

F&C UK Real Estate Investments Limited

INTERIM REPORT FOR THE SIX MONTHS
ENDED 31 DECEMBER 2016



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 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 BMO Global Asset Management.

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 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.

ISA

The Company's shares are eligible for Individual Savings Accounts ('ISAs').

Website

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

Financial Highlights



Share price total return

Share price total return of 14.8 per cent for the 6 months



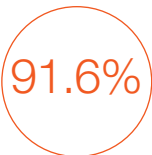
Portfolio total return

Portfolio ungeared total return of 1.5 per cent for the 6 months



Annualised dividend yield

Annualised dividend yield of 5.1 per cent based on the period end share price



Dividend cover

Continued improvement in dividend cover which was 91.6 per cent for the period (excluding the event mentioned in the Chairman’s Statement) compared to 85.4 per cent for the same period last year

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.

Performance Summary

	Six months to 31 December 2016
Total Return	
Net asset value per share*	+0.5%
Ordinary share price*	+14.8%
Portfolio ungeared return	+1.5%
Investment Property Databank UK Quarterly Index	+1.0%
FTSE All-Share Index*	+12.0%

	31 December 2016	30 June 2016	% Change
Capital Values			
Total assets less current liabilities (£000's)	336,915	345,587	-2.5%
Net asset value per share	97.2p	99.2p	-2.0%
Ordinary share price	99.0p	88.5p	+11.9%
Investment Property Databank UK Quarterly Index	117.5	119.2	-1.4%
FTSE All-Share Index	3,873.2	3,515.5	+10.2%
Ordinary share price premium/(discount) to net asset value per share	1.9%	(10.8)%	
Net gearing†	28.9%	29.1%	

	Six months to 31 December 2016	Six months to 31 December 2015
Earnings and Dividends		
Earnings per ordinary share	0.5p	4.8p
Dividends paid per ordinary share	2.5p	2.5p
Dividend yield‡	5.1%	4.9%

Notes

* Total return assumes that gross dividends are reinvested.

† (Bank debt less net current assets) ÷ investment properties.

‡ Calculated on annualised dividends of 5.0p per share. An analysis of dividend payments is contained in note 2 to the accounts.

Sources: F&C Investment Business, Investment Property Databank ('IPD'), and Datastream.

Chairman's Statement

Vikram Lall Chairman



It has been a period of great uncertainty in the aftermath of the Brexit vote but despite this background the Group has experienced six months of steady performance driven by the portfolio's income return, occupancy rate and recent leasing successes. The net asset value ('NAV') total return per share for the period was 0.5 per cent and the NAV per share at the period end was 97.2 pence.

Our share price recovered over the six months as markets rebounded from the initial shock of the referendum result. Our share price total return was 14.8 per cent over the period and our shares were trading at a slight premium to the NAV of 1.9 per cent at the period end, compared to a discount of 10.8 per cent as at 30 June 2016.

Property Market

The UK property market delivered a total return of 1.0 per cent in the six months to December 2016 according to the Investment Property Databank (IPD) Quarterly Index benchmark for all assets. Performance was affected in the first part of the period by the reaction to the Brexit vote. Whilst occupier markets remained relatively resilient, capital values fell by 2.4 per cent in the quarter to 30 September 2016 before improving to deliver 1.0 per cent growth in the three months to 31 December 2016.

This stabilisation may have been helped by the UK economic backdrop, with GDP growth being little changed during the latter part of 2016, coupled with further monetary easing, a speedy change in political leadership and some clarity emerging with respect to the Brexit process.

Investors have become more cautious since the vote. Investment activity has slowed, although a

lower sterling exchange rate has helped support investment from overseas buyers and pricing within the core markets, particularly Central London. UK Institutions were net sellers of property during the period. Banks continue to lend but are focusing on lower risk assets and margins have increased.

Despite the initial turmoil and the liquidity problems faced by some open-ended funds, the period did not see a return to the levels of distressed selling witnessed during the global financial crisis. There were some deals renegotiated, delayed or aborted, especially for large lot sizes but a majority progressed without issue. There was however an increased focus on income security with property secured on long leases particularly in favour.

Yields edged out at the all-property level during the period reflecting the increased uncertainty in the market, but the yield gap against the risk free rates remains well above the long-term average.

