

AEW UK REIT plc

Interim Report and Financial Statements
for the six months ended 31 October 2016

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Financial Highlights

- Unaudited Net Asset Value ('NAV') of £118.05 million and of 95.47 pence per share as at 31 October 2016.
- Operating profit before investment property and investment revaluations is £4.99 million for the period from 1 May 2016 to 31 October 2016.
- Unadjusted profit before tax ('PBT') of £0.49 million (0.42 pence per share) for the period from 1 May 2016 to 31 October 2016.
- Total dividends of 4.00 pence per share have been declared for the period from 1 May 2016 to 31 October 2016.
- AEW UK REIT plc (the 'Company') has raised total gross proceeds of £6.00 million for the period from 1 May 2016 to 31 October 2016.
- The Company has a 5 year £40 million term credit facility (the 'Facility') with The Royal Bank of Scotland International Limited ('RBSI'). The Company has utilised this facility to invest in properties, and is currently geared to 19.6% of the Gross Asset Value ('GAV') of the Company as at 31 October 2016.
- The price of the Company's Ordinary Shares on the Main Market of the London Stock Exchange was 98.62 pence per share as at 31 October 2016.
- The Company held cash balances totalling £10.16 million as at 31 October 2016, of which £7.33 million was held for the purpose of capital acquisitions.
- The Company's NAV Total Return for the period from 1 May 2016 to 31 October 2016 is 3.13%.

Property Highlights

- The Company acquired two properties in the period from 1 May 2016 to 31 October 2016 for a total of £13.20 million (excluding acquisition costs).
- As at 31 October 2016, the Company's property portfolio had a fair value of £125.89 million as compared to the combined purchase price of the portfolio of £123.58 million (excluding purchase costs), representing an increase of £2.31 million, or 1.87%.
- The majority of assets that have been acquired are fully let and the portfolio has a vacancy rate of 8.70%.
- Rental income generated in the period under review is £5.85 million. The number of tenants as at 31 October 2016 stands at 82.
- Average portfolio net initial yield of 7.38%.
- Weighted average unexpired lease term of 5.3 years to break and 6.5 years to expiry.

Chairman's Statement

Overview

I am pleased to present the unaudited interim results of AEW UK REIT plc (the 'Company') for the period from 1 May 2016 to 31 October 2016. The Company has continued to implement its investment policy and meet the investment objective to deliver an attractive total return to shareholders from investing predominately in a portfolio of smaller commercial properties in the UK.

On 20 May 2016 the Company held a General Meeting at which resolutions to allot up to 11,740,000 Ordinary Shares and to allot up to 250,000,000 Ordinary Shares in connection with a share issuance programme were passed. This has resulted in the creation of 6,137,250 Ordinary Shares and raised £6.00 million for future investment. The Company's issued share capital increased to 123,647,250 Ordinary Shares representing a 5.2% increase from 30 April 2016 and reflects continued support for our strategy and our portfolio from our shareholders.

The Company's Investment Manager, AEW UK Investment Management LLP (the 'Investment Manager'), will be investing the net proceeds from the recent capital raisings to further develop the established portfolio of commercial properties throughout the UK via a pipeline of available opportunities.

In the six months to 31 October 2016, the Company has acquired two properties totalling £13.20 million (excluding acquisition costs) and generated a further £1.41 million per annum in passing rent.

As at 31 October 2016, the Company has established a diversified portfolio of 27 commercial investment properties throughout the UK with a weighted average total equivalent yield of 8.65%.

Financial Results

The financial results reflect an encouraging performance by the Company's portfolio as it implements its investment policy in a backdrop of uncertain political conditions.

Under International Financial Reporting Standards ('IFRS') as adopted by the European Union, our operating profit for the six months to 31 October 2016 was £0.89 million, with total comprehensive income of £0.49 million. Basic earnings per share ('EPS') for the period were 0.42 pence. This includes net valuation losses of £3.73 million on the revaluation of investment properties across the portfolio and a valuation loss on the investment in the AEW UK Core Property Fund (the 'AEW Core Fund') of £0.80 million. Adjusting for these valuation losses and finance costs of £0.40 million, adjusted earnings per share for the period were 3.87 pence.

Under European Public Real Estate Association ('EPRA') methodology earnings per share ('EPS') for the period was 3.81 pence and the NAV per share at 31 October 2016 was 95.47 pence. A full list of EPRA performance figures can be found on pages 35 to 37.

The unaudited NAV per share as at 31 October 2016 was 95.47 pence, prior to adjusting for the 2nd interim dividend for the period of 2.00 pence per share.

The Company has Ongoing Charges of 1.67% for the period under review.

The Company's property portfolio has been independently valued by Knight Frank in accordance with the RICS Valuation – Professional Standards (the 'Red Book'). As at 31 October 2016, the Company's Portfolio had a Fair Value of £125.89 million as compared with the combined purchase price of the Portfolio of £123.58 million (excluding purchase costs), an increase of £2.31 million or 1.87%.

Financing

The Company's Facility with RBSI expires in 2020. During the six month period to 31 October 2016, the Company made a utilisation request for £12.26 million bringing the total drawdown amount under the Facility to £26.51 million.

As at 31 October 2016, the unexpired term of the Facility was 4 years and the gearing was 19.6% (as calculated on the GAV of the investment portfolio).

The loan attracts interest at 3 month LIBOR + 1.4% making an all in rate at 31 October 2016 of 1.923%. The Company is protected from a rise in interest rates as it has interest rate CAPs with a combined notional value of £26.51 million and a strike rate of 2.5% for the relevant period in line with the life of the loan.

Dividend

The Company has developed its portfolio to sustain an income stream to deliver a target of declaring dividends of 2.00 pence per Ordinary Share per quarter.

During the period, the Company paid an interim dividend on 30 September 2016 of 2.00 pence per Ordinary Share related to the period from 1 May 2016 to 31 July 2016.

On 15 November 2016, the Board declared a second interim dividend of 2.00 pence per Ordinary Share, in respect of the period from 1 August 2016 to 31 October 2016. This second interim dividend is to be paid on 31 December 2016.

Outlook

The Company's strategy is aligned to delivering strong relative returns for shareholders through the diversified and high income yielding property portfolio that has been established to date. This is further strengthened by active asset management initiatives to provide opportunities for further capital value enhancement and preservation.

We have now seen two valuation dates since the EU referendum result in June 2016 and are encouraged by how the value of the portfolio has stabilised and by its resilience to market uncertainty. In the period between May 2016 to July 2016 the portfolio valuation fell by 1.81%. In comparison, the capital values of direct properties as measured by MSCI fell by 3% over the same period to July 2016. Since July 2016, our valuers have removed their caveat reflecting a lack of post-Brexit transactional evidence from our valuations and have applied a modest level of post-Brexit capital growth of 0.33% in the period August 2016 to October 2016. This compares favourably to a fall of 0.8% in capital values of direct properties as measured by MSCI over the same 3-month period to October 2016.

There has been a varying range of views amongst market commentators evaluating the potential impacts of the recent EU referendum result on the UK economy, which in turn has caused great market volatility. Although this outcome represented an initial shock to the financial markets, intervention by the Bank of England and government action has somewhat stabilised the event. The Board and Investment Manager are confident that opportunities available to the Company will continue to present themselves to enable the Company to execute the strategy successfully to deliver profitable growth.

Mark Burton
Chairman

8 December 2016

Key Performance Indicators

KPI AND DEFINITION

1. Triple Net Initial Yield

Triple Net Initial Yield is a representation to the investor of what their initial net yield would be at a predetermined purchase price after taking account of all associated costs. E.g. void costs and rent free periods.

The fall in the Company's triple net initial yield is due to an increase in portfolio vacancy since 30 April 2016 that the manager considers being a temporary position. As at 31 October 2016 the vacancy level was 8.70%. Following the completion of lettings and sales that are currently under offer the Company's expected portfolio vacancy level will reduce to 7.00%.

2. True Equivalent Yield

The average weighted yield a property will produce according to the present income and estimated rental value assumptions, assuming the income is received quarterly in advance.

3. Reversionary Yield

The expected yield the property will provide once rack rented.

4. Weighted Average Unexpired Lease Term to expiry

Weighted average unexpired lease term to expiry is the average lease term remaining to expiry, across the portfolio weighted by contracted rent.

5. Weighted Average Unexpired Lease Term to break

Weighted average unexpired lease term to break is the average lease term remaining to break, across the portfolio weighted by contracted rent.

6. NAV

NAV is the value of an entity's assets minus the value of its liabilities.

7. Leverage (Loan to Gross Asset Value)

The proportion of our property portfolio that is funded by borrowings.

PERFORMANCE

7.38%

at 31 October 2016 (30 April 2016: 8.38%).

8.65%

at 31 October 2016 (30 April 2016: 8.36%).

8.53%

at 31 October 2016 (30 April 2016: 8.27%).

6.5 years

at 31 October 2016 (30 April 2016: 6.08 years).

5.3 years

at 31 October 2016 (30 April 2016: 4.94 years).

£118.05 million

at 31 October 2016 (30 April 2016: £116.38 million).

19.6%

at 31 October 2016 (30 April 2016: 10.5%).

