

# Schroder European Real Estate Investment Trust plc

## Half Year Report and Consolidated Financial Statements

**For the period ended**  
31 March 2016



**Schroders**



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# COMPANY SUMMARY

Schroder European Real Estate Investment Trust plc aims to provide shareholders with a regular and attractive level of income together with the potential for income and capital growth through investing in commercial real estate in Continental Europe.

**Schroder European Real Estate Investment Trust plc (the “Company”) is a UK closed-ended real estate investment company incorporated on 9 January 2015. The Company undertook an initial placing and offer for subscription of up to 150 million shares and began trading on the London Stock Exchange on 9 December 2015. The Company has a premium listing on the Official List of the UK Listing Authority and**

**its shares are traded on the Main Market of the London Stock Exchange (ticker: SERE). It also has a secondary listing on the Main Board of the Johannesburg Stock Exchange (ticker: SCD). The Company had 121,234,686 shares in issue as at 31 March 2016. The Company’s investment manager is Schroder Real Estate Investment Management Limited (the “Investment Manager”).**

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## Investment policy

The Company’s strategy is to hold a diversified portfolio of commercial real estate in Continental Europe with good property fundamentals. The Company may invest directly in real estate assets (both listed and unlisted) or through investment in special purpose vehicles, partnerships, trusts or other structures.

## Diversification

The Company intends to invest in a portfolio of institutional grade income-producing properties with low vacancy and creditworthy tenants. The portfolio will be diversified by location, use, size, lease, duration and tenant concentration.

Once the proceeds of the initial placing and offer have been fully invested and the Company has implemented its borrowing policy, the value of any individual property at the date of its acquisition will not exceed 20 per cent of the Company’s gross assets.

## Asset class and geographic restrictions

Initially, the Company’s investment focus will predominantly be on the core cities in France and Germany where the Investment Manager believes there are positive growth prospects and real estate markets which are considered to be well established, mature and liquid. However, the Company will have the ability to invest in any country in Continental Europe.

The Company will invest principally in the office, retail, logistics and light industrial property sectors. It may also invest in other sectors including, but not limited to, leisure, residential, healthcare, hotels and student accommodation.

# HIGHLIGHTS AND FINANCIAL SUMMARY

Total capital raised at the initial public offer and subsequent placings of

**€166.5m**

(£121.7m at an average exchange rate of €1.3681 to £1)

NAV at 31 March 2016 of

**€159.4m**

(£126.3m at an exchange rate of €1.2619 to £1 as at 31 March 2016)

Four property investments completed since launch across office and retail sectors and located in the growth cities of Paris, Berlin, Hamburg and Stuttgart. Total purchase price of

**€90.6m**

Contracts exchanged post 31 March 2016 for a retail investment in Frankfurt for €11.1 million.

Five-asset portfolio deploys approximately €109m (including acquisition costs), representing

**70%**

of the Company's equity available for investment and around 50% of its total investment capacity (including debt).

Average ungeared portfolio net initial yield against gross purchase price of

**5.9%**

**100%**  
occupancy.

Average unexpired lease term of

**7.5 years**

to first break.

# CHAIRMAN'S STATEMENT

## Overview

Schroder European Real Estate Investment Trust plc (the "Company" and, together with its subsidiaries, the "Group") completed its Initial Public Offering on 9 December 2015, raising £107.5 million through a primary listing on the London Stock Exchange and a secondary listing on the Johannesburg Stock Exchange. Further equity placements on 14 December 2015 and 12 February 2016 raised an additional £14.3 million, resulting in total equity raised to date of £121.7 million.

Since launch, the Company has committed to acquire five investments in Germany and France, our two initial core markets. These investments total €109 million equivalent to approximately

70% of the Company's equity available for investment and around 50% of its total investment capacity (including debt financing). The priority for the Company is to continue to build a portfolio that fits its investment strategy. To achieve this in a competitive market requires even greater focus on maintaining a disciplined investment approach.

Once fully invested, the Company's objective is to target a dividend yield of 5.5% based on the euro equivalent of the issue price at launch. The Company's strategy is to use debt financing with an overall cap of 35% loan-to-value ("LTV"). Given the historically low level of borrowing costs, the disciplined use of leverage is expected to be accretive to income returns.

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## Results

The Company's net asset value ("NAV") at 31 March 2016 was €159.4 million or

131.5 cents per share (£126.3 million or 104.2 pence per share).

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## Deployment of proceeds

Total capital deployed across the five asset portfolio is approximately €109 million (including transaction costs). Four retail and office assets have completed for a total purchase price of €90.6 million. They are located in the major cities of Paris, Berlin, Hamburg and Stuttgart. Post

period end, contracts have been exchanged on one further retail property in Frankfurt for a purchase price of €11.1 million. The net initial income yield on the portfolio of five assets is 5.9%.

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## Debt strategy

The initial investments have been acquired using equity, with debt financing expected to be drawn as the investment pipeline progresses and the portfolio composition becomes clearer. The Company's strategy is to use modest leverage to improve shareholder returns, whilst maintaining a robust balance sheet. The spread between borrowing costs and property net initial yields in Continental Europe enhances the distribution yield achievable from an asset, with total interest rates

of sub 2% p.a. for financing at sub 50% LTV in many markets. The use of debt will be assessed on a deal-by-deal basis and will be secured by individual assets or groups of assets, with overall leverage capped at 35% LTV across the entire portfolio at the time of drawing. The Company is currently engaged in discussions to finance the initial assets in Germany at an LTV of up to 50%, to take advantage of the particularly competitive financing market there.