Despite volatility in the capital markets, the income return was largely unaffected delivering 2.4 per cent over the six month period, reflecting continued resilience in the occupier markets.

Rental growth for standing investments was 0.9 per cent over the period but has been patchy and shows significant variation subject to geography and sector.

The period was characterised by relative strength in the industrial and distribution sectors and for alternative assets with retail and office property recovering to deliver positive total returns in the latter part of the reporting period.

Property Portfolio

During the period the Company's portfolio returned 1.5 per cent, driven by a 3.0 per cent income return.

Continuing the trend of last half year period, the Company's best performing assets were predominantly within the industrial sector, and again located in the South East. The largest contributor to returns was a property at Chippenham Drive, Milton Keynes as a result of the refurbishment and subsequent re-letting which completed in December 2016. Lakeside Industrial Estate, Colnbrook and the two unit industrial estate at Southampton International Park, Eastleigh also featured as key contributors.

Led by letting success at both Milton Keynes and at our retail asset at The Parade, Leamington Spa the vacancy rate on the portfolio decreased to 3.0 per cent as at period end (against 7.1 per cent for the IPD Quarterly Universe), down from 4.2 per cent at 30 June 2016. This is despite the new void at Standard Hill, Nottingham, a property which is now vacant following the activation of a break clause by the office tenant. This property is currently subject to refurbishment, due for practical completion in the second half of 2017.

The initial yield on the portfolio is 5.4 per cent and the average weighted unexpired lease term of the portfolio is now 7.1 years. The largest ten tenants by rent, all bar one rated as negligible risk by IPD, account for 44 per cent of total income. The portfolio remains well balanced both geographically and by sector split, with a 60 per cent weighting to London and the South East.

The Company sold one property at King William House, Hull and exchanged on the sale of another

at George Street, Croydon (a sale which has now completed post period). No properties were purchased over the six months; however, following the receipt of sales proceeds and the recent equity issuance, we are now looking to the market on an opportunistic basis to secure suitable acquisitions to support the Company's objective.

Dividends

The first interim dividend for the year ending 30 June 2017 of 1.25 pence per share was paid in December 2016, with a second interim dividend of 1.25 pence per share to be paid on 31 March 2017 to shareholders on the register on 10 March 2017.

The dividend cover for the six months was 104.2 per cent, although this was influenced by the payment of a break penalty by the tenant at Standard Hill, Nottingham in lieu of activating a break clause. The dividend cover net of this event was 91.6 per cent.

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 pence per share per annum.

Borrowings

The Group currently has borrowings of £106 million made up of a £90 million 11-year non-amortising term loan facility agreement with Canada Life Investments and a £20 million 5-year revolving credit facility agreement with Barclays Bank plc, £16 million of which is currently drawn down. Net of cash, this represented 28.9 per cent of the investment properties of the Group as at 31 December 2016. The weighted average interest rate (including amortisation of refinancing

Chairman's Statement (continued)

costs) on the Group's total current borrowings is 3.2 per cent. The interest rate on the Group's total borrowings has fallen by 2.5 per cent following the refinancing in November 2015 and this has positively contributed to dividend cover. The Company continues to maintain a prudent attitude to gearing.

The Group had £12.0 million of cash available at 31 December 2016 with a further £4.0 million of the revolving credit facility also available if required.

Outlook

Attention has been focused on Brexit over the past six months and this is expected to remain a major area of uncertainty. However, economic and political developments in the US and approaching elections in several European countries may also affect sentiment. The UK's large, mature and relatively transparent property market could be viewed favourably by global investors if risk perception increases elsewhere.

At the property level, the imposition of the new business rates regime will affect occupancy costs. While not a direct cost to landlords on occupied property, the situation will be closely monitored to ensure that the portfolio is appropriately positioned to manage any potential impact. With economic growth projected to remain positive, but subdued, we would expect to see a renewed focus on property market fundamentals with income as the main driver of performance. The Manager believes that while the market remains challenging, commercial property's income return will help to deliver acceptable relative performance with prime, securely let property leading the way.