Key Performance Indicators *(continued)*

KPI AND DEFINITION

8. Vacant Estimated Rental Value ('ERV')

The Vacant ERV of the space in the property portfolio which is currently unlet, as a percentage of the total ERV of the portfolio.

9. Development Exposure

The exposure to real estate development or property development encompassing activities that range from the purchase of land for development to material refurbishments.

10. Dividend

Dividend declared in relation to the year. The Company targets a dividend yield of between 8 to 9% per annum on the Initial Public Offering ('IPO') issue price, when fully invested.

11. Ongoing Charges

The ratio of total administration and property operating costs expressed as a percentage of average net asset value through the period.

12. Profit before tax

Profit before tax is a profitability measure which considers the Company's profit before the payment of corporate income tax.

PERFORMANCE

8.70%

at 31 October 2016 (30 April 2016: 3.16%).

0%

at 31 October 2016 (30 April 2016: 0%).

2.00 pence per share

for the quarter to 31 October 2016. This supports an annualised target of 8.00 pence per share.

1.67%

at 31 October 2016 (30 April 2016: 1.14%).

£0.49 million

for the period 1 May 2016 to 31 October 2016.

(for the period from inception to 30 April 2016: £4.64 million).

Investment Manager's Report

Investment Objective

The investment objective of the Group is to deliver an attractive total return to Shareholders from investing predominantly in a portfolio of smaller commercial properties in the United Kingdom.

Investment Policy

In order to achieve its investment objective the Group invests in freehold and leasehold properties across the whole spectrum of the commercial property sector (office properties, retail warehouses, high street retail and industrial/warehouse properties) to achieve a balanced portfolio with a diversified tenant base.

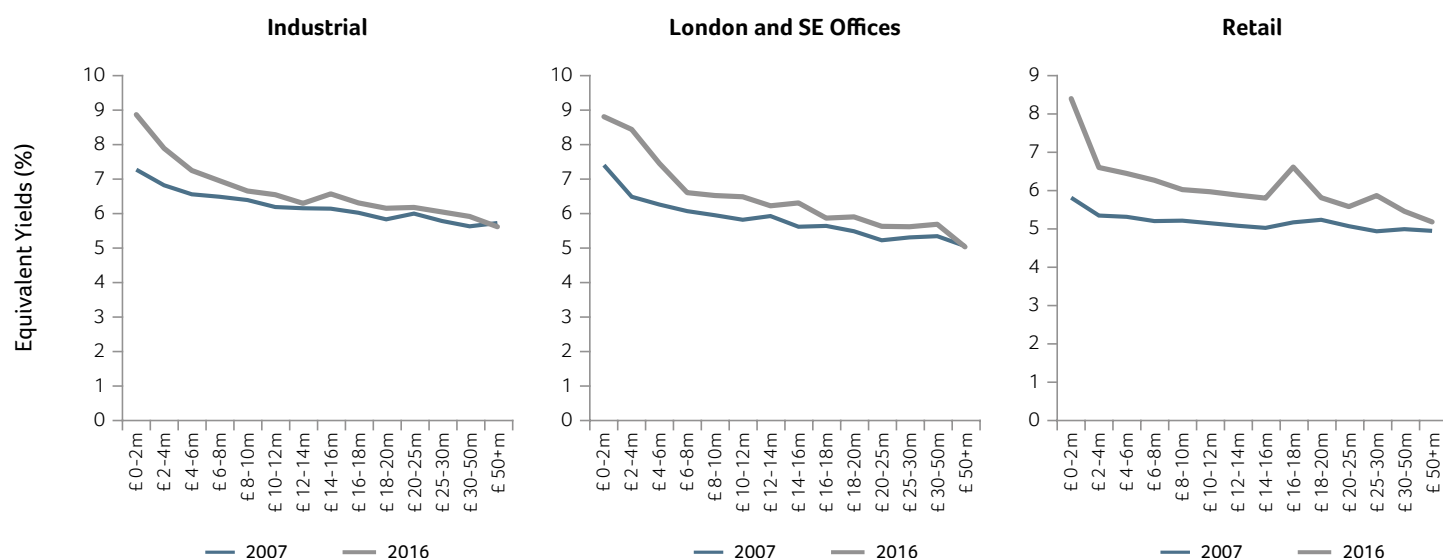
Within the scope of restrictions set out below (under the heading "Investment Restrictions") the Group may invest up to 10 per cent. of its Net Assets (at the time of investment) in the AEW UK Core Property Fund and up to 10 per cent. of its net assets for investment (measured at the commencement of the project) in development opportunities, with the intention of holding any completed development as an investment.

Investment Strategy

The Group currently intends to exploit what it believes to be the compelling relative value opportunities offered by pricing inefficiencies in smaller commercial properties let on shorter occupational leases. The Group intends to supplement this core strategy with asset management initiatives to upgrade buildings and thereby improve the quality of income streams.

Investing in smaller assets of <£15 million results in significant yield advantage

Note: Equivalent yield is a weighted average of the initial yield and reversionary yield, and represents the yield property will produce based upon the timing of the income received.



Source: IPD, 30 June 2016.

Investment Manager's Report *(continued)*

Investment Activity

The Group has acquired two assets in the period from 1 May 2016 to 31 October 2016 which are summarised below. This takes the total number of direct assets held to 27. Proceeds from the Company's recent fund raising activity are also fully committed to transactions which are currently under offer.

Bank Hey Street, Blackpool



Investment Summary

- Iconic location directly adjacent to The Blackpool Tower
- Blackpool has seen a resurgence in visitor numbers to 13 million in 2014
- Attractive net initial yield
- Tenants reporting very strong trade

Property characteristics

Property Type: Retail and Leisure
Area: 100,079 sq ft
Purchase Price: £5.05m
Purchase Yield: 9.6%
Reversionary Yield: 7.1%

Wheeler Gate, Nottingham



Investment Summary

- Major city centre retail pitch with high passing footfall
- Well configured retail units
- Office upper floors currently well let although providing potential for a range of alternative uses in the medium to long term

Property characteristics

Property Type: Retail and Office
Area: 71,260 sq ft
Purchase Price: £8.15m
Purchase Yield: 7.3%
Reversionary Yield: 9.4%

Investment Manager's Report *(continued)*

Financial Results

The Company has a diversified portfolio of properties and as at 31 October 2016 holds 27 investment properties. Unadjusted profit was £0.49 million, and operating profit before investment property and investment revaluations was £4.99 million for the period 1 May 2016 to 31 October 2016.

Net rental income earned from this portfolio during the period amounts to £5.54 million.

NAV as at 31 October 2016 was £118.05 million.

The Company received dividends during the period totalling £0.32 million from its investment in the AEW Core Fund. However, the valuation of the investment of the AEW Core Fund has decreased from £9.63 million on acquisition to £9.32 million at 31 October 2016.

On 28 July 2016, in the interest of treating investors fairly, the Authorised Corporate Director of the AEW Core Fund exercised its powers to swing the AEW Core Fund's pricing basis to a bid basis with a fair value dilution reduction of 5%, representing an overall discount to the AEW Core Fund NAV of 6.4%. This decision to change the pricing basis led to a revaluation of the Company's AEW Core Fund holding as at 31 July 2016 to £8.65 million, from £10.11 million as at 30 April 2016 (being 1.25p per share). On 30 September 2016, the decision to implement the change in pricing basis and fair value dilution reduction was lifted and the value has now increased to £9.32 million.

In order to provide a better reflection of fair value than the single swinging price in current market conditions, a recommendation by the Investment Manager to adopt an amended valuation methodology to a NAV basis was accepted by the Directors.

A loss of £3.73 million has arisen on the revaluation of investment properties across the portfolio. The Company also has a gain on disposal of £0.41 million for one of the properties sold from its portfolio.

Administration expenses, which include the Investment Manager's Fee and other costs attributable to the running of the Company for the period, were £0.87 million. The Company's Ongoing Charges for the period is 1.67%. The Company incurred finance costs of £0.40 million during the period.

The total profit before tax for the period of £0.49 million, equates to basic earnings per share of 0.42 pence.

Valuation

The Company's property portfolio has been independently valued by Knight Frank in accordance with the RICS Valuation – Professional Standards Global January 2014, including the International Valuations Standards, and RICS Professional Standards UK January 2014 (revised April 2015). References to “the Red Book” refer to either or both of these documents, as applicable. The properties have been valued on the basis of Fair Value in accordance with the RICS Valuation – Professional Standards VVPS4 (1.5) Fair Value and VPGA1 Valuations for Inclusion in Financial Statements, which adopt the definition of Fair Value used by the International Accounting Standards Board.

As at 31 October 2016, the Company's Portfolio had a Fair Value of £125.89 million.

Asset Management

Cranbourne House, Basingstoke

In return for the landlord's consent to assign the lease to HFC Prestige Manufacturing Limited, Wella Holdings Limited contracted to remove their 2017 break clause giving the Company an extra two years of guaranteed income to 2019 at £410,000 p.a. plus a 6 month rental guarantee. The tenant is now also carrying out refurbishment works to the building demonstrating their commitment to the location.