## Chairman's Statement continued

### Dividend policy

Once fully invested, the Company will target an annualised euro dividend yield of 5.5% based on the euro equivalent of the issue price as at admission. In the absence of unforeseen circumstances, the Board continues to target a euro dividend yield during the first operating year

of the Company to 30 September 2016 in the region of 1.5% - 2% based on the euro equivalent of the issue price as at admission. The Company intends to declare its first dividend in July 2016 in respect of the period to 30 June 2016 which it expects to be paid in August 2016.

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### Currency hedging

The Board has concluded that, based on the current cost of currency hedging, the Company will not hedge dividend payments in currencies

other than euro. The Board will continue to keep this under review.

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### Outlook

Investment markets remain competitive and the challenge for the Investment Manager in the coming months will be to continue to secure properties which fulfil the strategic objectives of the Company. Favoured locations include those winning cities across Continental Europe with a diverse economic base, growing populations, improving infrastructure and liquid occupational/investment markets.

The quality of the Company's real estate portfolio will be one of the main factors contributing to long term performance. Whilst the Board and the Investment Manager are focused on the timely deployment of the Company's remaining investment capacity over the coming months, the priority will be to maintain a disciplined investment approach to ensure a portfolio is constructed that enables the investment objectives of the Company to be met over the long term.

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### Going concern

The Directors have examined significant areas of possible financial risk and have reviewed cash flow forecasts. They have not identified any material uncertainties which would cast significant doubt on the Group's ability to continue as a going concern for a period of not less than twelve months from the date of the approval of the financial statements. The

Directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future.

After due consideration, the Directors consider it is appropriate to adopt the going concern basis in preparing the financial statements.

## Chairman's Statement continued

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### Related parties

On 11 November 2015, the Company appointed Schroder Real Estate Investment Management Limited as its Investment Manager. Details of the terms of the appointment, may be found in the prospectus issued by the Company on 11 November 2015 and in note 3 on page 20 of

this Half Year Report and Consolidated Financial Statements. There have been no other related party transactions in the period which have materially affected the financial position of the Company.

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### Directors' responsibility statement

The Directors confirm that to the best of their knowledge:

- the condensed consolidated set of half year financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting*; and
- the interim management report (comprising the Chairman's Statement and the Investment Manager's Report) includes a fair review of the information required by:

(a) DTR 4.2.7R of the *Disclosure 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(1)(a) of the *Disclosure 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.

**Sir Julian Berney Bt.**

Chairman

31 May 2016



# INVESTMENT MANAGER'S REPORT

<b>Net Asset Value ("NAV") Movement</b>	<b>€ million</b>
Capital raised	166.5
Issue costs – actual	(3.4)
Issue costs – FX movements on Rand/EUR exchange	(1.6)
Unrealised loss on investment property during the period*	(0.7)
Post tax net revenue loss*	(0.9)
Realised FX loss on GBP/EUR conversion of IPO proceeds*	(0.3)
Unrealised FX loss on monetary items (cash/debtors/creditors)	(0.2)
<b>NAV as at 31 March 2016</b>	<b>159.4</b>

\*Total operating loss of €1.9m

## Market overview

The Eurozone economy has achieved steady growth of 0.3-0.4% per quarter. Whilst the recent economic slowdown has held back exports and in some cases business investment, consumer spending and housebuilding have been boosted by low interest rates, falling energy prices and rising employment. In addition, the fall in bond yields and interest costs due to the European Central Bank's quantitative easing programme, has given many governments the leeway to cut taxes and increase spending. Oxford Economics are currently forecasting GDP to grow by 1.6% in 2016 and 1.8% in 2017.

### Retail

Consumer demand remains an important part of economic growth and consumer spending for the Eurozone grew by 1.7% in 2015. Despite the upturn in consumer spending, online/e-commerce spending continues to grow at very high pace. While there is good demand for retail space in big city centres and large, dominant shopping centres, vacancy in many town centres and secondary shopping centres is rising. Around 10% of shops in Belgium, Italy, the Netherlands and Spain are empty and the vacancy rate in France has risen to 7%, from 5% in 2010 (Source: Codata). Investments in assets like large shopping centres, flagship stores in big cities, mid-sized supermarkets and retail warehouses

are less impacted by online spending and therefore may perform better.

### Office

The last 18 months have seen a sharp fall in office vacancy and in several cities is now at its lowest level for more than a decade. Although this improvement is primarily due to stronger occupier demand, the other key ingredient has been the sustained low level of new building since 2009, as banks have reined in development finance. There is now a shortage of modern office space in certain cities. New offices typically take two to three years to develop and this increases the appeal of refurbishment projects which can typically be completed in 6-12 months.

### Industrial

Industrial and logistics take-up remains strong, reflecting growing demand from retailers and logistics operators related to e-commerce with demand strongest in and around larger cities to satisfy last mile delivery. As a result, vacancy has declined further. The supply pipeline is however increasing, though much of new supply is pre-let. The only markets which are seeing above average levels of speculative construction are Spain and the Netherlands. Logistics operators remain focused on modern units that allow the introduction of new technology and optimise supply chains.

## Investment Manager's Report continued

### Capital markets

Investment activity accelerated in the second half of 2015 in most European countries. As a result of this strong liquidity, prime yields compressed further in the final quarter of last year and now, in the majority of cities, yields are at or below their previous low in 2007-2008. However, unlike in the previous cycle, real estate yields are still 3-4% above 10 year government bond yields and while this gap is expected to narrow over the next 12 months, it is likely to remain well above its long term average of 2%. The current investment market is also less dependent on debt. CBRE estimates the average transaction in Continental Europe in 2007 had an LTV ratio of 73%. The corresponding figure for 2015 was approximately 47%.

It is possible that strong investor demand triggers a sharper fall in yields and higher total returns in the near term. The main risk is an external shock forces the ECB to abandon QE and raise interest rates, which in turn would reduce economic growth and depress occupier and investor demand for real estate.

