

F&C UK Real Estate Investments Limited

INTERIM REPORT FOR THE SIX MONTHS
ENDED 31 DECEMBER 2017



Company Overview

The Company

The Company is an authorised closed-ended Guernsey-registered investment company and its shares have a premium listing on the Official List of the UK Listing Authority and are traded on the Main Market of the London Stock Exchange. The Interim Report of the Company consolidates the results of its subsidiary undertakings, which collectively are referred to throughout this document as 'the Group', details of which are contained in note 14 to the Accounts.

The Group elected into the UK REIT regime from 1 January 2015.

Objective

To provide ordinary shareholders with an attractive level of income together with the potential for capital and income growth from investing in a diversified UK commercial property portfolio.

Management

The Company's investment managers and property managers are respectively F&C Investment Business Limited and BMO REP Property Management Limited. Both of these companies are part of the F&C Asset Management plc group ('F&C') and, collectively, are referred to in this document as 'the Manager'.

F&C is wholly owned by Bank of Montreal ('BMO') and is part of the BMO Global Asset Management group of companies.

Capital Structure

The Company's equity capital structure consists of Ordinary Shares. Subject to the solvency test provided for in the Companies (Guernsey) Law, 2008, (as amended), being satisfied, ordinary shareholders are entitled to all dividends declared by the Company and to all of the Company's assets greater than the value of the liabilities.

Alternative Performance Measures ('APM')

The Company uses a number of alternative performance measures in the discussion of its business performance and financial position. Further information is provided on page 21.

ISA

The Company's shares are eligible for Individual Savings Accounts ('ISAs'). Further information is provided on page 20.

Website

The Company's internet address is: www.fcrc.co.uk and www.fcrc.gg

Financial Highlights

7.4%

Net asset value total return*

Net asset value total return of 7.4 per cent for the 6 months

6.2%

Portfolio total return*

Portfolio ungeared total return of 6.2 per cent for the 6 months

4.8%

Annualised dividend yield*

Annualised dividend yield of 4.8 per cent based on the period end share price

92.6%

Dividend cover*

Dividend cover was 92.6 per cent for the period

Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

* See Alternative Performance Measures on page 21.

Performance Summary

Six months to
31 December
2017

Total Returns*	
Net asset value per share	+7.4%
Ordinary share price	-0.9%
Portfolio ungeared return	+6.2%
MSCI Investment Property Databank ('IPD') All Quarterly and Monthly Valued Fund Benchmark	+5.4%
FTSE All-Share Index	+7.2%

Six months to
31 December
2017

Year ended
30 June
2017

% Change

Capital Values			
Total assets less current liabilities (£000's)	354,921	346,255	+2.5%
Net asset value per share	104.9p	100.1p	+4.8%
Ordinary share price	103.3p	106.8p	-3.3%
Investment Property Databank UK Quarterly Index	124.0	120.2	+3.2%
FTSE All-Share Index	4,221.8	4,002.2	+5.5%
Ordinary share price (discount)/premium to net asset value per share*	(1.5)%	6.7%	
Net gearing*	28.2%	28.3%	

Six months to
31 December
2017

Six months to
31 December
2016

Earnings and Dividends	
Earnings per ordinary share	7.3p
Dividends paid per ordinary share	2.5p
Annualised dividend yield*	4.8%

Notes

* See Alternative Performance Measures on page 21.

Sources: F&C Investment Business, MSCI Investment Property Databank ('IPD'), and Thomson Reuters Eikon.

Chairman's Statement



Vikram Lall Chairman

Despite continuing uncertainties about the outcome of the Brexit negotiations, the UK commercial property market has witnessed strong demand and the Group has experienced six months of steady performance with capital values increasing in the period by 3.5 per cent. The net asset value ('NAV') total return* per share for the period was 7.4 per cent and the NAV per share at the period end was 104.9 pence.

Despite the positive returns on the portfolio, there was still a degree of caution in the market and the share price fell by 3.3 per cent over the six months. The share price total return* was -0.9 per cent over the period and the shares were trading at a slight discount* to the NAV of 1.5 per cent at the period end, compared to a premium of 6.7 per cent as at 30 June 2017.

Property Market

The UK commercial property market delivered a total return of 5.4 per cent as measured by the Investment Property Databank ('IPD') UK Quarterly Index for all assets in the six months to 31 December 2017, and 10.3 per cent over the year to December as momentum built over the period. Performance was driven by strength in investment demand, with overseas buyers still active and institutions returning to the market later in the period. Industrial property and alternative asset sectors continued to outperform with all the standard segments of the IPD Index delivering positive benchmark total returns for the period.

In the six months to 31 December 2017, the income return held steady as capital growth improved and the all-property initial yield edged

lower. Open market rental value growth was positive but the bulk of the upward move in capital value was due to yield compression.

Property Portfolio

The Group's property portfolio produced an ungeared return* of 6.2 per cent over the six months to December, outperforming the IPD Quarterly Index. Performance was led by a top quartile income return* of 2.6 per cent. The portfolio's industrial and distribution assets were again the key contributors to performance, producing a total return in excess of both the IPD UK Quarterly Index and the sector level return for the period. The exposure to industrial and logistics property at close to 35 per cent of portfolio value continues to be the mainstay of the Fund strategy alongside the majority weighting to the core south east markets.