Vikram Lall

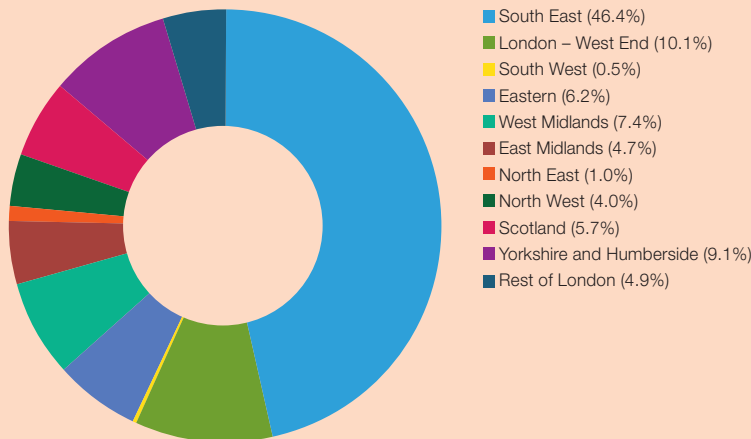
Chairman

28 February 2017

Portfolio Statistics

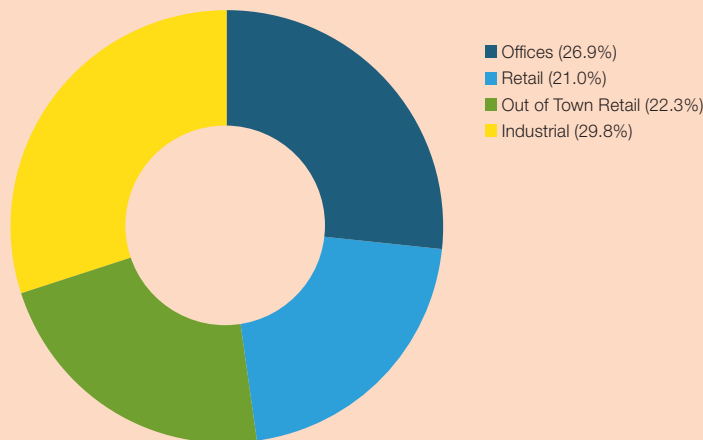
Geographical Analysis

as at 31 December 2016, % of total property portfolio



Sector Analysis

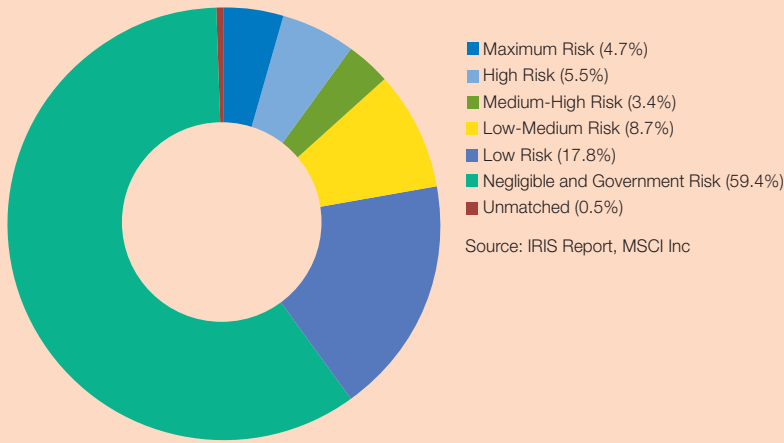
as at 31 December 2016, % of total property portfolio



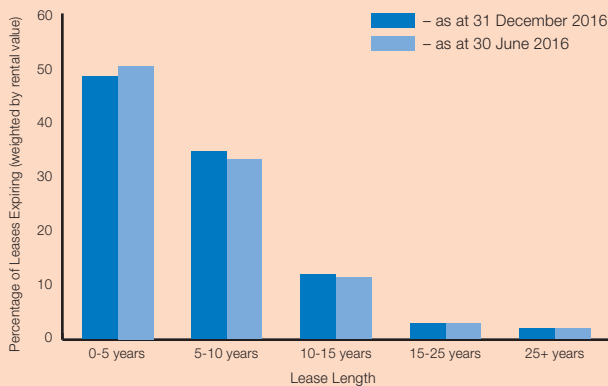
Portfolio Statistics (continued)

Covenant Strength

as at 31 December 2016, % of income by risk band



Lease Expiry Profile



As at 31 December 2016 the average lease length for the portfolio, assuming all break options are exercised, was 7.1 years (as at 30 June 2016: 7.2 years).