### Total returns

The Investment Manager believes that total returns on average investment grade European real estate are forecast to be 7-9% per year

(ungeared, pre tax and costs) between 2015 and end 2019. The majority of performance is expected to derive from income return, but capital values should also be supported by rental growth, particularly in supply controlled locations.

### Property portfolio

As at 31 March 2016, the Group owned or had committed to acquire a total of four assets with a combined purchase price of €90.6 million. One further asset was exchanged post period end with a purchase price of €11.1 million. The total purchase price of all five assets is €101.7 million (€109 million including acquisition costs).

Two assets located in Paris and Berlin have completed with a total purchase price of €61.8 million and two office investments located in Stuttgart and Hamburg have been committed to with a combined purchase price of €28.9 million, which have since completed.

At the end of April, the Group also committed to acquire a convenience retail property located in Frankfurt for a purchase price of €11.1 million.

At acquisition the net income yield of the five asset portfolio is 5.9%, there is 100% occupancy and the average unexpired lease term is 7.5 years.

The table below gives an overview of the property portfolio which the Group had committed to acquire as at 31 March 2016. This excludes the Frankfurt asset as the transaction had not exchanged by the half year end.

Property	Country	Sector	Contracted rents		Value/Purchase Price			
			€m	% total	€0-€20m	€20m-€40m	€40m-€60m	>€60m
Paris	France	Office	2.3	40.0			X	
Berlin	Germany	Retail	1.6	27.5		X		
Hamburg	Germany	Office	1.1	18.8	X			
Stuttgart	Germany	Office	0.8	13.7	X			
<b>Total</b>			<b>5.8</b>	<b>100.0</b>			<b>€94.6m</b>	

## Investment Manager's Report continued

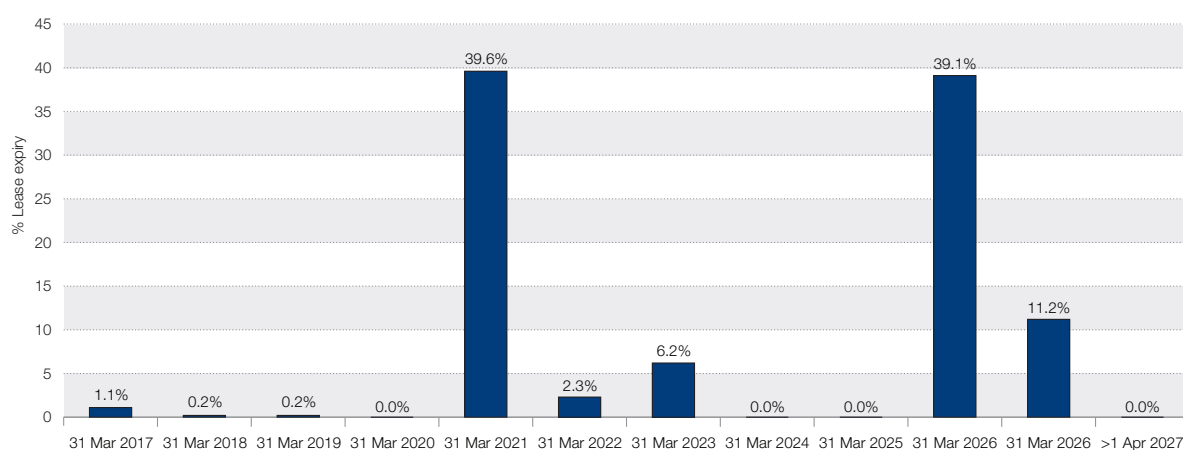
The portfolio's country and sector allocations are specified below.

Country allocation	Allocation (% contracted rent)	Sector allocation	Allocation (% contracted rent)
France	40.0%	Office	72.5%
Germany	60.0%	Retail	27.5%
<b>Total</b>	<b>100%</b>	<b>Total</b>	<b>100%</b>

All four assets are fully let, generating €5.8 million annual rental income. The average unexpired lease term is 7.5 years both to first break and to expiry. The portfolio's lease expiry profile is detailed below.

### Portfolio

Lease Expiry Profile – unexpired lease term of 7.5 Yrs from 1 April 2016



The table below sets out the portfolio's top ten tenants.

Tenant	Property	Tenant risk <sup>(1)</sup>	Contracted rent (€'000 p.a.)	Contracted rent (% total)	Unexp. lease term (years) <sup>(2)</sup>
1 ALTEN	Paris	Low	2,300	39.4%	5.0
2 Hornbach	Berlin	Low	1,607	27.5%	9.8
3 City BKK	Hamburg	High	796	13.6%	8.9
4 Land Baden-Württemberg	Stuttgart	Low	653	11.2%	10.3
5 PTS Petereit Services	Hamburg	Low-Medium	217	3.7%	6.8
6 PräventSozial	Stuttgart	Low	145	2.5%	6.9
7 Deutsche Post Immobilien	Hamburg	n/a	30	0.5%	0.9
8 Bouygues Telecom	Paris	n/a	15	0.3%	6.1
9 Alexander Ulmann	Hamburg	n/a	15	0.3%	4.2
10 Orange	Paris	n/a	14	0.2%	1.0
			<b>5,795</b>	<b>99.3%</b>	<b>7.5</b>

(1) Regular tenant risk assessments are being undertaken for tenants above €100,000 contracted rents. Among other considerations, the Investment Manager's risk assessments are based on Dun & Bradstreet ratings and Dun & Bradstreet failure scores.

(2) Unexpired least term until earliest termination in years.