In a further continuation of the trend witnessed last year, the portfolio's retail assets also outperformed their peers; however the portfolio's office assets, led lower by the regional holdings, delivered poorer performance in both actual and relative terms. The Company's retail warehousing continues to deliver an income return, a key contributor to dividend cover, and outperform the peer group. Indeed, active asset management at the retail warehouse located at Northfields Retail Park, Rotherham delivered the highest weighted contribution to portfolio return of any property over the period.

Given the weight of money pursuing core assets, particularly industrials, alternatives and long Income assets the Company has preserved its measured, opportunistic approach to the

deployment of capital, with emphasis on the disposal of non-core assets, reflected in recent sales from the retail portfolio. Acquisitions that meet the returns criteria for the Company have been more difficult to come by in a very competitive marketplace. However we believe the acquisition of the single let industrial asset at Lister Road, Basingstoke, yielding 5.2 per cent and let for 9 years meets our criteria in the current market.

The portfolio continues to offer sustainable defensive fundamentals, including an above market income yield, a low void rate of 3.8 per cent and contractual income with an average weighted lease term of 6 years.

Dividends

The first interim dividend for the year ending 30 June 2018 of 1.25 pence per share was paid in December 2017, with a second interim dividend of 1.25 pence per share to be paid on 29 March 2018 to shareholders on the register on 9 March 2018.

The dividend cover* for the six months was 92.6 per cent, although this excludes the receipt of a negotiated surrender premium of £4,375,000 from the previous tenant at Northfields Retail Park, Rotherham. This property was subsequently re-let.

The dividend is currently at a sustainable level, and in the absence of unforeseen circumstances, it is expected that the Company will continue to

pay quarterly dividends at this rate, the equivalent of 5.0 pence per share per annum.

Borrowings

The Group currently has borrowings of £103 million made up of a £90 million non-amortising term loan facility agreement with Canada Life Investments which expires in November 2026 and a £20 million 5-year revolving credit facility agreement with Barclays Bank plc which expires in November 2020, £13 million of which is currently drawn down. Net gearing* represented 28.2 per cent of the investment properties of the Group as at 31 December 2017. The weighted average interest rate (including amortisation of refinancing costs) on the Group's total current borrowings is 3.2 per cent. The Company continues to maintain a prudent attitude to gearing.

The Group had £9.6 million of cash available at 31 December 2017 with a further £7.0 million of the revolving credit facility also available if required.

Responsible Property Investment

The Company continues to make good progress with its Environmental, Social and Governance ('ESG') related activities. The portfolio now has energy performance ratings for all of its assets and has developed a detailed strategy for addressing and maintaining a low exposure to the risks presented by energy efficiency legislation. The Company has also completed individual property sustainability appraisals to capture other investment critical information.

Chairman's Statement (continued)

A major exercise is currently under way to establish baseline carbon usage for directly managed properties against which year on year reduction targets can be set, alongside longer-term portfolio objectives consistent with climate science. At asset level, directly managed assets are shortly expected to achieve the ISO14,001 environmental accreditation whilst the Manager continues to implement green lease clauses as standard, whenever possible and commercially viable. The Company will make its inaugural submission to the influential annual GRESB survey this year whilst the Manager's recruitment of additional resource to help manage and monitor continual improvement is further indication of the Company's aspiration to further improve its ESG credentials.

Outlook

Although there were some signs of progress in the EU negotiations as the period drew to a close, the outlook continues to be dominated by Brexit considerations and wider political uncertainty. Interest rates were raised during this reporting period and the timing and magnitude of further increases is also likely to be a consideration for property investors moving forward. Within property, performance has been buoyed by investment, especially from overseas, but the impact of proposed new tax regulations on foreign buyers in 2019, if implemented, is unclear. The economy is recording positive, if modest, growth, which is expected to persist on consensus forecasts. Sentiment is adjusting to the changed political and economic environment, however, our outlook on the market remains cautious.