Investment Manager's Report *(continued)*

Odeon Cinema, Southend

We have obtained an uplift of £30,000 per annum for the outstanding 2012 rent review from £505,000 to £535,000 backdated to 29 September 2012. Negotiations have now commenced on the 2017 rent review. We have also joined the Southend Town Centre Action Group which unites the interests of Southend's retailers and landlords, making representations on planning, parking and out of town schemes.

Sandford House, Solihull

The portfolio's second largest tenant did not exercise its break option in 2017 and is now contracted to stay in occupation for a further two years until 2019. We are looking at various long term options for this central Solihull property including residential, retail or a second office building.

11-15 Fargate, Sheffield

We have completed on the disposal of the vacant upper parts (250 year long leasehold) for a price of £710,000. The median sale estimation at the time of acquisition (September 2015) was £250,000.

Valley Retail Park, Belfast

We completed a 15 year lease with Smyths Toys on units 5 & 6 at £200,000 p.a. This resulted in a fully let scheme.

Financing

During the six month period, the Company has made a utilisation request for £12.26 million bringing the total drawdown amount under the Facility to £26.51 million.

As at 31 October 2016, the unexpired term of the Facility was four years and the gearing was 19.6% (as calculated on the loan to value of the investment portfolio).

The loan attracts interest at 3 month LIBOR + 1.4%. The Company is protected from a rise in interest rates as it has interest rate CAPs with a combined notional value of £26.51 million and a strike rate of 2.5% for the relevant period in line with the life of the loan.

Market Outlook

UK Economic outlook

Expectations continue to be dominated by somewhat polarised perceptions of the effect of the EU referendum, although there are other economic factors and risks in the global economy which are likely to play a more significant part in the UK's economic performance over 2017 and beyond.

GDP growth in the third quarter was estimated to be 0.5%, a reduction on the second quarter's 0.7%, but better than the consensus estimate of 0.3%. It is possible that the construction sector's output has been underestimated, however, which should mean that the final estimate will be revised upwards. The GDP forecast for 2016 full year is 2.0% to 2.2%, close to that of 2015, which is likely to make the UK the best performer of the G7 countries. The expectations are that growth will drop to around 1% next year, although forecasts are generally being revised upwards in light of 2016's outturn.

Consumer confidence has quickly recovered after the EU referendum, and consumer spending remains strong, with retail sales volume growing by 4.1% over the 12-months to September 2016. Most of the sales growth is, however, occurring online, with much of the residue attributable to concentrated growth in tourist spending, leaving little for the rest of the sector.

Investment Manager's Report *(continued)*

In the 12-months ending September 2016, CPI inflation rose to 1.0% from 0.6% in August. With a fall in the value of sterling, it is inevitable that import prices will add to inflationary pressures in the coming months, and the consensus expectation is for 2.5% inflation for 2017. Although that would breach the Bank of England's inflation target, it is unlikely that interest rates will be raised in the near future, particularly as the cause of the rise in inflation is expected to be a one-off event.

Nevertheless, having reached historic lows, gilt yields – along with most of the western world's government bonds – have been slowly rising with growing investor concerns over central banks' abilities to manage the economies. This will increase the cost of capital but, in our opinion, not so significantly as to affect asset values.

UK Real Estate Outlook

Despite recent economic turbulence, the outlook for UK commercial property remains positive for the foreseeable future. The real estate sector remains attractive from an economic fundamental view as the yield gap to government bonds remains significant.

During the course of the year we have seen robust tenant demand across most of our regional portfolio and looking forward, we expect this to continue to lead to rental growth across the regions for well located property. As a result, we continue to expect income to be the main component of returns as opposed to recent years when total returns have largely been driven by capital growth which has now slowed. The Company is well positioned to benefit from increases in rental values due to the portfolio's diverse spread of well located, income producing properties across the UK.

In terms of sector focus, we continue to foresee the best returns to be in the industrial/logistics sector. This is driven mainly by online retailers' requirements for distribution premises, ranging from larger national and regional hubs to smaller local depots to meet the growing demand for more expedient delivery times.

Alternative Investment Fund Manager ('AIFM')

The Investment Manager is authorised and regulated by the Financial Conduct Authority as a full-scope AIFM and provides its services to the Group.

The Investment Manager has appointed Langham Hall UK Depositary LLP ("Langham Hall") to act as the depositary to the Group and they are responsible for cash monitoring, asset verification and oversight of the Group.

AEW UK Investment Management LLP

8 December 2016

Principal Risks and Uncertainties

The principal risks and uncertainties the Group faces are described in detail on pages 21 to 23 of the 2016 Annual Report, and are summarised below.

The Board considers that the principal risks and uncertainties as presented in the 2016 Annual Report were unchanged during the period. However, the Board has considered the result of the EU referendum in June 2016 and updated the principal risks below to reflect this.

REAL ESTATE RISKS

- Failure by tenants to pay rental obligations would reduce income and the ability of the Group to pay dividends.
- Cost overruns from asset management initiatives may have a material adverse effect on the Group's profitability, the NAV and the share price.
- Due diligence may not identify all the risks and liabilities in respect of an acquisition.
- A fall in rental rates may have a material adverse effect on the Group's profitability, the NAV and the share price.
- A property market recession or deterioration in the property market could, inter alia (i) cause the Group to realise its investments at lower valuations; (ii) delay the timings of the Group's realisations.
- Properties are inherently difficult to value. There may be a material adverse effect on the Group's profitability, the NAV and the share price where properties are sold that were previously materially overstated.

FINANCIAL RISKS

- Material adverse changes in valuations and net income may lead to breaches in the Loan to Value ('LTV') and interest cover ratio covenants in the Group's borrowings.
- The Group is subject to the risk of rising LIBOR rates on its borrowings. Increases in LIBOR may adversely affect the Group's ability to pay dividends.

CORPORATE RISKS

- The Group has no employees and is reliant upon the performance of third party service providers. Failure by any service provider could have a detrimental impact on the operations of the Group.
- The Group is dependent on the continuance of the Investment Manager.
- Poor relative total return performance may lead to an adverse reputational impact that affects the Group's ability to raise new capital and new funds.

TAXATION RISKS

- The Group has a UK REIT status that provides a tax-efficient corporate structure. Any change to the tax status or in UK legislation could impact on the Group's ability to achieve its investment objectives and provide attractive returns to Shareholders.

POLITICAL / ECONOMIC RISK

- Following the vote to leave the EU in the June 2016 referendum, uncertainty remains surrounding the EU exit process and timing. There could be further adverse political and economic events that adversely impact on the Group's performance.

Responsibility statement of the Directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU
- the interim management report includes a fair review of the information required by:
 - (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

A list of the Directors is maintained on the AEW UK REIT plc website at www.aewukreit.com

By order of the Board

Mark Burton
Chairman

8 December 2016

Independent Review Report to AEW UK REIT plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 October 2016 which comprises the Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Group in meeting the requirements of the Disclosure Guidance and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA'). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

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

The annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

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

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 October 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Bill Holland
for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
London
E14 5GL

8 December 2016

Financial Statements

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 31 October 2016

		Period from 1 May 2016 to 31 October 2016 (unaudited) £'000	Period from 1 May 2015 to 31 October 2015 (unaudited) £'000	Period from 1 April 2015 to 30 April 2016 (audited)* £'000
Notes				
Income				
Rental and other income	3	6,054	1,532	7,185
Property operating expenses		(517)	(21)	(300)
Net rental and other income		5,537	1,511	6,885
Dividend income	3	326	274	653
Net rental and dividend income		5,863	1,785	7,538
Other operating expenses	4	(874)	(413)	(1,223)
Operating profit before fair value changes		4,989	1,372	6,315
Change in fair value of investment properties	9	(3,726)	(2,666)	(1,935)
Realised gains on disposal of investment properties		410	–	–
Change in fair value of investments	9	(779)	312	482
Operating profit/(loss)		894	(982)	4,862
Finance expense	5	(401)	(9)	(226)
Profit/(loss) before tax		493	(991)	4,636
Taxation	6	–	–	–
Profit/(loss) after tax		493	(991)	4,636
Other comprehensive income		–	–	–
Total comprehensive income/(loss) for the period		493	(991)	4,636
Earnings per share (pence per share) (basic and diluted)		0.42	(1.05)	4.83

The notes on pages 19 to 34 form an integral part of these condensed consolidated financial statements.

* Although not required by IAS 34, the comparative figures for the preceding period end and related notes have been included on a voluntary basis.