## Investment Manager's Report continued

### Acquisitions

#### **221 bis boulevard Jean Jaurès, Boulogne-Billancourt (Paris) 92100, France**

The Group's first acquisition was the Boulogne-Billancourt (Paris) office investment which completed on 31 March 2016. This property was acquired for €37.5 million reflecting a net initial yield of approximately 5.7%. The investment is located in Boulogne Billancourt, an established sub-market south-west of Paris, within close proximity to the Paris ring road and public transport. The location is an area where there are competing demands for different uses, where people want to live and work and where there are supply constraints. The investment is fully let at sustainable rents that represent a discount to market level and the weighted average unexpired lease term is five years. There is also flexibility in the asset business plan dependent on future lease negotiations with the tenant.

#### **Großbeerenstraße 133, 12107 Berlin, Germany**

The Group's second acquisition was a core retail warehouse investment located in Berlin, which completed on 31 March 2016. The purchase price of €24.3 million reflected a net initial yield of 6.2%. The investment is let on a 'triple net' basis to DIY specialist Hornbach, with a remaining unexpired lease term of approximately 10 years. The asset is located on a prominent site of over four hectares within Mariendorf, an established and growing southern suburb of Berlin. Surrounding developments include low to medium density residential and commercial accommodation; one of Berlin's leading business and industrial parks is within close proximity, enhancing the demand for DIY related building products. Assets of this nature located in capital cities are rarely traded.

The long term nature of the lease provides core income. Subject to tenant discussions, there is further asset management potential to explore

alternate income potential given the large land plot of four hectares.

#### **121 Neckarstraße, 70190, Stuttgart, Germany and 94 Hammerbrookstraße, 20097, Hamburg, Germany**

As at 31 March 2016, the Company had committed to acquire two further assets in Germany as a portfolio transaction for a total combined consideration of €28.9 million, reflecting a blended net initial yield of 6.0%. The combined weighted average unexpired lease term is approximately 8.5 years.

The first asset is a core office building centrally located in Stuttgart, one of Germany's top seven office markets. The investment is located in an improving area dominated by Government related entities including various courts of justice and ministries. The largest tenant is the Federal State of Baden-Württemberg which has 4,784 square metres (sqm) on a lease expiring in July 2026. The sub-market has little vacancy and is expected to benefit from favourable rental growth, particularly with completion of "Stuttgart 21", a large infrastructure and relatively urban development project nearby which is due in 2021. The investment is considered to be a defensive, long term income play, being let off sustainable rents that are at a significant discount to those achieved in the neighbouring CBD (Central Business District).

The second asset, located in Hamburg, is core plus in risk profile. The property is a relatively modern, fully leased office asset, located in an improving Hamburg sub-market with a diverse occupier base. The location attracts both private and public sector tenants and has developed into a prominent back office location as a result of its competitive rents relative to the neighbouring CBD and public transport connections. The metro station is directly in front of the property and Hamburg central station is one stop away. The investment is located in a growth city and has a sustainable income profile.

## Investment Manager's Report continued

### **41 Lorscher Straße, 60489, Frankfurt – Rodelheim, Germany**

Since the period end, the Company exchanged contracts to acquire a convenience retail property located in Frankfurt for €11.1 million, reflecting a net initial yield of 5.6%. The asset is a multi-let convenience retail centre located in a growing inner urban region of Frankfurt am Main. The asset was built in 2004 and modernised in 2015 and comprises 4,525 sqm of lettable area. The investment is anchored by a 1,600 sqm Lidl supermarket with an initial lease term exceeding 10 years. The combined weighted average unexpired lease term of all leases is approximately eight years.

The acquisition is in line with the Company's strategy of investing in income producing assets in major cities with the potential for long term growth. We anticipate completion in June 2016.

The business plan over the longer term is to change the retail mix and improve footfall.

### **Strategy**

The Company targets institutional quality commercial real estate in major continental European cities and growth regions. The objective is to provide a regular and attractive level of income together with the potential for long-term income and capital growth.

The investment themes continue to focus on winning centres with a competitive advantage in terms of:

- Higher levels of GDP, employment and population growth
- Well developed infrastructure
- Being locations where people want to live as well as work

The Company will target office, retail, logistics, leisure investments and assets capable of multiple uses. The risk profile of the investments

will primarily be focused on core/core plus real estate (c. 70%) with the remaining 30% targeted to value add opportunities e.g. refurbishments, changes of use etc. The initial portfolio is consistent with strategy and provides asset management potential.

### **Outlook**

Total returns from investment grade European real estate are forecast to be 7% to 9% per year between 2015 and 2019. In the period since the Company's launch we have been focused on acquiring the initial portfolio and there are a number of additional opportunities currently in negotiations. Although investor demand for European real estate remains competitive in the current low interest rate environment, we are confident that new investment opportunities will be identified to create a portfolio which should deliver long term performance.

### **Schroder Real Estate Investment Management Limited**

31 May 2016

# PRINCIPAL RISKS AND UNCERTAINTIES

The Board is responsible for the Company's system of risk management and internal control and for reviewing its effectiveness. The Board has adopted a detailed matrix of principal risks affecting the Company's business as a real estate investment trust and has established associated policies and processes designed to manage and, where possible, mitigate those risks, which are monitored by the Audit and Valuation Committee on an ongoing basis. This system assists the Board in determining the nature and extent of the risks it is willing to take in achieving its strategic objectives. Both the principal risks and the monitoring system are also subject to robust review at least annually.

Although the Board believes that it has a robust framework of internal control in place this can provide only reasonable, and not absolute, assurance against material financial misstatement or loss and is designed to manage, not eliminate, risk.

A summary of the principal risks and uncertainties faced by the Company and actions taken by the Board and, where appropriate, its Committees, to manage and mitigate these risks and uncertainties, is set out below.