Vikram Lall

Chairman
23 February 2018

* See Alternative Performance Measures on page 21

Portfolio Statistics

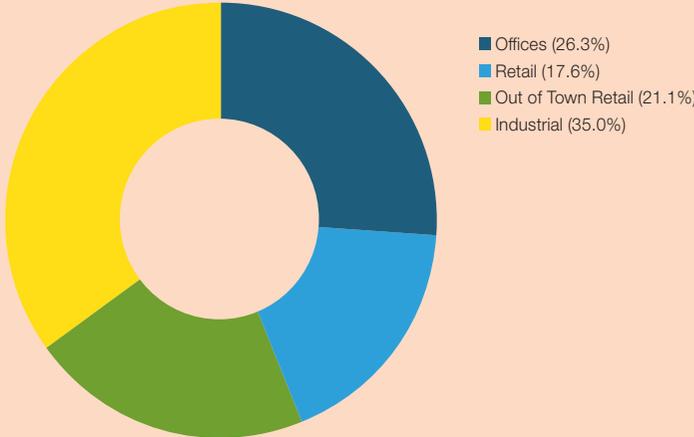
Geographical Analysis

as at 31 December 2017, % of total property portfolio



Sector Analysis

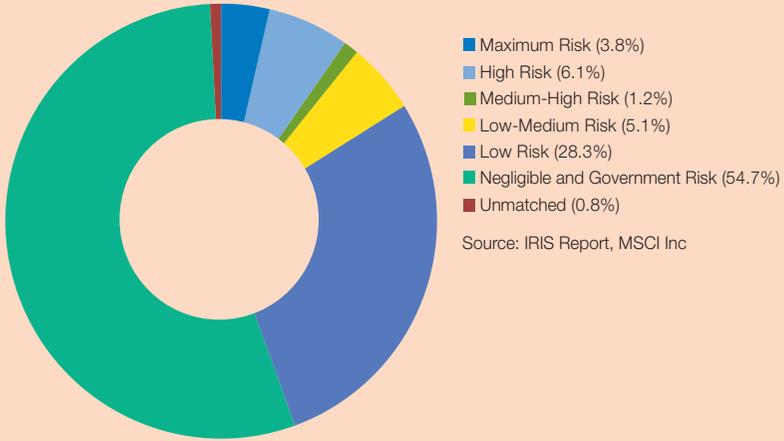
as at 31 December 2017, % of total property portfolio



Portfolio Statistics (continued)

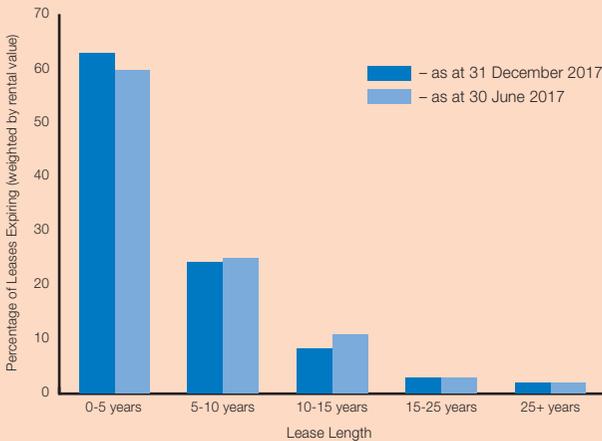
Covenant Strength

as at 31 December 2017, % of income by risk band



Source: IRIS Report, MSCI Inc

Lease Expiry Profile



As at 31 December 2017 the average lease length for the portfolio, assuming all break options are exercised, was 6.0 years (as at 30 June 2017: 6.6 years).

Property Portfolio

as at 31 December 2017

	Sector
Properties valued in excess of £10.0 million	
London W1, 14 Berkeley Street	Office
Banbury, Unit 3663, Echo Park	Industrial
Colnbrook, Units 1-8, Lakeside Road	Industrial
Eastleigh, Southampton International Park	Industrial
Hemel Hempstead, Hemel Gateway	Industrial
York, Clifton Moor Gate*	Retail Warehouse
Bracknell, 1/2 Network Bracknell, Eastern Road	Industrial
Leamington Spa, 30/40 The Parade & 47/59A Warwick Street	Retail
Properties valued between £7.5 million and £10.0 million	
Edinburgh, Units 1 & 2 Lochside Way, Edinburgh Park	Office
Basingstoke, Unit K60, Bunzl	Industrial
Eastleigh, Airways 1/2, Wide Lane	Industrial
Andover, Keens House, Anton Mill Road	Office
Rotherham, Unit 1, Northfields Retail Park	Retail Warehouse
New Malden, 7 Beverley Way	Retail Warehouse
Theale, Maxi Centre, Brunel Road	Industrial
Milton Keynes, Site E, Chippenham Drive	Industrial
Chelmsford, County House, County Square	Office
London, 24 Haymarket & 1-2 Panton Street*	Retail
Bromsgrove, Brook Retail Park, Sherwood Road	Retail Warehouse
Luton, Enterprise Way	Retail Warehouse
High Wycombe, Glory Park	Office
Winchester, 7-8 High Street & 50 Colebrook Street	Retail
Properties valued between £5.0 million and £7.5 million	
Northallerton, Willowbeck Road	Retail Warehouse
Bury, Halls Mill Retail Park, Foundry Street	Retail Warehouse
Guildford, 51/53 High Street	Retail
St Albans, 16, 18 & 20 Upper Marlborough Road	Office
Nottingham, Standard Hill	Office
Nelson, Churchill Way	Retail Warehouse
Properties valued under £5.0 million	
Brookwood, The Clock Tower	Office
Bellshill, Mercury House, 1 Dove Wynd, Strathclyde Business Park	Office
Newbury, The Triangle, Pinchington Lane	Retail Warehouse
Sunningdale, 53/79 Chobham Road, Berkshire	Retail
Nottingham, 21/22 Long Row East and 2/6 King Street	Retail
Kingston upon Thames, 11 Church Street	Retail
Rayleigh, 41/47 & 55/55a High Street	Retail
Nottingham, Park View House, The Ropewalk	Office
Nottingham, 25/27 Bridlesmith Gate	Retail
Redhill, 15 London Road	Office
Sutton Coldfield, 63/67 The Parade	Retail
Birmingham, 157/163 High Street, Kings Heath	Retail
Rayleigh, 81/87 High Street	Retail
Gateshead, Sands Road, Swalwell	Retail Warehouse
Swindon, 18-19 Regent Street	Retail

* Leasehold Property

Statement of Principal Risks and Uncertainties

The Group's assets consist of direct investments in UK commercial property. Its principal risks are therefore related to the UK commercial property market in general but also the particular circumstances of the properties in which it is invested and their tenants. Other risks faced by the Group include market, investment and strategic, regulatory, tax efficiency, financial, reporting, credit, operational and environmental risks. The Group is also exposed to risks in relation to its financial instruments.