Condensed Consolidated Statement of Changes in Equity

for the six months ended 31 October 2016

		Share capital £'000	Share premium account £'000	Capital reserve and retained earnings £'000	Total capital and reserves attributable to owners of the Group £'000
For the period 1 May 2016 to 31 October 2016 (unaudited)	Notes				
Balance as at 1 May 2016		1,175	16,729	98,471	116,375
Profit for the period		–	–	493	493
Other comprehensive income		–	–	–	–
Total comprehensive income		–	–	493	493
Ordinary shares issued	14,15	61	5,938	–	5,999
Share issue costs	15	–	(120)	–	(120)
Dividends paid	8	–	–	(4,700)	(4,700)
Balance as at 31 October 2016		1,236	22,547	94,264	118,047
		Share capital £'000	Share premium account £'000	Capital reserve and retained earnings £'000	Total capital and reserves attributable to owners of the Group £'000
For the period 1 May 2015 to 31 October 2015 (unaudited)	Notes				
Balance as at 1 May 2015		–	–	–	–
Loss for the period		–	–	(991)	(991)
Other comprehensive income		–	–	–	–
Total comprehensive loss for the period		–	–	(991)	(991)
Ordinary shares issued	14,15	1,005	99,495	–	100,500
Share issue costs	15	–	(1,930)	–	(1,930)
Cancellation of share premium		–	(97,565)	97,565	–
Balance as at 31 October 2015		1,005	–	96,574	97,579

The notes on pages 19 to 34 form an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Changes in Equity *(continued)*

for the six months ended 31 October 2016

For the period 1 April 2015 to 30 April 2016 (audited)	Notes	Share capital £'000	Share premium account £'000	Capital reserve and retained earnings £'000	Total capital and reserves attributable to owners of the Group* £'000
Balance as at 1 April 2015		–	–	–	–
Profit for the period		–	–	4,636	4,636
Other comprehensive income		–	–	–	–
Total comprehensive income for the period		–	–	4,636	4,636
Ordinary shares issued	14,15	1,175	116,505	–	117,680
Share issue costs	15	–	(2,211)	–	(2,211)
Cancellation of share premium		–	(97,565)	97,565	–
Dividends paid	8	–	–	(3,730)	(3,730)
Balance as at 30 April 2016		1,175	16,729	98,471	116,375

The notes on pages 19 to 34 form an integral part of these condensed consolidated financial statements.

* Although not required by IAS 34, the comparative figures for the preceding period end and related notes have been included on a voluntary basis.

Condensed Consolidated Statement of Financial Position

as at 31 October 2016

		As at 31 October 2016 (unaudited) £'000	As at 31 October 2015 (unaudited)* £'000	As at 30 April 2016 (audited) £'000
Notes				
Assets				
Non-Current Assets				
Investment property	9	125,734	70,178	114,387
Investments	9	9,330	9,940	10,109
		135,064	80,118	124,496
Current Assets				
Receivables and prepayments	10	4,600	1,839	2,962
Cash and cash equivalents		10,155	16,987	7,963
Other financial assets held at fair value	11	78	–	77
		14,833	18,826	11,002
Total assets		149,897	98,944	135,498
Non-Current Liabilities				
Interest bearing loans and borrowings	12	(26,201)	–	(14,250)
Finance lease obligations		(1,582)	–	(1,791)
		(27,783)	–	(16,041)
Current Liabilities				
Payables and accrued expenses	13	(3,949)	(1,365)	(2,959)
Finance lease obligations		(118)	–	(123)
		(4,067)	(1,365)	(3,082)
Total Liabilities		(31,850)	(1,365)	(19,123)
Net Assets		118,047	97,579	116,375
Equity				
Share capital	14	1,236	1,005	1,175
Share premium account	15	22,547	–	16,729
Capital reserve and retained earnings		94,264	96,574	98,471
Total capital and reserves attributable to equity holders of the Group		118,047	97,579	116,375
Net Asset Value per share (pence per share)	7	95.47	97.09	99.03

The financial statements on pages 14 to 34 were approved by the Board of Directors on 8 December 2016 and were signed on its behalf by:

Mark Burton
Chairman

AEW UK REIT plc
Company number: 09522515

The notes on pages 19 to 34 form an integral part of these condensed consolidated financial statements.

* Although not required by IAS 34, the comparative figures for the preceding period end and related notes have been included on a voluntary basis.

Condensed Consolidated Statement of Cash Flows

for the six months ended 31 October 2016

	Period from 1 May 2016 to 31 October 2016 (unaudited) £'000	Period from 1 May 2015 to 31 October 2015 (unaudited) £'000	Period from 1 April 2015 to 30 April 2016 (audited)* £'000
Cash flows from operating activities			
Operating profit/(loss)	894	(982)	4,862
Adjustment for non-cash items:			
Loss from change in fair value of investment property	3,726	2,666	1,935
Loss/(gain) from change in fair value of investments	779	(312)	(482)
Realised gains on disposal of investment properties	(410)	–	–
Changes in fair value of interest rate derivatives	(70)	–	(14)
Increase in other receivables and prepayments	(1,638)	(1,727)	(2,962)
Increase in other payables and accrued expenses	981	960	2,936
Net cash flow generated from operating activities	4,262	605	6,275
Cash flows from investing activities			
Purchase of investment properties	(15,587)	(72,551)	(114,408)
Purchase of investments	–	(9,628)	(9,627)
Disposal of investment properties	710	–	–
Net cash used in investing activities	(14,877)	(82,179)	(124,035)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	5,999	100,500	117,680
Share issue costs	(117)	(1,930)	(2,211)
Loan draw down	12,260	–	14,250
Arrangement loan facility fee paid	(348)	–	(40)
Finance costs	(287)	(9)	(226)
Dividends paid	(4,700)	–	(3,730)
Net cash flow generated from financing activities	12,807	98,561	125,723
Net increase in cash and cash equivalents	2,192	16,987	7,963
Cash and cash equivalents at start of the period	7,963	–	–
Cash and cash equivalents at end of the period	10,155	16,987	7,963

The notes on pages 19 to 34 form an integral part of these condensed consolidated financial statements.

* Although not required by IAS 34, the comparative figures for the preceding period end and related notes have been included on a voluntary basis.

Notes to the Condensed Consolidated Financial Statements

for the six months ended 31 October 2016

1. Corporate information

AEW UK REIT plc (the 'Company') is a closed ended Real Estate Investment Trust ('REIT') incorporated on 1 April 2015 and domiciled in the UK. AEW UK REIT 2015 Limited is a subsidiary of the Company, incorporated in the UK on 2 April 2015. At 31 October 2016, the Company continued holding one share being 100% of the issued share capital. AEW UK REIT 2015 Limited is wholly owned by the Company (together known as the 'Group') and is currently dormant.

The comparative information for the period from 1 April 2015 to 30 April 2016 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The auditors reported on those accounts; their report was unqualified, and did not contain a statement under section 498(25) or (23) of the Companies Act 2006. However, it did draw attention to an emphasis of matter due to the need to issue revised accounts for the period 1 April 2015 to 30 April 2016.

2. Accounting policies

2.1 Basis of preparation

These half-yearly condensed consolidated unaudited financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, and should be read in conjunction with the Group's last consolidated financial statements for the period ended 30 April 2016. These condensed consolidated unaudited financial statements do not include all information required for a complete set of IFRS financial statements, however, selected explanatory notes have been included to explain events and transactions that are significant in understanding changes in the Group's financial position and performance since the last financial statements. A review of the interim financial information has been performed by the Independent Auditor of the Group and was approved for issue on 8 December 2016.

The comparative figures disclosed in the condensed consolidated unaudited financial statements and related notes have been presented for the six month period to 31 October 2015 as required by IAS 34. However, as the Group did not trade prior to 1 May 2015, the amounts now presented for the period 1 May 2015 to 31 October 2015 are the same as previously reported for that period except for earnings per share due to a recalculation of weighted average number of shares for the period 1 May 2015 to 31 October 2015.

The interim report and financial statements for the period 1 April 2015 to 31 October 2015 represents a seven month period, therefore has not been adopted as a comparative.

Although not required by IAS 34, the comparative figures as at 31 October 2015 for the Condensed Consolidated Statement of Financial Position and 30 April 2016 for the Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Changes in Equity and Condensed Consolidated Statement of Cash Flows and related notes have included on a voluntary basis.

These consolidated condensed unaudited financial statements have been prepared under the historical-cost convention, except for investment property, investments and interest rate derivatives that have been measured at fair value.

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

As the subsidiary AEW UK REIT 2015 Limited is dormant and has no balances material for consolidation, these consolidated condensed unaudited financial statements are representative of the accounts of the Group and Company.

Notes to the Condensed Consolidated Financial Statements

for the six months ended 31 October 2016

2. Accounting policies (*continued*)

New standards, amendments and interpretations

There are a number of new standards and amendments to existing standards which have been published and are mandatory for the Group's accounting periods beginning after 1 November 2016 or later periods, but the Group has decided not to early adopt them. The following are the most relevant to the Group:

- Disclosure Initiative (Amendments to IAS 7) (effective for annual periods beginning on or after 1 January 2017);
- Recognition of deferred tax assets for unrealised losses (amendments to IAS 12) (effective for annual periods beginning on or after 1 January 2017);
- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018);
- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018);
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) (effective for annual periods beginning on or after 1 January 2018);
- IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019);

There are no new IFRS or IFRIC interpretations that are not yet effective that would have a material impact on the Group's financial statements.

2.2 Significant accounting judgements and estimates

The preparation of financial statements in accordance with EU IFRS requires the Directors of the Group to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in the future.

i) Valuation of investment property

The valuations of the Group's investment property will be at fair value as determined by the independent valuer on the basis of market value in accordance with the internationally accepted Royal Institution of Chartered Surveyors ('RICS') Appraisal and Valuation Standards.

ii) Valuation of investments

Investments in collective investment schemes are stated at fair value with any resulting gain or loss recognised in profit or loss. Fair value is assessed by the Directors based on the best available information.