<b>Risk</b>	<b>Mitigation and management</b>
<p><b>Strategic risk</b></p> <p>The Company's investment objectives may become out of line with the requirements of investors.</p>	<p>Appropriateness of the Company's investment remit will be periodically reviewed and success of the Company in meeting its stated objectives will be monitored.</p> <p>Marketing and distribution activity is actively reviewed.</p>
<p><b>Investment management risk</b></p> <p>The Investment Manager's investment strategy, if inappropriate, may result in the Company underperforming the market and/or peer group companies, leading to the Company and its objectives becoming unattractive to investors.</p>	<p>Review of the Investment Manager's compliance with the agreed investment restrictions, investment performance and risk against investment objectives and strategy; relative performance; the portfolio's risk profile; and appropriate strategies employed to mitigate any negative impact of substantial changes in markets, including any potential disruption to capital markets.</p> <p>Annual review of the ongoing suitability of the Investment Manager.</p>

## Principal Risks and Uncertainties continued

Risk	Mitigation and management
<p><b>Custody risk</b></p> <p>Safe custody of the Company's assets may be compromised through control failures, including cyber hacking.</p>	<p>Depository verifies ownership and legal entitlement, and reports on safe custody of the Company's assets, including cash.</p> <p>Quarterly report from the Depository on its activities.</p>
<p><b>Gearing and leverage risk</b></p> <p>The Company intends to utilise credit facilities. These arrangements increase the funds available for investment through borrowing. While this has the potential to enhance investment returns in rising markets, in falling markets the impact could be detrimental to performance.</p>	<p>Gearing will be monitored and strict restrictions on borrowings imposed.</p>
<p><b>Accounting, legal and regulatory risk</b></p> <p>In order to continue to qualify as an investment trust, the Company must comply with the requirements of Section 1158 of the Corporation Tax Act 2010.</p> <p>Breaches of the UK Listing Rules, the Companies Act or other regulations with which the Company is required to comply, could lead to a number of detrimental outcomes.</p>	<p>Confirmation of compliance with relevant laws and regulations by key service providers.</p> <p>Shareholder documents and announcements, including the Company's published Annual Report, are subject to stringent review processes. Procedures have been established to safeguard against disclosure of inside information.</p>
<p><b>Service provider risk</b></p> <p>The Company has no employees and has delegated certain functions to a number of service providers, principally the Investment Manager, Depository and Registrar. Failure of controls and poor performance of any service provider could lead to disruption, reputational damage or loss.</p>	<p>Service providers appointed subject to due diligence processes and with clearly-documented contractual arrangements detailing service expectations.</p> <p>Regular reporting by key service providers and monitoring of the quality of services provided.</p> <p>Review of annual audited internal controls reports from key service providers, including confirmation of business continuity arrangements.</p>

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months to 31/03/2016 €000 (unaudited)	09/01/15 to 30/09/2015 €000 (unaudited)
Net loss from fair value adjustment on investment property	6	(650)	–
Realised loss on foreign exchange	10	(314)	–
<b>Expenses</b>			
Investment management fee	3	(540)	–
Valuer's and other professional fees		(125)	–
Administrator's fee		(88)	–
Auditor's remuneration		(62)	–
Directors' fees		(67)	–
Other expenses	4	(27)	–
<b>Total expenses</b>		<b>(909)</b>	<b>–</b>
<b>Net operating loss before net finance costs</b>		<b>(1,873)</b>	<b>–</b>
Finance income		2	–
Finance costs		(2)	–
<b>Net finance costs</b>		<b>–</b>	<b>–</b>
Loss before tax		(1,873)	–
Income tax expense		(5)	–
<b>Loss for the period attributable to the equity holders of the parent</b>	5	<b>(1,878)</b>	<b>–</b>
<b>Other comprehensive (loss)/income: items that are or may be reclassified to the profit and loss</b>			
Unrealised loss on foreign exchange	10	(247)	–
<b>Total comprehensive loss for the period attributable to the equity holders of the parent</b>		<b>(2,125)</b>	<b>–</b>
<b>Basic and diluted loss per share</b>	5	<b>(1.7c)</b>	<b>–</b>

All items in the above statement are derived from continuing operations. The accompanying notes 1 to 12 form an integral part of the consolidated financial statements.



# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31/03/2016 €000 (unaudited)	30/09/2015 €000 (unaudited)
Investment property	6	65,650	–
<b>Non-current assets</b>		<b>65,650</b>	<b>–</b>
Trade and other receivables		7,351	–
Cash and cash equivalents	7	91,454	–
<b>Current assets</b>		<b>98,805</b>	<b>–</b>
<b>Total assets</b>		<b>164,455</b>	<b>–</b>
Issued capital and reserves	8	159,391	–
<b>Equity</b>		<b>159,391</b>	<b>–</b>
Trade and other payables		5,059	–
Taxation payable		5	–
<b>Current liabilities</b>		<b>5,064</b>	<b>–</b>
<b>Total liabilities</b>		<b>5,064</b>	<b>–</b>
<b>Total equity and liabilities</b>		<b>164,455</b>	<b>–</b>
Net Asset Value per ordinary share	9	131.5c	–

The consolidated financial statements on pages 14-17 were approved at a meeting of the Board of Directors held on 31 May 2016 and signed on its behalf by:

**Sir Julian Berney Bt.**  
**Chairman**

The accompanying notes 1 to 12 form an integral part of the consolidated financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital €000	Share premium €000	Other reserves €000	Total €000
<b>Balance as at 30 September 2015</b>		–	–	–	–
Total comprehensive loss for the period		–	–	(2,125)	(2,125)
New Equity Issuance	10	16,576	149,874	(4,934)	161,516
Share premium reduction		–	(122,156)	122,156	–
Unrealised foreign exchange movement	10	(1,278)	(11,448)	12,726	–
<b>Balance as at 31 March 2016</b>	8	<b>15,298</b>	<b>16,270</b>	<b>127,823</b>	<b>159,391</b>