These risks, and the way in which they are mitigated and managed, are described in more detail under the heading 'Principal Risks and Risk Management' within the Business Model and Strategy in the Group's Annual Report for the year ended 30 June 2017. The Group's principal risks and uncertainties have not changed materially since the date of that report and are not expected to change materially for the remaining six months of the Group's financial year.

Directors' Responsibility Statement in Respect of the Interim Report

We confirm that to the best of our knowledge:

- the condensed set of consolidated financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union;
- the Chairman's Statement constituting the Interim Management Report together with the Statement of Principal Risks and Uncertainties include a fair review of the information required by the Disclosure and Transparency Rules ('DTR') 4.2.7R, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of consolidated financial statements; and
- the Chairman's Statement together with the consolidated financial statements include a fair review of the information required by DTR 4.2.8R, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period, and any changes in the related party transactions described in the last Annual Report that could do so.

On behalf of the Board

Vikram Lal

Chairman

23 February 2018

Condensed Consolidated Statement of Comprehensive Income

		For the period ended		
		Six months to 31 December 2017 (unaudited) £'000	Six months to 31 December 2016 (unaudited) £'000	Year to 30 June 2017 (audited) £'000
Notes	Revenue			
	Rental income	9,403	10,322	19,191
2	Other income	4,375	–	–
	Total revenue	13,778	10,322	19,191
	Gains/(losses) on investment properties			
6	Gains/(losses) on sale of investment properties realised	20	(207)	781
6	Unrealised gains/(losses) on revaluation of investment properties	7,711	(4,827)	2,008
	Total income	21,509	5,288	21,980
	Expenditure			
	Investment management fee	(1,052)	(1,046)	(2,013)
3	Other expenses	(866)	(1,080)	(1,966)
	Total expenditure	(1,918)	(2,126)	(3,979)
	Net operating profit before finance costs and taxation	19,591	3,162	18,001
	Net finance costs			
	Interest receivable	1	2	4
	Finance costs	(1,766)	(1,824)	(3,598)
		(1,765)	(1,822)	(3,594)
	Net profit from ordinary activities before taxation	17,826	1,340	14,407
	Taxation on profit on ordinary activities	(147)	(155)	(306)
	Profit for the period	17,679	1,185	14,101
5	Basic and diluted earnings per share	7.3p	0.5p	5.9p

All items in the above statement derive from continuing operations.

All of the profit for the period is attributable to the owners of the Group.

Condensed Consolidated Balance Sheet

As at			Restated*	
Notes		31 December 2017 (unaudited) £'000	31 December 2016 (unaudited) £'000	30 June 2017 (audited) £'000
	Non-current assets			
6	Investment properties	346,449	326,445	330,834
	Trade and other receivables	3,894	4,759	3,894
		350,343	331,204	334,728
Current assets				
	Trade and other receivables	1,277	1,616	1,291
	Cash and cash equivalents	9,578	12,000	16,565
		10,855	13,616	17,856
	Total assets	361,198	344,820	352,584
Non-current liabilities				
7	Interest-bearing bank loans	(102,170)	(104,956)	(105,061)
	Trade and other payables	(248)	(712)	(352)
		(102,418)	(105,668)	(105,413)
Current liabilities				
	Trade and other payables	(6,130)	(6,754)	(6,023)
	Tax payable	(147)	(439)	(306)
		(6,277)	(7,193)	(6,329)
	Total liabilities	(108,695)	(112,861)	(111,742)
	Net assets	252,503	231,959	240,842
Represented by:				
9	Share capital	2,407	2,387	2,407
	Special distributable reserve	177,161	175,367	177,161
	Capital reserve	69,005	53,451	61,274
	Revenue reserve	3,930	754	–
	Equity shareholders' funds	252,503	231,959	240,842
10	Net asset value per share	104.9p	97.2p	100.1p

* See Note 1

Condensed Consolidated Statement of Changes in Equity

For the period ended 31 December 2017

Notes	Share	Special	Capital	Revenue	Total
	Capital	Distributable	Reserve	Reserve	
	£'000	Reserve	£'000	£'000	£'000
At 1 July 2017	2,407	177,161	61,274	–	240,842
Profit for the period	–	–	–	17,679	17,679
4 Dividends paid	–	–	–	(6,018)	(6,018)
Transfer in respect of gains on investment properties	–	–	7,731	(7,731)	–
At 31 December 2017	2,407	177,161	69,005	3,930	252,503

For the period ended 31 December 2016

Notes	Share	Special	Capital	Revenue	Total
	Capital	Distributable	Reserve	Reserve	
	£'000	Reserve	£'000	£'000	£'000
At 1 July 2016	2,387	175,367	58,485	503	236,742
Profit for the period	–	–	–	1,185	1,185
4 Dividends paid	–	–	–	(5,968)	(5,968)
Transfer in respect of losses on investment properties	–	–	(5,034)	5,034	–
At 31 December 2016	2,387	175,367	53,451	754	231,959