Property Portfolio

as at 31 December 2016

	Sector
Properties valued in excess of £10.0 million	
London W1, 14 Berkeley Street	Offices
Banbury, 3663 Unit, 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
Rotherham, Northfields Retail Park	Retail Warehouse
Leamington Spa, 30-40 The Parade & 47/59a Warwick Street	Retail
Properties valued between £7.5 million and £10.0 million	
Bracknell, 1-2 Network, Eastern Road	Industrial
Edinburgh, 1-2 Lochside Way, Edinburgh Park	Offices
Andover, Keens House, Anton Mill Road	Offices
Chelmsford, County House, County Square	Offices
New Malden, 7 Beverley Way	Retail Warehouse
Bromsgrove, Brook Retail Park, Sherwood Road	Retail Warehouse
Luton, Enterprise Way	Retail Warehouse
Eastleigh, Wide Lane	Industrial
High Wycombe, Glory Park	Offices
Bury, Halls Mill Retail Park, Foundry Street	Retail Warehouse
Winchester, 7-8 High St. & 50 Colebrook Street	Retail
London, 24 Haymarket & 1-2 Pantom Street*	Retail
Properties valued between £5.0 million and £7.5 million	
Milton Keynes, Site E Chippenham Drive	Industrial
Northallerton, Willowbeck Road	Retail Warehouse
Theale, Maxi Centre, Brunel Road	Industrial
Bellshill, Mercury House, Strathclyde Business Park	Offices
St Albans, 16, 18 & 20 Upper Marlborough Road	Offices
Guildford, 51-53 High Street	Retail
Nelson, Churchill Way	Retail Warehouse
Properties valued under £5.0 million	
Nottingham, Standard Hill	Offices
Brookwood, The Clock Tower	Offices
Sunningdale, 53/79 Chobham Road, Berkshire	Retail
Croydon, 17, 19 & 21 George Street	Retail
Nottingham, 21/22 Long Row East and 2/6 King Street	Retail
Kingston upon Thames, 11 Church Street	Retail
Newbury, The Triangle, Pinchington Lane	Retail Warehouse
Rayleigh, 41/55 High Street	Retail
Nottingham, 25-27 Bridlesmith Gate	Retail
Nottingham, Park View House, The Ropewalk	Offices
Redhill, 15 London Road	Offices
Edinburgh, 100A Princes Street	Retail
Sutton Coldfield, 63-67 The Parade	Retail
Birmingham, 155a/163, High Street, Kings Heath	Retail
Rayleigh, 81/87 High Street	Retail
Gateshead, Sands Road	Retail Warehouse
Swindon, 18/19 Regent Street	Retail
Middlesbrough, 47/49 Linthorpe Road	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 and operational 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 2016. 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 Half-yearly Financial 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';
- 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 Lall
Chairman

28 February 2017

Condensed Consolidated Statement of Comprehensive Income

Notes

For the period ended				
	Six months to 31 December 2016 (unaudited) £'000	Six months to 31 December 2015 (unaudited) £'000	Year to 30 June 2016 (audited) £'000	
Revenue				
Rental income	10,322	9,967	19,562	
Total revenue	10,322	9,967	19,562	
(Losses)/gains on investment properties				
4 (Losses)/gains on sale of investment properties realised	(207)	40	(144)	
4 Unrealised (losses)/gains on revaluation of investment properties	(4,827)	6,301	4,951	
	5,288	16,308	24,369	
Expenditure				
Investment management fee	(1,046)	(1,043)	(2,084)	
Direct operating expenses of let rental property	(429)	(484)	(752)	
Direct operating expenses of vacant property	(153)	(95)	(269)	
Provision for bad debts	(60)	19	12	
Administrative fee	(52)	(52)	(102)	
Valuation and other professional fees	(92)	(110)	(227)	
Directors' fees	(72)	(70)	(142)	
Other expenses	(222)	(204)	(403)	
Total expenditure	(2,126)	(2,039)	(3,967)	
Net operating profit before finance costs	3,162	14,269	20,402	
Net finance costs				
Interest receivable	2	5	9	
Finance costs	(1,824)	(2,756)	(4,455)	
Gain on redemption of interest rate swap	–	–	1,485	
	(1,822)	(2,751)	(2,961)	
Net profit from ordinary activities before taxation	1,340	11,518	17,441	
Taxation on profit on ordinary activities	(155)	(138)	(264)	
Net profit for the period	1,185	11,380	17,177	
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss				
Net change in fair value of swap reclassified to profit or loss	–	–	(1,485)	
Movement in fair value of effective interest rate swap	–	1,435	1,293	
Total comprehensive income for the period, net of tax	1,185	12,815	16,985	
3 Basic and diluted earnings per share	0.5p	4.8p	7.2p	

All items in the above statement derive from continuing operations.