The accompanying notes 1 to 12 form an integral part of the condensed consolidated financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months to 31 March 2016 €000 (unaudited)	Period to 30 September 2015 €000 (unaudited)
<b>Operating activities</b>		
Loss for the period	(1,878)	–
Adjustments for:		
Net valuation loss on investment property	650	–
Realised foreign exchange losses	314	–
Taxation	5	–
<b>Operating cash required before changes in working capital</b>	<b>(909)</b>	
Increase in trade and other receivables	(742)	–
Increase in trade and other payables	1,379	–
<b>Cash required for operating activities</b>	<b>(272)</b>	–
Finance costs paid	(2)	–
<b>Interest received</b>	<b>2</b>	–
<b>Net cash generated from operating activities</b>	<b>(272)</b>	–
<b>Investing activities</b>		
Acquisition of investment property	(62,736)	–
<b>Payments in advance for investment property</b>	<b>(6,609)</b>	–
<b>Net cash generated from investing activities</b>	<b>(69,345)</b>	–
<b>Financing activities</b>		
Share issue net proceeds	161,632	–
<b>Net cash generated from financing activities</b>	<b>161,632</b>	–
<b>Net increase in cash and cash equivalents for for the period</b>	<b>92,015</b>	–
<b>Opening cash and cash equivalents</b>	<b>–</b>	–
Foreign exchange losses	(561)	–
<b>Closing cash and cash equivalents</b>	<b>91,454</b>	–

The accompanying notes 1 to 12 form an integral part of the condensed consolidated financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Significant accounting policies

Schroder European Real Estate Investment Trust plc (“the Company”) is a closed-ended investment company incorporated in England and Wales. The condensed consolidated financial statements of the Company for the period ended 31 March 2016 comprise those of the Company and its subsidiaries (together referred to as the “Group”). The shares of the Company are listed on the London Stock Exchange and the Johannesburg Stock Exchange. The registered office of the Company is 31 Gresham Street, London, EC2V 7QA.

### Statement of compliance

The condensed interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom Financial Conduct Authority and IAS 34 Interim Financial Reporting as adopted by the European Union. They do not include all of the information required for the full annual financial statements, which will be prepared following the Group’s year end on the 30 September 2016.

### Basis of preparation

#### Subsidiaries

The consolidated financial statements comprise the accounts of the Company and all of its subsidiaries drawn up to 31 March. Subsidiaries are those entities, including special purpose entities, controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where properties are acquired by the Group through corporate acquisitions but the acquisition does not meet the definition of a

business combination, the acquisition has been treated as an asset acquisition.

#### Transactions eliminated on consolidation

Intra-group balances and any gains and losses arising from intra-group transactions are eliminated in preparing the condensed interim consolidated financial statements.

#### Going concern

As noted in the Chairman’s Statement the accounts have been prepared on a going concern basis.

#### Use of estimates and judgments

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

#### Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being property investment and in one geographical area, Continental Europe.

#### Expenses

All expenses are accounted for on an accruals basis.

#### Foreign currency translation

The functional currency of all the entities in the Group is the euro, as this is the currency in which the majority of investment takes place and in which the majority of income and expenses are incurred. The financial statements are also presented in euros.

Foreign currency transactions are translated into the functional currency using the exchange rate

## Notes to the financial statements continued

prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss in the Statement of Comprehensive Income.

Income and expenses are translated into the presentation currency at an average rate for the period. Assets and liabilities held at the end of the reporting period are translated into the presentation currency at the exchange rate prevailing at that date. Foreign exchange differences arising on translation to the presentation currency are recognised in other comprehensive income in the Statement of Comprehensive Income. Equity held at the end of the reporting period is translated into the presentation currency at the exchange rate prevailing at that date. Foreign exchange differences arising on translation to the presentation currency are recognised within Equity.

### Investment property

Investment property is land and buildings held to earn rental income together with the potential for capital growth.

Acquisitions and disposals are recognised on unconditional exchange of contracts.

Acquisitions are initially recognised at cost, being the fair value of the consideration given, including transaction costs associated with the investment property. After initial recognition, investment properties are measured at fair value, with unrealised gains and losses recognised in profit and loss. Realised gains and losses on the disposal of properties are recognised in profit and loss. Fair value is based on the market valuations of the properties as provided by a firm of independent chartered surveyors, at the reporting date. Market valuations are carried out on a quarterly basis. A property held under an

operating lease is classified and accounted for as an investment property where the Group holds it to earn rentals, capital appreciation, or both. Any such property leased under an operating lease is classified as an investment property and carried at fair value.

### Financial instruments

#### Non-derivative financial instruments

##### Assets

Non-derivative financial instruments comprise trade and other receivables and cash and cash equivalents. These are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method less any impairment losses.

##### Cash and cash equivalents

Cash at bank and short-term deposits that are held to maturity are carried at cost. Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash in hand and short-term deposits at banks with a term of no more than three months.

##### Liabilities

Non-derivative financial instruments comprise trade and other payables.

##### Trade and other payables

Trade and other payables are stated at amortised cost.

### Share capital

Ordinary shares are classified as equity.

### Income tax

The Company and its subsidiaries are subject to income tax on any income arising on investment properties, after deduction of debt financing

## Notes to the financial statements continued

costs and other allowable expenses. Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

### 2. New standards and interpretations

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted, subject

to EU adoption. The group is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

### 3. Material agreements

Schroder Real Estate Investment Management Limited is the Company's Investment Manager.