For the year ended 30 June 2017

Notes	Share	Special	Capital	Revenue	Total
	Capital	Distributable	Reserve	Reserve	
	£'000	Reserve	£'000	£'000	£'000
At 1 July 2016	2,387	175,367	58,485	503	236,742
Profit for the year	–	–	–	14,101	14,101
Issue of ordinary shares	20	1,965	–	–	1,985
4 Dividends paid	–	–	–	(11,986)	(11,986)
Transfer in respect of gains on investment properties	–	–	2,789	(2,789)	–
Transfer to revenue reserve	–	(171)	–	171	–
At 30 June 2017	2,407	177,161	61,274	–	240,842

Condensed Consolidated Statement of Cash Flows

		For the period ended		
Notes		Six months to 31 December 2017 (unaudited) £'000	Six months to 31 December 2016 (unaudited) £'000	Year to 30 June 2017 (audited) £'000
	Cash flows from operating activities			
	Net profit for the period before taxation	17,826	1,340	14,407
	Adjustments for:			
6	(Gains)/losses on sale of investment properties realised	(20)	207	(781)
6	Unrealised (gains)/losses on revaluation of investment properties	(7,711)	4,827	(2,008)
	Decrease in operating trade and other receivables	14	639	1,829
	Increase/(decrease) in operating trade and other payables	3	594	(497)
	Interest received	(1)	(2)	(4)
	Finance costs	1,766	1,824	3,598
		11,877	9,429	16,544
	Taxation paid	(306)	–	(284)
	Net cash inflow from operating activities	11,571	9,429	16,260
Cash flows from investing activities				
	Purchase of investment properties	(10,191)	–	(450)
6	Capital expenditure	(986)	(228)	(1,257)
6	Sale of investment properties	3,293	2,547	7,460
	Interest received	1	2	4
	Net cash (outflow)/inflow from investing activities	(7,883)	2,321	5,757
Cash flows from financing activities				
	Shares issued (net of costs)	–	–	1,985
4	Dividends paid	(6,018)	(5,968)	(11,986)
	Bank loan interest paid	(1,657)	(1,713)	(3,382)
	Bank loan repaid, net of costs – Barclays	(3,000)	(4,000)	(4,000)
	Net cash outflow from financing activities	(10,675)	(11,681)	(17,383)
	Net (decrease)/increase in cash and cash equivalents	(6,987)	69	4,634
	Opening cash and cash equivalents	16,565	11,931	11,931
	Closing cash and cash equivalents	9,578	12,000	16,565

Notes to the Condensed Financial Statements

1. General information

The condensed consolidated financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom Financial Conduct Authority, IAS 34 'Interim Financial Reporting' and the accounting policies set out in the statutory accounts of the Group for the year ended 30 June 2017. The condensed consolidated financial statements do not include all of the information required for a complete set of IFRS financial statements and should be read in conjunction with the consolidated financial statements for the Group for the year ended 30 June 2017 which were prepared under full IFRS requirements. The accounting policies used in preparation of the condensed consolidated financial statements are consistent with those of the consolidated financial statements of the Group for the year ended 30 June 2017.

In the previously issued interim financial statements of the Company for the period ended 31 December 2016, lease incentives of £5,005,000 and cash deposits held for tenants of £756,000 were classified as current assets. In the comparative figures of the current year financial statements, £4,047,000 for lease incentives and £712,000 for tenant deposits have been reclassified to non-current assets. The Directors have considered the impact on the previously issued financial statements of the Company and have noted that no adjustment is required to the previously reported total assets, liabilities or equity of the Company. On this basis, the Directors do not consider the above reclassification between current and non-current assets to be material to the users of the financial statements.

2. Other income

The Company received £4,375,000 for the surrender of a leasehold interest at Northfields Retail Park, Rotherham. The Company entered into a lease arrangement at this property with a new tenant and it is now fully let.

3. Other expenses

	Six months to 31 December 2017 (unaudited) £'000	Six months to 31 December 2016 (unaudited) £'000	Year to 30 June 2017 (audited) £'000
Direct operating expenses of let rental property	457	429	825
Direct operating expenses of vacant property	(7)	153	107
Provision for bad debts	3	60	194
Administrative fee	52	52	102
Valuation and other professional fees	114	92	265
Directors' fees	77	72	144
Other expenses	170	222	329
	866	1,080	1,966

Notes to the Condensed Financial Statements

(continued)

4. Dividends

	Six months to 31 December 2017		Six months to 31 December 2016		Year ended 30 June 2017	
	£'000	Rate (pence)	£'000	Rate (pence)	£'000	Rate (pence)
Property Income Distributions:						
Fourth interim for the prior year	3,009	1.25	2,984	1.25	2,984	1.25
First interim	3,009	1.25	2,984	1.25	2,984	1.25
Second interim					3,009	1.25
Third interim					3,009	1.25
	6,018	2.50	5,968	2.50	11,986	5.00

A second interim dividend for the year to 30 June 2018, of 1.25 pence per share, will be paid on 29 March 2018 to shareholders on the register at close of business on 9 March 2018.