All of the profit for the period is attributable to the owner.

Condensed Consolidated Balance Sheet

Notes	As at			
	31 December 2016 (unaudited) £'000	31 December 2015 (unaudited) £'000	30 June 2016 (audited) £'000	
	Non-current assets			
4	Investment properties	326,445	336,334	333,798
	Current assets			
	Trade and other receivables	6,375	7,134	7,014
	Cash and cash equivalents	12,000	10,828	11,931
		18,375	17,962	18,945
	Total assets	344,820	354,296	352,743
	Non-current liabilities			
5	Interest-bearing bank loans	(104,956)	(108,512)	(108,845)
		(104,956)	(108,512)	(108,845)
	Current liabilities			
	Trade and other payables	(7,466)	(7,093)	(6,872)
	Income tax payable	(439)	(150)	(284)
		(7,905)	(7,243)	(7,156)
	Total liabilities	(112,861)	(115,755)	(116,001)
	Net assets	231,959	238,541	236,742
	Represented by:			
7	Share capital	2,387	2,387	2,387
	Special distributable reserve	175,367	174,508	175,367
	Capital reserve	53,451	60,019	58,485
	Other reserve	—	1,627	—
	Revenue reserve	754	—	503
	Equity shareholders' funds	231,959	238,541	236,742
8	Net asset value per share	97.2p	99.9p	99.2p

Condensed Consolidated Statement of Changes in Equity

For the period ended			
Notes	Six months to 31 December 2016 (unaudited) £'000	Six months to 31 December 2015 (unaudited) £'000	Year to 30 June 2016 (audited) £'000
Opening net assets	236,742	226,829	226,829
Net profit for the period	1,185	11,380	17,177
2 Dividends paid	(5,968)	(5,899)	(11,867)
Movement in other reserve	–	1,435	(192)
Issue of ordinary shares	–	4,796	4,795
Closing net assets	231,959	238,541	236,742

Condensed Consolidated Statement of Cash Flows

For the period ended				
Notes	Six months to 31 December 2016 (unaudited) £'000	Six months to 31 December 2015 (unaudited) £'000	Year to 30 June 2016 (audited) £'000	
Cash flows from operating activities				
	Net profit for the period before taxation	1,340	11,518	17,441
	Adjustments for:			
4	Losses/(gains) on sale of investment properties realised	207	(40)	144
4	Unrealised losses/(gains) on revaluation of investment properties	4,827	(6,301)	(4,951)
	Decrease/(increase) in operating trade and other receivables	639	(273)	(153)
	Increase/(decrease) in operating trade and other payables	594	140	(40)
	Interest received	(2)	(5)	(9)
	Finance costs	1,824	2,756	4,455
	Gain on redemption of interest rate swap	–	–	(1,485)
		9,429	7,795	15,402
	Taxation paid	–	(65)	(58)
	Net cash inflow from operating activities	9,429	7,730	15,344
Cash flows from investing activities				
4	Capital expenditure	(228)	(169)	(636)
4	Sale of investment properties	2,547	2,050	3,519
	Interest received	2	5	9
	Net cash inflow from investing activities	2,321	1,886	2,892
Cash flows from financing activities				
	Shares issued (net of costs)	–	4,795	4,795
2	Dividends paid	(5,968)	(5,899)	(11,867)
	Bank loan interest paid	(1,713)	(559)	(2,057)
	Payments under interest rate swap arrangement	–	(7,855)	(2,561)
	Redemption of interest rate swap arrangement	–	–	(5,294)
	Bank loan repaid – Lloyds loan	–	(102,000)	(102,000)
	Bank loan drawn down, net of costs – Canada Life	–	88,538	88,503
	Bank loan (repaid)/drawn down, net of costs – Barclays	(4,000)	19,536	19,520
	Net cash outflow from financing activities	(11,681)	(3,444)	(10,961)
	Net increase in cash and cash equivalents	69	6,172	7,275
	Opening cash and cash equivalents	11,931	4,656	4,656
	Closing cash and cash equivalents	12,000	10,828	11,931

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 2016. The condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements for the Group for the year ended 30 June 2016 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 2016.