The Investment Manager is entitled to a fee together with reasonable expenses incurred in the performance of its duties. The fee is payable monthly in arrears and shall be an amount equal to one twelfth of the aggregate of 1.1% of the EPRA NAV of the Company. After an initial period of three years, the Investment Management Agreement can be terminated by either party on not less than twelve months written notice or on immediate notice in the event of certain breaches of its terms or the insolvency of either party. The total charge to profit during the period was €540,000. At the period end, €540,000 was outstanding. Except for directors' fees there are no other related party transactions.

### 4. Other expenses

	Period to 31/03/2016 €000	09/01/15 to 30/09/15 €000
Directors' and officers' insurance premium	5	-
Regulatory costs	18	-
Other expenses	4	-
	<b>27</b>	<b>-</b>

## Notes to the financial statements continued

### 5. Basic and Diluted Earnings per share

The basic and diluted earnings per share for the Group is based on the net loss for the period of €1,878,000 and the weighted average number of ordinary shares in issue during the period of 113,640,347.

#### EPRA<sup>1</sup> earnings reconciliation

	Period to 31/03/2016 €000	09/01/15 to 30/09/15 €000
Loss after tax	(1,878)	–
<b>Adjustments to calculate EPRA Earnings exclude:</b>		
Net valuation loss on investment property	650	–
<b>EPRA loss</b>	<b>(1,228)</b>	<b>–</b>
Weighted average number of ordinary shares	113,640,347	–
<b>EPRA loss per share (cents per share)</b>	<b>(1.1)</b>	<b>–</b>

<sup>1</sup>European Public Real Estate Association ('EPRA') earnings per share reflect the underlying performance of the company calculated in accordance with the EPRA guidelines.

#### Headline<sup>2</sup> earnings reconciliation

	Period to 31/03/2016 €000	09/01/15 to 30/09/15 €000
Profit after tax	(1,878)	–
<b>Adjustments to calculate Headline Earnings exclude:</b>		
Net valuation loss on investment property	650	–
<b>Headline earnings</b>	<b>(1,228)</b>	<b>–</b>
Weighted average number of ordinary shares	113,640,347	–
<b>Headline earnings per share (cents per share)</b>	<b>(1.1)</b>	<b>–</b>

<sup>2</sup>Headline earnings per share reflect the underlying performance of the company calculated in accordance with the Johannesburg Stock Exchange listing requirements.

### 6. Investment property

#### For the six months to 31 March 2016 (unaudited)

	Freehold €000	Total €000
Fair value as at 1 October 2015	–	–
Additional Property Investments	66,300	66,300
Net valuation loss on investment property	(650)	(650)
<b>Fair value as at 31 March 2016</b>	<b>65,650</b>	<b>65,650</b>

Fair value of the Paris property as determined by the valuer as at 31 March 2016 is €41,400,000. The Berlin asset, which completed on 31 March 2016, is held at the purchase price of €24,250,000. The total value of investment property as at 31 March 2016 is €65,650,000.

## Notes to the financial statements continued

The fair value of investment property has been determined by Knight Frank LLP, a firm of independent chartered surveyors, who are registered independent appraisers. The valuation has been undertaken in accordance with the RICS Valuation – Professional Standards January 2014 Global and UK Edition, issued by the Royal Institution of Chartered Surveyors (the “Red Book”) including the International Valuation Standards.

The properties have been valued on the basis of “Fair Value” in accordance with the RICS Valuation – Professional Standards VPS4(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.

The valuation has been undertaken using appropriate valuation methodology and the Valuer’s professional judgement. The Valuer’s

opinion of Fair Value was primarily derived using recent comparable market transactions on arm’s length terms, where available, and appropriate valuation techniques (The Investment Method).

The properties have been valued individually and not as part of a portfolio.

Two properties were held at the period end. One was valued at the acquisition price as it completed on 31 March 2016 and as such this gives a directly observable price, and is categorised as level 2. The other is categorised as level 3 fair value as it uses significant unobservable inputs. There have not been any transfers between Levels during the period to 31 March 2016. Investment properties have been classed according to their real estate sector. Information on these significant unobservable inputs per class of investment property is disclosed below:

### Quantitative information about fair value measurement using unobservable inputs (Level 3)

		Office	Total
Fair value (€m)		41.4	41.4
Area ('000 sq m)		6.861	6.861
Net passing rent psm per annum	Range	€339.56	€339.56
	Weighted average	€339.56	€339.56
Gross ERV <sup>1</sup> psm per annum	Range	€409.91	€409.91
	Weighted average	€409.91	€409.91
Net initial yield <sup>1</sup>	Range	5.24%	5.24%
	Weighted average	5.24%	5.24%
Equivalent yield	Range	4.60%	4.60%
	Weighted average	4.60%	4.60%

<sup>1</sup>Estimated rental value (“ERV”) is the Group’s external valuers’ reasonable opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.



## Notes to the financial statements continued

### Sensitivity of measurement to variations in the significant unobservable inputs

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the Group's property portfolio, together with the impact of significant movements in these inputs on the fair value measurement, are shown below:

Unobservable input	Impact on fair value measurement of significant increase in input	Impact on fair value measurement of significant decrease in input
Passing rent	Increase	Decrease
Gross ERV	Increase	Decrease
Net initial yield	Decrease	Increase
Equivalent yield	Decrease	Increase

There are interrelationships between the yields and rental values as they are partially determined by market rate conditions.

The sensitivity of the valuation to changes in the most significant inputs per class of investment property are shown below:

Estimated movement in fair value of investment properties at 31 March 2016	Office €'000	Total €'000
Increase in ERV by 5%	2,040	2,040
Decrease in ERV by 5%	(2,060)	(2,060)
Increase in net initial yield by 0.25%	(2,850)	(2,850)
Decrease in net initial yield by 0.25%	3,170	3,170

### 7. Cash and cash equivalents

As at 31 March 2015 the Group had €91.5 million in cash (30 September 2015: nil).