5. Earnings per share

Earnings per Ordinary Share are based on 240,705,539 Ordinary Shares, being the weighted average number of shares in issue during the period (31 December 2016: 238,705,539 and 30 June 2017: 239,568,005). Earnings for the six months to 31 December 2017 should not be taken as a guide to the results for the year to 30 June 2018.

6. Investment properties

	Six months to 31 December 2017 £'000	Six months to 31 December 2016 £'000	Year ended 30 June 2017 £'000
Freehold and leasehold properties			
Opening market value	335,350	339,150	339,150
Purchase of investment properties	10,191	–	450
Capital expenditure	986	228	1,257
Sales – net proceeds	(3,293)	(2,547)	(7,460)
– gains/(losses) on sales	900	(3,387)	(2,404)
Unrealised (gains)/losses realised during the period	(880)	3,180	3,185
Unrealised gains on investment properties	12,013	5,263	13,344
Unrealised losses on investment properties	(4,302)	(10,090)	(11,336)
Movement in lease incentive receivable	(235)	(347)	(836)
Closing market value	350,730	331,450	335,350
Adjustment for lease incentives	(4,281)	(5,005)	(4,516)
Balance sheet carrying value	346,449	326,445	330,834

All the Group's investment properties were valued as at 31 December 2017 by qualified professional valuers working in the company of Cushman & Wakefield, Chartered Surveyors. All such valuers are chartered surveyors, being members of the Royal Institution of Chartered Surveyors ('RICS'). There were no significant changes to the valuation techniques used during the period and these valuation techniques are detailed in the consolidated financial statements as at and for the year ended 30 June 2017. The market value of these investment properties amounted to £350,730,000 (31 December 2016: £331,450,000; 30 June 2017: £335,350,000), however an adjustment has been made for lease incentives of £4,281,000 that are already accounted for as an asset (31 December 2016: £5,005,000; 30 June 2017: £4,516,000).

7. Interest-bearing bank loans

On 9 November 2015, the Group entered into an eleven year £90 million non-amortising term loan agreement with Canada Life and a five year £20 million revolving credit facility agreement with Barclays. The interest rate payable on the Canada Life loan is at a fixed rate of 3.36% per annum and the interest payable on the Barclays loan is at a variable rate based on 3 month LIBOR plus a margin of 1.45% per annum. During the period, the Company repaid £3 million of the revolving credit facility to Barclays.

At 31 December 2017 borrowings of £103 million were drawn down. The balance sheet value is stated at an amortised cost of £102,170,000 (31 December 2016: £104,956,000 and 30 June 2017: £105,061,000). Amortised cost is calculated by deducting loan arrangement costs, which are amortised back over the life of the loan. The fair value of the Canada Life loan is shown in note 8.

8. Fair value measurements

The fair value measurements for financial assets and financial liabilities are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

- Level 1 – Unadjusted, fully accessible and current quoted prices in active markets for identical assets or liabilities. Examples of such instruments would be investments listed or quoted on any recognised stock exchange.
- Level 2 – Quoted prices for similar assets or liabilities, or other directly or indirectly observable inputs which exist for the duration of the period of investment. Examples of such instruments would be those for which the quoted price has been suspended, forward exchange rate contracts and certain other derivative instruments.
- Level 3 – External inputs are unobservable. Fair value is the Directors' best estimate, based on advice from relevant knowledgeable experts, use of recognised valuation techniques and on assumptions as to what inputs other market participants would apply in pricing the same or similar instrument.

All of the Group's investments in direct property are included in Level 3 as it involves the use of significant inputs. There were no transfers between levels of the fair value hierarchy during the six month period ended 31 December 2017.

Other than the fair values stated in the table below, the fair value of all other financial assets and liabilities is not materially different from their carrying value in the financial statements.

	31 December 2017 £'000	31 December 2016 £'000	30 June 2017 £'000
£90 million Canada Life Loan 2026*	(97,334)	(97,872)	(97,695)

*The fair value of the interest-bearing Canada Life Loan is based on the yield on the Treasury 2% 2025 which would be used as the basis for calculating the early repayment of such loan plus the appropriate margin.

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 30 June 2017.

9. Share capital

£'000

Allotted, called-up and fully paid

240,705,539 Ordinary Shares of 1 pence each in issue at 31 December 2017

2,407

The Company issued nil Ordinary Shares during the period.

Notes to the Condensed Financial Statements

(continued)

10. Net asset value per share

The net asset value per Ordinary Share is based on net assets of £252,503,000 (31 December 2016: £231,959,000 and 30 June 2017: £240,842,000) and 240,705,539 Ordinary Shares (31 December 2016: 238,705,539 and 30 June 2017: 240,705,539), being the number of shares in issue at the period end.

11. Going concern

In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council. They have considered the current cash position of the Group, the availability of the loans and compliance with their covenants, forecast rental income and other forecast cash flows. The Group has agreements relating to its borrowing facilities with which it has complied during the period. Based on this information the Directors believe that the Group has the ability to meet its financial obligations as they fall due for a period of at least twelve months from the date of the approval of the accounts. For this reason, they continue to adopt the going concern basis in preparing the accounts.

12. Related party transactions

The Directors of the Company received fees for their services and dividends from their shareholdings in the Company. No fees remained payable at the period end.