The value of the Company's interest in the AEW Core Fund as at 31 October 2016 has been amended to value the holding in the Core Fund at its 31 October 2016 NAV. The Directors, in consultation with the Company's professional advisers, have adopted the amended valuation methodology as at 31 October 2016 in order to provide a better reflection of fair value of the Company's holding in the Core Fund.

Notes to the Condensed Consolidated Financial Statements

for the six months ended 31 October 2016

2. Accounting policies *(continued)*

iii) Valuation of interest rate derivatives

In accordance with IAS 39, the Group carries its interest rate derivatives at fair value. The fair values are estimated by the loan counterparty with revaluation occurring on a quarterly basis. The counterparties will use a number of assumptions in determining the fair values including estimations over future interest rates and therefore future cash flows. The fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate.

iv) Segmental information

In accordance with IFRS 8, the Group is organised into one main operating segment. All of the Group's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

2.3 Going concern

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

2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are consistent with those applied within the Group's Annual Report and Accounts as at 30 April 2016.

Notes to the Condensed Consolidated Financial Statements

for the six months ended 31 October 2016

3. Revenue

	Period from 1 May 2016 to 31 October 2016 (unaudited) £'000	Period from 1 May 2015 to 31 October 2015 (unaudited) £'000	Period from 1 April 2015 to 30 April 2016 (audited) £'000
Gross rental income received	5,847	1,513	6,153
Surrender premium received	–	–	1,000
Dilapidation income received	204	19	19
Other property income	3	–	13
Total rental and other income	6,054	1,532	7,185
Dividend income:			
Property income distribution*	313	264	629
Dividend distribution	13	10	24
	326	274	653
Total Revenue	6,380	1,806	7,838

* Property income distribution ('PID') is received from the investment in the AEW UK Core Property Fund which holds property directly.

Rent available under the terms of the leases, is adjusted, for the effect of any incentives agreed.

4. Other operating expenses

	Period from 1 May 2016 to 31 October 2016 (unaudited) £'000	Period from 1 May 2015 to 31 October 2015 (unaudited) £'000	Period from 1 April 2015 to 30 April 2016 (audited) £'000
Investment management fee	526	204	653
Auditor remuneration	48	28	95
Operation costs	266	144	403
Directors' remuneration	34	37	72
Total	874	413	1,223

Notes to the Condensed Consolidated Financial Statements

for the six months ended 31 October 2016

5. Finance expense

	Period from 1 May 2016 to 31 October 2016 (unaudited) £'000	Period from 1 May 2015 to 31 October 2015 (unaudited) £'000	Period from 1 April 2015 to 30 April 2016 (audited) £'000
Interest payable on loan borrowings	244	–	110
Amortisation of loan arrangement fee	39	9	40
Agency fee payable on loan borrowings	10	–	11
Commitment fee payable on loan borrowings	38	–	51
	331	9	212
Change in fair value of interest rate derivatives	70	–	14
Total	401	9	226

6. Taxation

	Period from 1 May 2016 to 31 October 2016 (unaudited) £'000	Period from 1 May 2015 to 31 October 2015 (unaudited) £'000	Period from 1 April 2015 to 30 April 2016 (audited) £'000
Analysis of charge in the period			
Profit/(loss) before tax	493	(991)	4,636
Theoretical tax at UK corporation tax standard rate of 20%	98	(198)	927
Adjusted for:			
Exempt REIT income	(868)	(273)	(1,119)
UK dividend not taxable	(45)	–	(99)
Non taxable investment losses	815	471	291
Total	–	–	–

Notes to the Condensed Consolidated Financial Statements

for the six months ended 31 October 2016

7. Earnings per share and NAV per share

	Period from 1 May 2016 to 31 October 2016 (unaudited)	Period from 1 May 2015 to 31 October 2015 (unaudited)	Period from 1 April 2015 to 30 April 2016 (audited)
Net attributable to Ordinary Shareholders			
Total comprehensive income /(loss)(£'000)	493	(991)	4,636
Weighted average number of shares*	118,563,367	94,491,848	96,022,424
Basic earnings/(loss) per share (pence)	0.42	(1.05)	4.83
Adjustment to revenue:			
Unrealised loss from change in fair value of investment property (£'000)	3,726	2,666	1,935
Realised gain on disposal of investment properties (£'000)	(410)	–	–
Loss/(gain) from change in fair value of investments (£'000)	779	(312)	(482)
Change in fair value of interest rate derivatives (£'000)	(70)	–	(14)
EPRA earnings per share (basic and diluted) (pence)	3.81	1.44	6.33
 Net assets (£'000)	 118,047	 97,579	 116,375
Ordinary shares in issue	123,647,250	100,500,000	117,510,000
NAV per share (pence)	95.47	97.09	99.03
 Other financial assets held at fair value (£'000)	 (78)	 –	 (77)
EPRA NAV per share (pence)	95.41	97.09	98.97

* Based on the weighted average number of Ordinary Shares in issue throughout the period.

Notes to the Condensed Consolidated Financial Statements

for the six months ended 31 October 2016

8. Dividends paid

	Period from 1 May 2016 to 31 October 2016 (unaudited) £'000	Period from 1 May 2015 to 31 October 2015 (unaudited) £'000	Period from 1 April 2015 to 30 April 2016 (audited) £'000
Fourth dividend paid in respect of the period ended 30 April 2016 at 2p per Ordinary Share	2,350	–	–
First dividend paid in respect of the period ended 31 July 2016 at 2p per Ordinary Share	2,350	–	–
First dividend paid in respect of the period ended 31 October 2015 at 1.5p per Ordinary Share	–	–	1,507
Second dividend paid in respect of the period 1 November 2015 to 14 December 2015 at 0.75p per Ordinary Share	–	–	754
Third dividend paid in respect of the period 15 December 2015 to 31 January 2016 at 1.25p per Ordinary Share	–	–	1,469
Total dividends paid during the period	4,700	–	3,730
Fourth dividend paid in respect of the period ended 30 April 2016 at 2p per Ordinary Share	–	–	2,350
Second interim dividend declared for the period 1 August 2016 to 31 October 2016 at 2p per Ordinary Share	2,473	–	–
Total dividends in respect of the period	7,173	–	6,080

Notes to the Condensed Consolidated Financial Statements

for the six months ended 31 October 2016

9. Non-current assets

	Period from 1 May 2016 to 31 October 2016 (unaudited)			Period from 1 May 2015 to 31 October 2015 (unaudited)	Period from 1 April 2015 to 30 April 2016 (audited)
	Investment properties freehold £'000	Investment properties leasehold £'000	Total £'000	Total £'000	Total £'000
UK Investment property					
As at beginning of period	89,045	25,295	114,340	–	–
Purchases in the period	15,587	–	15,587	72,844	114,408
Disposals in the period	(300)	–	(300)	–	–
Revaluation of investment property	(1,182)	(2,560)	(3,742)	(1,479)	(68)
Valuation provided by Knight Frank	103,150	22,735	125,885	71,365	114,340
Adjustment to fair value for rent free debtor			(1,716)	(88)	(1,082)
Adjustment to fair value for rent guarantee debtor			(135)	(1,099)	(785)
Adjustment for finance lease obligations*			1,700	–	1,914
Total Investment property			125,734	70,178	114,387
Change in fair value of investment property					
Loss from change in fair value			(3,742)	(1,479)	(68)
Adjustment for movement in the period:					
in fair value for rent free debtor			(634)	(88)	(1,082)
in fair value for rent guarantee debtor			650	(1,099)	(785)
			(3,726)	(2,666)	(1,935)

* Adjustment in respect of minimum payment under head leases separately included as a liability within the Statement of Financial Position.

Valuation of investment property

Valuation of investment property is performed by Knight Frank LLP, an accredited external valuer with recognised and relevant professional qualifications and recent experience of the location and category of the investment property being valued.

The valuation of the Group's investment property at fair value is determined by the external valuer on the basis of market value in accordance with the internationally accepted RICS Valuation – Professional Standards (incorporating the International Valuation Standards).

Notes to the Condensed Consolidated Financial Statements

for the six months ended 31 October 2016

9. Non-current assets (continued)

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (such as lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those flows.

	Period from 1 May 2016 to 31 October 2016 (unaudited) Total £'000	Period from 1 May 2015 to 31 October 2015 (unaudited) Total £'000	Period from 1 April 2015 to 30 April 2016 (audited) Total £'000
Investment in AEW UK Core Property Fund			
As at beginning of period	10,109	–	–
Purchases in period	–	9,628	9,627
(Loss)/gain from change in fair value	(779)	312	482
Total Investment in AEW UK Core Property Fund	9,330	9,940	10,109

Valuation of investments

Investments in collective investment schemes are stated at fair value with any resulting gain or loss recognised in profit or loss. Fair value is assessed by the Directors based on the best available information.

The value of investments in the AEW Core Fund is based on the latest NAV of the AEW Core Fund as the Directors consider this to be the best approximation of fair value.