2. Dividends and property income distributions gross of income tax

	Six months to 31 December 2016		Six months to 31 December 2015		Year ended 30 June 2016	
	£'000	Rate (pence)	£'000	Rate (pence)	£'000	Rate (pence)
Non Property Income Distributions:						
Fourth interim for the prior year	–	–	1,310	0.56	1,310	0.56
Property Income Distributions:						
Fourth interim for the prior year	2,984	1.25	1,613	0.69	1,613	0.69
First interim	2,984	1.25	2,976	1.25	2,976	1.25
Second interim					2,984	1.25
Third interim					2,984	1.25
	5,968	2.50	5,899	2.50	11,867	5.00

A second interim dividend for the year to 30 June 2017, of 1.25 pence per share, will be paid on 31 March 2017 to shareholders on the register at close of business on 10 March 2017.

3. Earnings per share

Earnings per Ordinary Share are based on 238,705,539 Ordinary Shares, being the weighted average number of shares in issue during the period (31 December 2015: 235,846,572 and 30 June 2016: 237,264,306). Earnings for the six months to 31 December 2016 should not be taken as a guide to the results for the year to 30 June 2017.

4. Investment properties

	Six months to 31 December 2016 £'000	Six months to 31 December 2015 £'000	Year ended 30 June 2016 £'000
Freehold and leasehold properties			
Opening market value	339,150	337,490	337,490
Capital expenditure and purchase of investment properties	228	169	636
Sales – net proceeds	(2,547)	(2,050)	(3,519)
– losses on sales	(3,387)	(413)	(868)
Unrealised losses realised during the period	3,180	453	724
Unrealised gains on investment properties	5,263	9,346	10,184
Unrealised losses on investment properties	(10,090)	(3,045)	(5,233)
Movement in lease incentive receivable	(347)	125	(264)
Closing market value	331,450	342,075	339,150
Adjustment for lease incentives	(5,005)	(5,741)	(5,352)
Balance sheet carrying value	326,445	336,334	333,798

Notes to the Condensed Financial Statements (continued)

4. Investment properties (continued)

All the Group's investment properties were valued as at 31 December 2016 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 2016. The market value of these investment properties amounted to £331,450,000 (31 December 2015: £342,075,000; 30 June 2016: £339,150,000), however an adjustment has been made for lease incentives of £5,005,000 that are already accounted for as an asset.

5. 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 £4 million of the revolving credit facility to Barclays.

At 31 December 2016 borrowings of £106 million were drawn down. The balance sheet value is stated at an amortised cost of £104,956,000 (31 December 2015: £108,512,000 and 30 June 2016: £108,845,000). 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 6.

6. 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. The fair value of the £90 million eleven year term loan is included in Level 2.
- Level 3 – External inputs are unobservable. 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 2016.

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

	31 December 2016 £'000	31 December 2015 £'000	30 June 2016 £'000
£90 million Canada Life Loan 2026*	(97,872)	(91,148)	(100,162)

*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 2016.

7. Share capital

£'000

Allotted, called-up and fully paid

238,705,539 Ordinary Shares of 1 pence each in issue at 31 December 2016

2,387

The Company issued nil Ordinary Shares during the period.

8. Net asset value per share

The net asset value per Ordinary Share is based on net assets of £231,959,000 (31 December 2015: £238,541,000 and 30 June 2016: £236,742,000) and 238,705,539 Ordinary Shares (31 December 2015: 238,705,539 and 30 June 2016: 238,705,539), being the number of shares in issue at the period end.

9. 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 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.

10. Related party transactions

No Director has an interest in any transactions which are or were unusual in their nature or significant to the Group. F&C Investment Business Limited received fees for its services as Investment Managers. The total charge to the Income Statement during the period was £1,046,000.

11. 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 on 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.

12. 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 an investment and property company. These companies are 100 per cent owned by the Group's ultimate parent company, which is F&C UK Real Estate Investments Limited.

13. 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 2017	
April 2017	Q3 Net Asset Value announcement
July 2017	Q4 Net Asset Value announcement
September 2017	Announcement of annual results
November 2017	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**.

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
80 George Street
Edinburgh EH2 3BU

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 Glatigny 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

Depository

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 2016

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