13. Operating segments

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, and that therefore the Group has only a single operating segment. The Board of Directors, as a whole, has been identified as constituting the chief operating decision maker of the Group. The key measure of performance used by the Board to assess the Group's performance is the total return of the Group's net asset value, as calculated under IFRS, and therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the condensed consolidated financial statements.

14. Investment in subsidiary undertakings

The Group results consolidate those of IRP Holdings Limited ('IRPH') and IPT Property Holdings Limited ('IPTH'). IRPH and IPTH are companies incorporated in Guernsey whose principal business is that of a property investment company. These companies are 100 per cent owned by the Group's ultimate parent company, which is F&C UK Real Estate Investments Limited.

15. Subsequent events

There are no material subsequent events that need to be disclosed.

Shareholder Information

Dividends

Ordinary dividends are paid quarterly in March, June, September and December each year. Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a mandate form for the purpose. Mandates may be obtained from Computershare Investor Services (Guernsey) Limited, c/o Queensway House, Hilgrove Street, St. Helier, Jersey JE1 1ES on request. Where dividends are paid directly to shareholders' bank accounts, dividend tax vouchers are sent to shareholders' registered addresses.

Share Price

The Company's Ordinary Shares are listed on the Main Market of the London Stock Exchange. Prices are given daily in the Financial Times under "Investment Companies" and in other newspapers.

Change of Address

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment this should be notified to Computershare Investor Services (Guernsey) Limited, c/o Queensway House, Hilgrove Street, St. Helier, Jersey JE1 1ES under the signature of the registered holder.

Shareholder Enquiries

Contact Northern Trust International Fund Administration Services (Guernsey) Limited, Trafalgar Court, Les Banques, St. Peter Port, Guernsey, Channel Islands GY1 3QL. Additional information regarding the Company may also be found on its website:

www.fcrc.co.uk

www.fcrc.gg

Financial Calendar 2018

April 2018	Q3 2018 Net Asset Value announcement
July 2018	Q4 2018 Net Asset Value announcement
September 2018	Announcement of annual results
October 2018	Q1 2019 Net Asset Value announcement
November 2018	Annual General Meeting

Warning to Shareholders – Beware of Share Fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment.

If you are approached by fraudsters please tell the Financial Conduct Authority ('FCA') by using the share fraud reporting form at www.fca.org.uk/scams where you can find out more about investment scams. You can also call the FCA Consumer Helpline on **0800 111 6768**. If you have already paid money to share fraudsters you should contact Action Fraud on **0300 123 2040**.

How to Invest

One of the most convenient ways to invest in F&C UK Real Estate Investments Limited is through one of the savings plans run by F&C Investments.

F&C Investment Trust ISA

You can use your ISA allowance to make an annual tax-efficient investment of up to £20,000 for the 2017/18 tax year with a lump sum from £500 or regular savings from £50 a month per Trust. You can also transfer any existing ISAs to us whilst maintaining the tax benefits.

F&C Junior ISA (JISA)*

You can invest up to £4,128 for the tax year 2017/18 from £500 lump sum or £30 a month per Trust, or a combination of both. Please note, if your child already has a Child Trust Fund (CTF), then you cannot open a separate JISA, however you can transfer the existing CTF (held either with F&C or another provider) to an F&C JISA.

F&C Child Trust Fund (CTF)*

If your child has a CTF you can invest up to £4,128 for the 2017/18 tax year, from £100 lump sum or £25 a month per Trust, or a combination of both. You can also transfer a CTF from another provider to an F&C CTF. Please note, the CTF has been replaced by the JISA and is only available to investors who already hold a CTF.

F&C Private Investor Plan (PIP)

This is a flexible way to invest in our range of Investment Trusts. There are no maximum contributions, and investments can be made from £500 lump sum or £50 a month per Trust. You can also make additional lump sum top-ups at any time from £250 per Trust.

F&C Children's Investment Plan (CIP)

This is a flexible way to save for a child in our range of Investment Trusts. There are no maximum contributions, and the plan can easily be set up under bare trust (where the child is noted as the beneficial owner) or kept in your name if you wish to retain control over the investment. Investments can be made from a £250 lump sum or £25 a month per Trust. You can also make additional lump sum top-ups at any time from £100 per Trust.

*The CTF and JISA accounts are opened in the child's name and they have access to the money at age 18. **Calls may be recorded or monitored for training and quality purposes.

Charges

Annual management charges and other charges apply according to the type of plan.

Annual account charge

ISA: £60+VAT

PIP: £40+VAT

JISA/CIP/CTF: £25+VAT

You can pay the annual charge from your account, or by direct debit (in addition to any annual subscription limits).

Dealing charges

ISA: 0.2%

PIP/CIP/JISA: postal instructions £12, online instructions £8 per Trust.

Dealing charges apply when shares are bought or sold but not on the reinvestment of dividends or the investment of monthly direct debits for the PIP, CIP and JISA.

There are no dealing charges on a CTF but a switching charge of £25 applies if more than 2 switches are carried out in one year.

Government stamp duty of 0.5% also applies on the purchase of shares (where applicable).

There may be additional charges made if you transfer a plan to another provider or transfer the shares from your plan.