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

	31 October 2016			
	Quoted prices in active markets (Level 1) £'000	Significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	Total £'000
Assets measured at fair value				
Investment properties	–	–	125,734	125,734
Investment in AEW UK Core Property Fund	–	–	9,330	9,330
	–	–	135,064	135,064

Notes to the Condensed Consolidated Financial Statements

for the six months ended 31 October 2016

9. Non-current assets *(continued)*

	31 October 2015			Total £'000
	Quoted prices in active markets (Level 1) £'000	Significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	
Assets measured at fair value				
Investment properties	–	–	70,178	70,178
Investment in AEW UK Core Property Fund	–	–	9,940	9,940
	–	–	80,118	80,118
	30 April 2016			Total £'000
	Quoted prices in active markets (Level 1) £'000	Significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	
Assets measured at fair value				
Investment properties	–	–	114,387	114,387
Investment in AEW UK Core Property Fund	–	–	10,109	10,109
	–	–	124,496	124,496

Explanation of the fair value hierarchy:

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

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

Level 3 – Valuation techniques using non-observable data.

Sensitivity analysis to significant changes in unobservable inputs within Level 3 of the hierarchy

The Group has considered sensitivity analysis for assets measured at fair value and recognises the significant unobservable inputs relating to investment property and investments.

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the entity's portfolios of investment property are:

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

Increases (decreases) in the ERV (per sq ft p.a.) in isolation would result in a higher (lower) fair value measurement. Increases (decreases) in the discount rate/yield (and exit or yield) in isolation would result in a lower (higher) fair value measurement.

Notes to the Condensed Consolidated Financial Statements

for the six months ended 31 October 2016

9. Non-current assets (continued)

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the entity's investment is:

1) NAV

The Group has updated its accounting policy with regard to the value of investments in the AEW Core Fund to now be based on NAV which is considered to be the best approximation of fair value by the Directors.

Increases (decreases) in the NAV would result in a higher (lower) fair value measurement.

The significant unobservable inputs used in the fair value measurement, categorised within Level 3 of the fair value hierarchy of the portfolio of investment property and investments are:

Class	Fair Value £'000	Valuation Technique	Significant Unobservable Inputs	Range
31 October 2016				
Investment Property	125,885	Income capitalisation	ERV Equivalent yield	£2.00 – £160.00 6.99% – 11.03%
Investments	9,330	Market capitalisation	NAV	£1.1612
31 October 2015				
Investment Property	71,365	Income capitalisation	ERV Equivalent yield	£2.50 – £150.00 6.50% – 11.00%
Investments	9,940	Market capitalisation	Single swinging price	£1.2370
30 April 2016				
Investment Property	114,340	Income capitalisation	ERV Equivalent yield	£2.00 – £160.00 6.70% – 11.90%
Investments	10,109	Market capitalisation	Single swinging price	£1.2581

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

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

With regards to both investment property and investments, gains and losses for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, prior to adjustment for rent free debtor and rent guarantee debtor, are recorded in profit and loss.

The carrying amount of the assets and liabilities, detailed within the Condensed Consolidated Statement of Financial Position, is considered to be the same as their fair value.

Notes to the Condensed Consolidated Financial Statements

for the six months ended 31 October 2016

10. Receivables and prepayments

	31 October 2016 £'000	31 October 2015 £'000	30 April 2016 £'000
Receivables			
Rent debtor	2,155	314	622
Rent free debtor	1,716	88	1,082
Rent guarantee debtor	135	1,099	785
Dividend receivable	146	215	193
Capital VAT recoverable	–	113	–
Rent agent float account	51	–	92
Other receivables	309	–	29
	4,512	1,829	2,803
Prepayments			
Property related prepayments	57	2	149
Depository services	7	7	8
Listing fees	3	1	2
Other prepayments	21	–	–
	88	10	159
Total	4,600	1,839	2,962

11. Interest rate derivatives

	31 October 2016 £'000	31 October 2015 £'000	30 April 2016 £'000
At the beginning of the period	77	–	–
Interest rate cap premium paid	71	–	91
Changes in fair value of interest rate derivatives	(70)	–	(14)
Total	78	–	77

To mitigate the interest rate risk that arises as a result of entering into variable rate linked loans, the Group entered into an interest rate CAP during the period, with the combined notional value of £26.51 million and a strike rate of 2.5% for the relevant period in line with the life of the loan.

The total premium payable in the period towards securing the interest rate caps was £71,000.

Notes to the Condensed Consolidated Financial Statements

for the six months ended 31 October 2016

11. Interest rate derivatives (continued)

Fair Value hierarchy

The following table provides the fair value measurement hierarchy for interest rate derivatives:

Assets measured at fair value				
Valuation date	Quoted prices in active markets (Level 1) £'000	Significant observable input (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	Total £'000
31 October 2016	–	78	–	78
31 October 2015	–	–	–	–
30 April 2016	–	77	–	77

The fair value of these contracts are recorded in the Consolidated Statement of Financial Position as at the period end.

There have been no transfers between Level 1 and Level 2 during the period, nor have there been any transfers between Level 2 and Level 3 during the period.

The carrying amount of the assets and liabilities, detailed within the Consolidated Statement of Financial Position, is considered to be the same as their fair value.

12. Interest bearing loans and borrowings

	Bank borrowings drawn		
	31 October 2016 £'000	31 October 2015 £'000	30 April 2016 £'000
At the beginning of the period	14,250	–	–
Bank borrowings drawn in the period	12,260	–	14,250
Interest bearing loans and borrowings	26,510	–	14,250
Less: loan issue costs incurred	(388)	–	(40)
Plus: amortised loan issue costs	79	–	40
At the end of the period	26,201	–	14,250
Repayable between 1 and 2 years	–	–	–
Repayable between 2 and 5 years	26,510	–	14,250
Repayable in over 5 years	–	–	–
Total	26,510	–	14,250

Notes to the Condensed Consolidated Financial Statements

for the six months ended 31 October 2016

12. Interest bearing loans and borrowings *(continued)*

The Group entered into a £40 million credit facility with RBSI on 20 October 2015, of which £13.49 million remained undrawn as at the period end.

Borrowing costs associated with the credit facility are shown as finance costs in note 5 to these financial statements.

The term to maturity as at the period end is 4 years.

13. Payables and accrued expenses

	31 October 2016 £'000	31 October 2015 £'000	30 April 2016 £'000
Deferred income	3,122	548	1,675
Accruals	526	78	1,008
Other creditors	301	739	276
Total	3,949	1,365	2,959

14. Issued share capital

For the period 1 May 2016 to 31 October 2016

	£'000	Number of Ordinary Shares
Ordinary Shares issued and fully paid		
At the beginning of the period	1,175	117,510,000
Issued on admission to trading on the London Stock Exchange on 16 September 2016	24	2,450,000
Issued on admission to trading on the London Stock Exchange on 10 October 2016	37	3,687,250
At the end of the period	1,236	123,647,250

For the period 1 May 2015 to 31 October 2015

	£'000	Number of Ordinary Shares
Ordinary Shares issued and fully paid		
At the beginning of the period	–	1
Issued on admission to trading on the London Stock Exchange on 12 May 2015	1,005	100,499,999
At the end of the period	1,005	100,500,000

Notes to the Condensed Consolidated Financial Statements

for the six months ended 31 October 2016

14. Issued share capital (continued)

For the period 1 April 2015 to 30 April 2016

	£'000	Number of Ordinary Shares
Ordinary Shares issued and fully paid		
At the beginning of the period	–	1
Issued on admission to trading on the London Stock Exchange on 12 May 2015	1,005	100,499,999
Issued on admission to trading on the London Stock Exchange on 15 December 2015	170	17,010,000
At the end of the period	1,175	117,510,000

On 16 September 2016, the Company issued 2,450,000 Ordinary Shares at a price of 97 pence per share in the form of a tap issue under authority granted on 7 September 2016 at the Annual General Meeting.

On 10 October 2016 the Company issued 3,687,250 Ordinary Shares at a price of 98.25 pence per share in the form of tap issue under authority granted on 7 September 2016 at the Annual General Meeting.

15. Share premium account

	Period from 1 May 2016 to 31 October 2016 £'000	Period from 1 May 2015 to 31 October 2015 £'000	Period from 1 April 2015 to 30 April 2016 £'000
The share premium relates to amounts subscribed for share capital in excess of nominal value:			
Balance at the beginning of the period	16,729	–	–
Issued on admission to trading on the London Stock Exchange on 12 May 2015	–	99,495	99,495
Share issue costs (paid and accrued)	–	(1,930)	(1,930)
Transfer to capital reduction account	–	(97,565)	(97,565)
Issued on admission to trading on the London Stock Exchange on 15 December 2015	–	–	17,010
Share issue costs (paid and accrued)	(23)	–	(281)
Issued on admission to trading on the London Stock Exchange on 16 September 2016	2,352	–	–
Share issue cost (paid and accrued)	(42)	–	–
Issued on admission to trading on the London Stock Exchange on 10 October 2016	3,586	–	–
Share issue cost (paid and accrued)	(55)	–	–
Balance at the end of the period	22,547	–	16,729

Notes to the Condensed Consolidated Financial Statements

for the six months ended 31 October 2016

16. Transactions with related parties

As defined by IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

For the six months ended 31 October 2016, the Directors of the Company are considered to be the key management personnel.

