independent Director

<sup>3</sup> Chairman on the Management Engagement Committee

<sup>4</sup> Chairman of the Nomination & Remuneration Committee

<sup>5</sup> Chairman of the Property Valuation Committee

## Annual General Meeting

### Notice of the Annual General Meeting

Notice is hereby given that the Fifteenth Annual General Meeting of Standard Life Investments Property Income Trust Limited ('the Company') will be held at Bow Bells House, 1 Bread Street, London EC4M 9HH on Thursday 13 June 2019 at 10.30am for the following purposes:

To consider and, if thought fit, pass the following resolutions as ordinary resolutions

**1** To receive and approve the Annual Report and Consolidated Financial Statements of the Company for the year ended 31 December 2018.

**2** To receive and approve the Directors' Remuneration Report for the year ended 31 December 2018.

**3** To receive and approve the Directors' Remuneration Policy.

**4** To approve the Company's dividend policy to continue to pay four quarterly interim dividends per year.

**5** To appoint Deloitte LLP as Auditor of the Company until the conclusion of the next Annual General Meeting.

**6** To authorise the Board of Directors to determine the Auditor's Remuneration.

**7** To elect Jill May as a Director of the Company.

**8** To re-elect Huw Evans as a Director of the Company.

**9** To re-elect Robert Peto as a Director of the Company.

**10** To re-elect Michael Balfour as a Director of the Company.

**11** To re-elect James Clifton-Brown as a Director of the Company.

To consider and, if thought fit, pass the following resolutions as special resolutions

**12** To authorise the Company, in accordance with The Companies (Guernsey) Law, 2008, as amended to make market acquisitions of its own shares of 1 pence each (either for retention as treasury shares for future resale or transfer or cancellation) provided that;

a. the maximum number of ordinary shares hereby authorised to be purchased shall be 14.99 percent of the issued ordinary shares on the date on which this resolution is passed;

b. the minimum price which may be paid for an ordinary share shall be 1 pence;

c. the maximum price (exclusive of expenses) which may be paid for an ordinary share shall be the higher of (i) 105 percent of the average of the middle market quotations (as derived from the Daily Official List) for the ordinary shares for the five business days immediately preceding the date of acquisition and (ii) the higher of the last independent trade and the highest current independent bid on the trading venue on which the purchase is carried out; and

d. unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 13 December 2020 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2020, save that the Company may, prior to such expiry, enter into a contract to acquire ordinary shares under such authority and may make an acquisition of ordinary shares pursuant to any such contract.

**13**

That the Directors of the Company be and they are hereby generally empowered, to allot ordinary shares in the Company or grant rights to subscribe for, or to convert securities into, ordinary shares in the Company ("equity securities") for cash, including by way of a sale of ordinary shares held by the Company as treasury shares, as if any pre-emption rights in relation to the issue of shares as set out in the listing rules made by the Financial Conduct Authority under Part VI of the Financial Services and Markets Act 2000, as amended, did not apply to any such allotment of equity securities, provided that this power:

a. expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and

b. shall be limited to the allotment of equity securities up to an aggregate nominal value of £405,865 being approximately 10 percent of the nominal value of the issued share capital of the Company, as at 17 April 2019.

**By Order of the Board  
For and on behalf of  
Northern Trust International Fund Administration  
Services (Guernsey) Limited  
Secretary  
17 April 2019**



## Annual General Meeting

### Notes to the notice of Annual General Meeting

**1** A form of proxy is enclosed with this notice. A Shareholder entitled to attend, speak and vote is entitled to appoint one or more proxies to exercise all or any of their rights to attend, speak and vote at the Meeting. A proxy need not be a Shareholder of the Company. If you wish to appoint a person other than the Chairman of the Meeting, please insert the name of your chosen proxy holder in the space provided on the enclosed form of proxy.

**2** In the case of joint holders such persons shall not have the right to vote individually in respect of an ordinary share but shall elect one person to represent them and vote in person or by proxy in their name. In default of such an election, the vote of the person first named in the register of members of the Company tendering a vote will be accepted to the exclusion of the votes of the other joint holders.

**3** You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different ordinary shares. You may not appoint more than one proxy to exercise rights attached to any one ordinary share. To appoint more than one proxy you may photocopy the enclosed form of proxy. Please indicate the proxy holder's name and the number of ordinary shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of ordinary shares held by you). Please also indicate if the proxy instruction is one of multiple instructions given by you. All hard copy forms of proxy must be signed and should be returned together in the same envelope.

**4** The form of proxy should be completed and sent, together with the power of attorney or authority (if any) under which it is signed, or a notarially certified copy of such power or authority, so as to reach Computershare Investor Services (Guernsey) Limited, The Pavilions, Bridgwater Road, Bristol BS99 6ZY no later than 10.30am on 11 June 2019.

**5** Completing and returning a form of proxy will not prevent a member from attending the Meeting in person. If you have appointed a proxy and attend the Meeting in person your proxy appointment will remain valid and you may not vote at the Meeting unless you have provided a hard copy notice to revoke the proxy to Computershare Investor Services (Guernsey) Limited, The Pavilions, Bridgwater Road, Bristol BS99 6ZY not later than 10.30am on 11 June 2019.

**6** To have the right to attend, speak and vote at the Meeting (and also for the purposes of calculating how many votes a member may cast on a poll) a member must first have his or her name entered on the register of members not later than 10.30am on 11 June 2019. Changes to entries in the register after that time shall be disregarded in determining the rights of any member to attend, speak and vote at such Meeting.

**7** The Directors' letters of appointment will be available for inspection for fifteen minutes prior to the Meeting and during the Meeting itself.

**8** By attending the Meeting a holder of ordinary shares expressly agrees they are requesting and willing to receive any communications made at the Meeting.

**9** If you submit more than one valid form of proxy, the form of proxy received last before the latest time for the receipt of proxies will take precedence. If the Company is unable to determine which form of proxy was last validly received, none of them shall be treated as valid in respect of the same.

**10** A quorum consisting of one or more Shareholders present in person, or by proxy, and holding five percent or more of the voting rights is required for the Meeting. If, within half an hour after the time appointed for the Meeting, a quorum is not present the Meeting shall be adjourned for seven days at the same time and place or to such other day and at such other time and place as the Board may determine and no notice of adjournment need be given at any such adjourned meeting. Those Shareholders present in person or by proxy shall constitute the quorum at any such adjourned meeting.

**11** The resolutions to be proposed at the Meeting will be proposed as ordinary and special resolutions which, to be passed, must receive the support of a majority (in the case of the ordinary resolutions) and not less than seventy five percent (in the case of the special resolutions) of the total number of votes cast for, or against, the ordinary and special resolutions respectively.

**12** As at 17 April 2019, the latest practicable date prior to publication of this document, the Company had 405,865,419 ordinary shares in issue with a total of 405,865,419 voting rights.

**13** Any person holding 3% of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure Guidance and Transparency Rules.