For full details of our savings plans and charges, please read the Key Features and Terms and Conditions of the plan – available on our website fandc.com/literature.

How to Invest

To open a new F&C savings plan, apply online at fandc.com/apply

Note, this is not available if you are transferring an existing plan with another provider to F&C, or if you are applying for a new plan in more than one name.

New Customers

Call: **0800 136 420**** (8.30am – 5.30pm, weekdays)

Email: info@fandc.com

Existing Plan Holders

Call: **0345 600 3030**** (9.00am – 5.00pm, weekdays)

Email: investor.enquiries@fandc.com

By post:

PO Box 11114

Chelmsford

CM99 2DG

You can also invest in the trust through online dealing platforms for private investors that offer share dealing and ISAs. Companies include: **Alliance Trust Savings, Barclays Stockbrokers, Halifax, Hargreaves Lansdown, HSBC, Interactive Investor, Lloyds Bank, Selftrade, TD Direct Investing, The Share Centre**

The value of investments can go down as well as up and you may not get back your original investment. Tax benefits depend on your individual circumstances and tax allowances and rules may change. Please read our Key Features Document before you invest and this can be found on our website fandc.co.uk. F&C cannot give advice on the suitability of investing in our investment trust or savings plans. If you have any doubt as to the suitability of an investment, please contact a professional financial adviser.

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F&C Management Limited

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Alternative Performance Measures

The Company uses the following Alternative Performance Measures ('APMs'). APMs do not have a standard meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities.

Discount or Premium – The share price of an Investment Company is derived from buyers and sellers trading their shares on the stock market. If the share price is lower than the NAV per share, the shares are trading at a discount. This usually indicates that there are more sellers than buyers. Shares trading at a price above the NAV per share, are said to be at a premium.

Dividend Cover – The percentage by which profits for the year (less gains/losses on investment properties) cover the dividend paid.

A reconciliation of dividend cover is shown below:

	Six months to 31 December 2017 £'000	Six months to 31 December 2016 £'000	Year to 30 June 2017 £'000
Profit for the year	17,679	1,185	14,101
Add back: Realised (gains)/losses	(20)	207	(781)
Unrealised (gains)/losses	(7,711)	4,827	(2,008)
Other income	(4,375)	–	–
Profit before investment gains and losses	5,573	6,219	11,312
Dividends	6,018	5,968	11,986
Dividend Cover percentage	92.6	104.2	94.4

Dividend Yield – The annualised dividend divided by the share price at the period end. An analysis of dividends is contained in note 4 to the accounts.

Net Gearing – Borrowings less net current assets divided by value of investment properties.

Portfolio (Property) Capital Return – The change in property value during the period after taking account of property purchases and sales and capital expenditure, calculated on a quarterly time-weighted basis.

Portfolio (Property) Income Return – The income derived from a property during the period as a percentage of the property value, taking account of direct property expenditure, calculated on a quarterly time-weighted basis.

Portfolio (Property) Total Return – Combining the Portfolio Capital Return and Portfolio Income Return over the period, calculated on a quarterly time-weighted basis.

Total Return – The return to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in the Share Price or NAV. The dividends are assumed to have been reinvested in the form of Ordinary Shares or Net Assets, respectively, on the date on which they were quoted ex-dividend.

Corporate Information

Directors

Vikram Lall (Chairman)[‡]
Andrew Gulliford[§]
Mark Carpenter
David Ross[†]
Alexa Henderson*

Secretary

Northern Trust International Fund Administration
Services (Guernsey) Limited
PO Box 255
Trafalgar Court
Les Banques
St Peter Port
Guernsey GY1 3QL
Tel: 01481 745001

Alternative Investment Fund Manager ('AIFM') and Investment Manager

F&C Investment Business Limited
Quartermile 4
7a Nightingale Way
Edinburgh EH3 9EG

Property Manager

BMO REP Property Management Limited
5 Wigmore Street
London W1U 1PB

Property Valuers

Cushman & Wakefield
48 Warwick Street
London W1B 5NL

Auditor

PricewaterhouseCoopers CI LLP
Royal Bank Place
1 Gategny Esplanade
St Peter Port
Guernsey GY1 4ND

Guernsey Legal Advisers

Mourant Ozannes
1 Le Marchant Street
St Peter Port
Guernsey GY1 4HP

UK Corporate Legal Advisers

Dickson Minto
Broadgate Tower
20 Primrose Street
London EC2A 2EW

Bankers

Barclays Bank plc
1 Churchill Place
Canary Wharf
London E14 5HP

Corporate Brokers

Cenkos Securities plc
6.7.8 Tokenhouse Yard
London EC2R 7AS

Depositary

JPMorgan Europe Limited
25 Bank Street
Canary Wharf
London E14 5JP

Website:

www.fcrc.co.uk or www.fcrc.gg

[‡] Chairman of the Nomination Committee

[§] Chairman of the Property Valuation Committee

[†] Chairman of the Management Engagement Committee

* Chairman of the Audit Committee



F&C UK Real Estate Investments Limited

INTERIM REPORT 2017

Registered Office

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

Registrars

Computershare Investor Services (Guernsey) Limited
c/o Queensway House
Hilgrove Street
St Helier Jersey
Channel Islands JE1 1ES