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

During the period 1 May 2016 to 31 October 2016, the Company incurred £525,776 (31 October 2015: £203,829; 30 April 2016: £652,706) in respect of investment management fees and expenses of which £253,769 was outstanding at 31 October 2016 (31 October 2015: £139,724; 30 April 2016: £230,631).

17. Events after reporting date

Dividend

On 15 November 2016, the Board declared its second interim dividend of 2.00 pence per share, in respect of the period from 1 August 2016 to 31 October 2016, as reflected in note 8. This is to be paid on 31 December 2016 to shareholders on the register as at 25 November 2016. The ex-dividend date was 24 November 2016.

On 15 November 2016, the Board declared that the Company will look to sell down its holding in the AEW Core Fund and reinvest the proceeds from sale into direct property holdings.

Property Acquisition

On 25 November 2016, Euroway Trading Estate, was purchased for £4.95 million (net of acquisition costs). This property is a 144,000 sq ft logistics warehouse in Bradford. This acquisition provides a net initial yield of 8.1%, a reversionary yield of 8.9% and a capital value per sq ft of £34.

EPRA Unaudited Performance Measures

Detailed below is a summary table showing the EPRA performance measures

MEASURE AND DEFINITION	PURPOSE	PERFORMANCE
1. EPRA Earnings Earnings from operational activities.	A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.	£4.52 million/3.81 pps EPRA earnings for the period to 31 October 2016 (£6.08 million/6.33 pps for the period to 30 April 2016)
2. EPRA NAV Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business.	Makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long-term investment strategy.	£117.97 million/95.41 pps EPRA NAV as at 31 October 2016 (£116.30 million/98.97 pps as at 30 April 2016)
3. EPRA NNNAV EPRA NAV adjusted to include the fair values of: (i) financial instruments; (ii) debt and; (iii) deferred taxes.	Makes adjustments to EPRA NAV to provide stakeholders with the most relevant information on the current fair value of all the assets and liabilities within a real estate company.	£118.05 million/95.47 pps EPRA NNNAV as at 31 October 2016 (£116.38 million/99.03 pps as at 30 April 2016)
4.1 EPRA Net Initial Yield (NIY) Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.	A comparable measure for portfolio valuations. This measure should make it easier for investors to judge themselves, how the valuation of portfolio X compares with portfolio Y.	7.85% EPRA NIY as at 31 October 2016 (8.01% as at 30 April 2016)
4.2 EPRA 'Topped-Up' NIY This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).	A comparable measure for portfolio valuations. This measure should make it easier for investors to judge themselves, how the valuation of portfolio X compares with portfolio Y.	7.85% EPRA 'Topped-Up' NIY as at 31 October 2016 (8.56% as at 30 April 2016)
5. EPRA Vacancy Estimated Market Rental Value (ERV) of vacant space divided by ERV of the whole portfolio.	A "pure" (%) measure of investment property space that is vacant, based on ERV.	8.70% EPRA ERV as at 31 October 2016 (3.16% as at 30 April 2016)
6. EPRA Cost Ratio Administrative and operating costs (including and excluding costs of direct vacancy) divided by gross rental income.	A key measure to enable meaningful measurement of the changes in a company's operating costs.	Including direct vacancy costs EPRA Cost Ratio 11.49% as at 31 October 2016 (12.23% as at 30 April 2016) 9.31% EPRA Cost ratio excluding direct vacancy costs as at 31 October 2016 (10.90% as at 30 April 2016)

EPRA Unaudited Performance Measures *(continued)*

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

	31 October 2016 £'000
Investment property – wholly-owned	125,885
Allowance for estimated purchasers' costs	8,560
Gross up completed property portfolio valuation	134,445
Annualised cash passing rental income	11,203
Property outgoings	(655)
Annualised net rents	10,548
Rent expiration of rent-free periods and fixed uplifts	–
'Topped-up' net annualised rent	10,548
EPRA Net Initial Yield	7.85%
EPRA 'topped-up' Net Initial Yield	7.85%

EPRA Net Initial Yield (NIY) basis of calculation

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

The valuation of grossed up completed property portfolio is determined by our external valuers as at 31 October 2016, plus an allowance for estimated purchasers' costs. Estimated purchasers' costs are determined by the relevant stamp duty liability, plus an estimate by our valuers of agent and legal fees on notional acquisition. The net rent deduction allowed for property outgoings is based on our valuers' assumptions on future recurring non-recoverable revenue expenditure.

In calculating the EPRA 'topped-up' NIY, the annualised net rent is increased by the total contracted rent from expiry of rent-free periods and future contracted rental uplifts where defined as not in lieu of growth. Overall 'topped-up' NIY is calculated by adding any other contracted future uplift to the 'topped-up' net annualised rent.

EPRA Unaudited Performance Measures *(continued)*

Calculation of EPRA Vacancy Rate

	31 October 2016 £'000/%
Annualised potential rental value of vacant premises	1,069
Annualised potential rental value for the completed property portfolio	12,291
EPRA Vacancy Rate	8.70%

Calculation of EPRA Cost Ratios

	31 October 2016 £'000
Administrative/operating expense per IFRS income statement	1,390
Less: Performance & management fees	(526)
Other fees and commission	(128)
Ground rent costs	(90)
EPRA Costs (including direct vacancy costs)	646
Direct vacancy costs	(123)
EPRA Costs (excluding direct vacancy costs)	523
Gross Rental Income less ground rent costs	5,756
Less: service charge costs of rental income	(128)
Gross rental income	5,628
EPRA Cost Ratio (including direct vacancy costs)	11.49%
EPRA Cost Ratio (excluding direct vacancy costs)	9.31%

Company Information

Share Register Enquiries

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

Changes of name and/or address must be notified in writing to the Registrar, at the address shown on page 39. You can check your shareholding and find practical help on transferring shares or updating your details at www.investorcentre.co.uk.

Share Information

Ordinary Shares	123,647,250
SEDOL Number	BWD2415
ISIN Number	GB00BWD24154

Share Prices

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

Annual and Half-Yearly Reports

Copies of the Annual and Half-Yearly Reports are available from the Company's website

Provisional Financial Calendar

30 April 2017	Year end
July 2017	Announcement of annual results
September 2017	Annual General Meeting
31 October 2017	Half-year End
December 2017	Announcement of half-yearly results

Dividends

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

	£
Dividend for the period 1 February 2016 to 30 April 2016	2,350,200
Dividend for the period 1 May 2016 to 31 July 2016	2,350,200
Total	4,700,400

Company Information *(continued)*

Directors

Mark Burton (Non-executive Chairman)
James Hyslop (Non-executive Director)
Bimaljit ("Bim") Sandhu (Non-executive Director)

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Company Secretary

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Registrar

Computershare Investor Services PLC
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Auditor

KPMG LLP
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Valuer

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W1U 8AN

Frequency of NAV publication:

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

Glossary

<i>AEW UK Core Property Fund</i>	AEW UK Core Property Fund, a property authorised investment fund ('PAIF') and a sub-fund of the AEW UK Real Estate Fund, an open ended investment company.
<i>AIC</i>	Association of Investment Companies. This is the trade body for Closed-end Investment Companies (www.theaic.co.uk).
<i>AIFMD</i>	Alternative Investment Fund Managers Directive.
<i>AIFM</i>	Alternative Investment Fund Manager. The entity that provides portfolio management and risk management services to the Company and which ensures the Company complies with the AIFMD. The Company's AIFM is AEW UK Investment Management UK LLP.
<i>Company</i>	AEW UK REIT plc.
<i>Company Secretary</i>	Capita Company Secretarial Services Limited.
<i>Contracted rent</i>	The annualised rent adjusting for the inclusion of rent subject to rent-free periods.
<i>Covenant strength</i>	The strength of a tenant's financial status and its ability to perform the covenants in the lease.
<i>DTR</i>	Disclosure and Transparency Rules, issued by the United Kingdom Listing Authority.
<i>Earnings Per Share ('EPS')</i>	Profit for the period attributable to equity shareholders divided by the weighted average number of Ordinary Shares in issue during the period.
<i>EPC</i>	Energy Performance Certificate.
<i>EPRA</i>	European Public Real Estate Association, the industry body representing listed companies in the real estate sector.
<i>EPRA cost ratio (including direct vacancy costs)</i>	The ratio of net overheads and operating expenses against gross rental income (with both amounts excluding ground rents payable). Net overheads and operating expenses relate to all administrative and operating expenses.
<i>EPRA cost ratio (excluding direct vacancy costs)</i>	The ratio calculated above, but with direct vacancy costs removed from net overheads and operating expenses balance.
<i>EPRA Earnings Per Share</i>	Recurring earnings from core operational activities. A key measure of a company's underlying operating results from its property rental business and an indication of the extent to which current dividend payments are supported by earnings.
<i>EPRA NAV</i>	Net Asset Value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business.
<i>EPRA NNNAV</i>	EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation on revaluations.
<i>EPRA Net Initial Yield ('NIY')</i>	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the fair value of the property, increased with (estimated) purchasers' costs.
<i>EPRA Topped-Up Net Initial Yield</i>	This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).
<i>EPRA Vacancy Rate</i>	Estimated Market Rental Value ('ERV') of vacant space as a percentage of the ERV of the whole portfolio.