### 8. Issued capital and reserves

#### Share capital

The share capital of the Company is represented by 121,234,686 Ordinary Shares with a par value of 10.00 pence.

#### Issued share capital

On 9 December 2015 the Company issued 107,500,000 new ordinary shares under the placing and offer for subscription programme at a price of £1.00 per share. A further 450,000 new ordinary shares were issued under the placing programme at a price of £1.00 per share on 14 December 2015.

On 12 February 2016, a further 13,284,686 shares were issued under the placing programme at a price of £1.04 per share.

Issue costs in relation to the placings were €4,934,000.

On 23 March 2016 a reduction of share premium of £96,750,000 (€122,156,000) was approved. On the same day a distributable Reduction Reserve of £96,172,000 (€121,426,000) and an undistributable Special Reserve of £578,000 (€730,000) were created.

As at the date of this Report, the Company has 121,234,686 ordinary shares in issue (no shares are held in Treasury). The total number of voting rights of the Company is 121,234,686.

### 9. NAV per ordinary share

The NAV per ordinary share is based on the net assets of €159,391,000 and 121,234,686

## Notes to the financial statements continued

ordinary shares in issue at the Statement of Financial Position reporting date.

### 10. Foreign exchange

During the period the Group incurred the following foreign currency losses;

A realised currency loss of €314,000 arose when £51.0 million of share issue proceeds received on 9 December 2015 was converted into Euros on 14 December 2015. Also, a net unrealised currency loss of €247,000 arose when £4.5m and R1.18m of cash and other monetary items held by the Group at the period was retranslated into euros at the period end for reporting purposes. Both of these amounts appear within the Condensed Consolidated Statement of Comprehensive Income.

On 9 December 2015 the Company issued £54.7 million of sterling denominated share capital to its South African investors. This share capital was valued at €75.3 million on the date of issue. The proceeds of this share issue were settled by investor funds of R1.18bn valued at €73.7 million on the date of issue. The amount paid by investors was required to be determined in advance by a forward exchange rate provided to South African investors. The currency loss arising on this transaction was €1.6 million. This amount appears within the Condensed Consolidated Statement of Changes in Equity as part of total issue costs of €4.9 million.

At each period end the Group retranslates its sterling denominated share capital, share premium and other reserves into euros using the period end exchange rate. At 31 March 2016 the unrealised currency loss arising on this retranslation was €12.7m. This amount appears within the Condensed Consolidated Statement of Changes in Equity. The exchange difference is taken directly to the FX reserve.

### 11. Financial risk factors

The main risks arising from the Group's financial instruments and properties are market price risk, currency risk and liquidity risk. The Board regularly reviews and agrees policies for managing each of these risks.

### 12. Subsequent events

On 8 April 2016 the Group acquired two investment properties in a single transaction. The total price paid for these properties was €28.9 million.

On 28 April 2016, the Group exchanged contracts for the purchase of a convenience retail property located in Frankfurt am Main, Germany for the sum of €11.1 million. The purchase is expected to complete during June 2016.

# INDEPENDENT REVIEW REPORT

## to Schroder European Real Estate Investment Trust plc

### Report on the Half Year Consolidated Financial Statements

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#### Our conclusion

We have reviewed Schroder European Real Estate Investment Trust plc's Half Year Consolidated Financial Statements (the "half year financial statements") in the half year report of Schroder European Real Estate Investment Trust plc for the 6 month period ended 31 March 2016. Based on our review, nothing has come to our attention that causes us to believe that the half year financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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#### What we have reviewed

The half year financial statements comprise:

- The condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated statement of financial position as at 31 March 2016;
- the condensed consolidated statement of changes in equity for the period then ended;
- the condensed consolidated statement of cash flows for the period then ended; and
- the explanatory notes to the half year financial statements.

The half year financial statements included in the half year report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the half year financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

### Responsibilities for the half year financial statements and the review

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#### Our responsibilities and those of the directors

The half year report, including the half year financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half year report in accordance with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the half year financial statements in the half year report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this

## Independent review report continued

conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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### **What a review of half year financial statements involves**

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 United Kingdom. A review of half year 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.

We have read the other information contained in the half year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the half year financial statements.

### **PricewaterhouseCoopers LLP**

#### **Chartered Accountants**

#### **London**

31 May 2016

- (a) The maintenance and integrity of the Schroder European Real Estate Investment Trust plc website is the responsibility of the Investment Manager; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the half year financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.





## Directors

Sir Julian Berney Bt.  
Mr Jonathan Thompson  
Mr Mark Patterson

## Advisers

### Investment Manager

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London EC2V 7QA

### Registered Office

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London EC2V 7QA

### Company Secretary

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### Dealing Codes

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Ticker (JSE): SCD

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Stellenbosch 7600

### Registrar (UK)

Equiniti Limited  
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Lancing  
West Sussex BN99 6DA  
Shareholder Helpline: 0800 032 0641\*

Website: [www.shareview.co.uk](http://www.shareview.co.uk)

\* Calls to this number are free of charge from UK landlines.

Communications with shareholders are mailed to the address held on the register. Any notifications and enquiries relating to shareholdings, including a change of address or other amendment should be directed to Equiniti Limited at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

### Transfer Secretary

Computershare Investor Services (Pty) Limited  
PO Box 61051  
Marshall Town  
2107  
South Africa

### ISA

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

Certain pre-sale, regular and periodic disclosures required by the AIFM Directive may be found on the website [www.schroders.co.uk/its](http://www.schroders.co.uk/its).