Glossary (continued)

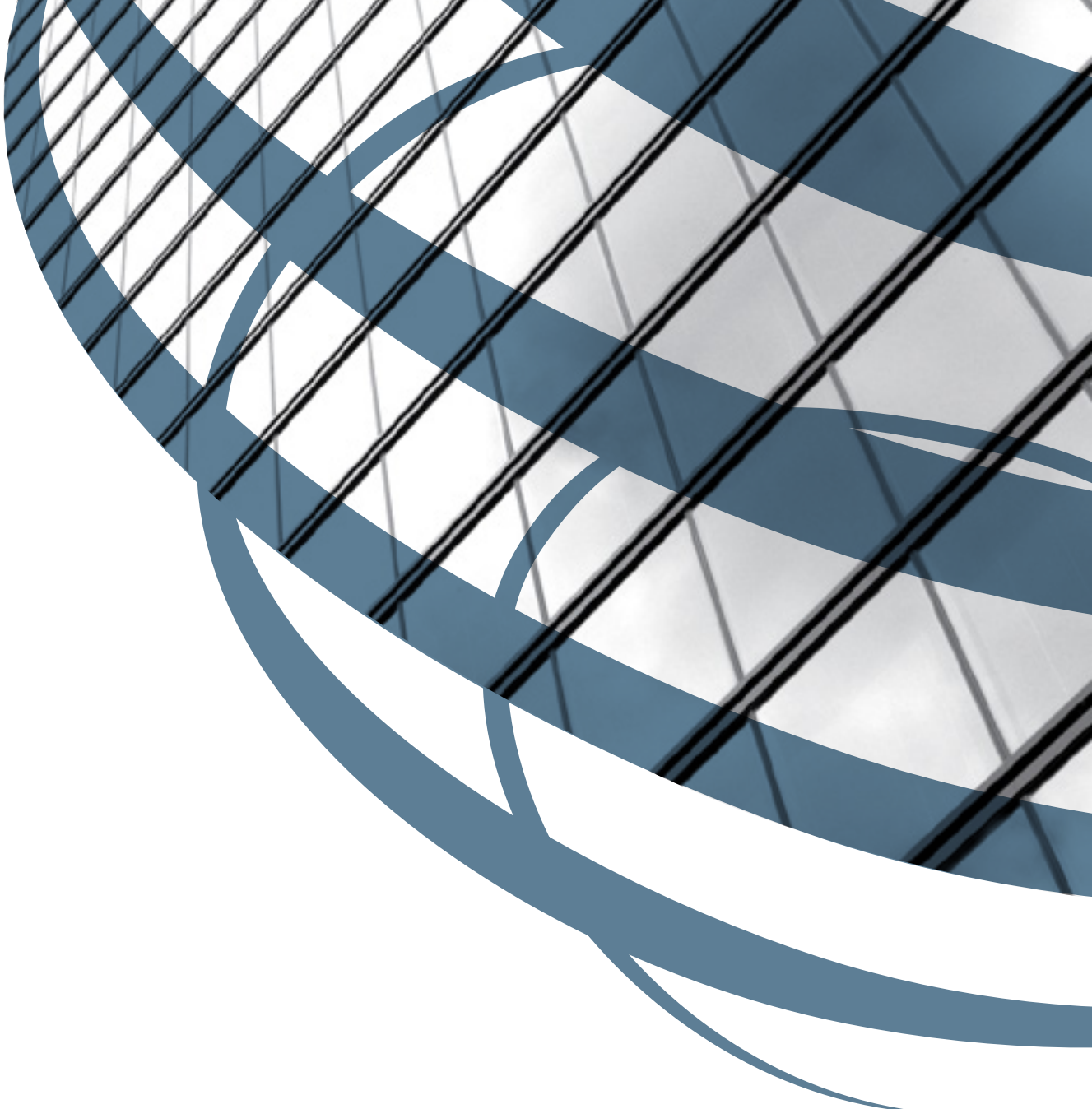
Equivalent Yield	The internal rate of return of the cash flow from the property, assuming a rise to ERV at the next review or lease expiry. No future growth is allowed for.
Estimated Rental Value ('ERV')	The external valuer's opinion as to the open market rent which, on the date of the valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.
External Valuer	An independent external valuer of a property. The Company's External Valuer is Knight Frank LLP.
Fair value	The estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where parties had each acted knowledgeably, prudently and without compulsion.
Fair value movement	An accounting adjustment to change the book value of an asset or liability to its fair value.
FCA	The Financial Conduct Authority.
FRI lease	A lease which imposes full repairing and insuring obligations on the tenant, relieving the landlord from all liability for the cost of insurance and repairs.
Gross Asset Value	The aggregate value of the total assets of the Company as determined in accordance with IFRS.
Group	AEW UK REIT plc and its subsidiary, AEW UK REIT 2015 Limited.
IASB	International Accounting Standards Board.
IFRS	International Financial Reporting Standards, as adopted by the European Union.
Investment Manager	The Company's Investment Manager is AEW UK Investment Management UK LLP.
IPD	Investment Property Databank. An organisation supplying independent market indices and portfolio benchmarks to the property industry.
IPO	The admission to trading on the London Stock Exchange's Main Market of the share capital of the Company and admission of Ordinary Shares to the premium listing segment of the Official List on 12 May 2015.
Lease incentives	Incentives offered to occupiers to enter into a lease. Typically this will be an initial rent-free period, or a cash contribution to fit-out. Under accounting rules the value of the lease incentive is amortised through the Income Statement on a straight-line basis until the lease expiry.
Lease Surrender	An agreement whereby the landlord and tenant bring a lease to an end other than by contractual expiry or the exercise of a break option. This will frequently involve the negotiation of a surrender premium by one party to the other.
LIBOR	The London Interbank Offered Rate, the interest rate charged by one bank to another for lending money.
Net Asset Value ('NAV')	Net Asset Value is the equity attributable to shareholders calculated under IFRS.
Net Asset Value per share	Equity shareholders' funds divided by the number of Ordinary Shares in issue.
Net equivalent yield	Calculated by the Group's External Valuers, equivalent yield is the internal rate of return from an investment property, based on the gross outlays for the purchase of a property (including purchase costs), reflecting reversions to current market rent and items as voids and non-recoverable expenditure but ignoring future changes in capital value. The calculation assumes rent is received annually in arrears.
Net initial yield	The initial net rental income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase.
Net rental income	Rental income receivable in the period after payment of ground rents and net property outgoings.
Non-PID	Non-Property Income Distribution. The dividend received by a shareholder of the Company arising from any source other than profits and gains of the Tax Exempt Business of the Group.

Glossary (*continued*)

<i>Ongoing charges</i>	The ratio of total administration and property operating costs expressed as a percentage of average NAV throughout the period.
<i>Ordinary Shares</i>	The main type of equity capital issued by conventional Investment Companies. Shareholders are entitled to their share of both income, in the form of dividends paid by the Company, and any capital growth.
<i>Over-rented</i>	Space where the passing rent is above the ERV.
<i>Passing rent</i>	The gross rent, less any ground rent payable under head leases.
<i>PID</i>	Property Income Distribution. A dividend received by a shareholder of the Company in respect of profits and gains of the tax exempt business of the Group.
<i>Rack-rented</i>	Space where passing rent is the same as the ERV.
<i>REIT</i>	A Real Estate Investment Trust. A company which complies with Part 12 of the Corporation tax Act 2010. Subject to the continuing relevant UK REIT criteria being met, the profits from the property business of a REIT, arising from both income and capital gains, are exempt from corporation tax.
<i>Reversion</i>	Increase in rent estimated by the Company's External Valuers, where the passing rent is below the ERV.
<i>Reversionary yield</i>	The anticipated yield, which the initial yield will rise (or fall) to once the rent reaches the ERV.
<i>Share price</i>	The value of a share at a point in time as quoted on a stock exchange. The Company's Ordinary Shares are quoted on the Main Market of the London Stock Exchange.
<i>Share Price Total Return</i>	The percentage change in the share price assuming dividends are reinvested to purchase additional Ordinary Shares.
<i>Total returns</i>	The returns to shareholders calculated on a per share basis by adding dividend paid in the period to the increase or decrease in the Share Price of NAV. The dividends are assumed to have been reinvested in the form of Ordinary Shares or Net Assets.
<i>Under-rented</i>	Space where the passing rent is below the ERV.
<i>UK Corporate Governance Code</i>	A code issued by the Financial Reporting Council which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. All companies with a Premium Listing of equity shares in the UK are required under the Listing Rules to report on how they have applied the Code in their annual report and accounts.
<i>Voids</i>	The amount of rent relating to properties which are unoccupied and generating no rental income. Stated as a percentage of ERV.
<i>Weighted Average Unexpired Lease Term ('WAULT')</i>	The average lease term remaining for first break, or expiry, across the portfolio weighted by contracted rental income (including rent-frees).
<i>Yield compression</i>	Occurs when the net equivalent yield of a property decreases, measured in basis points.

Notes

Notes



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