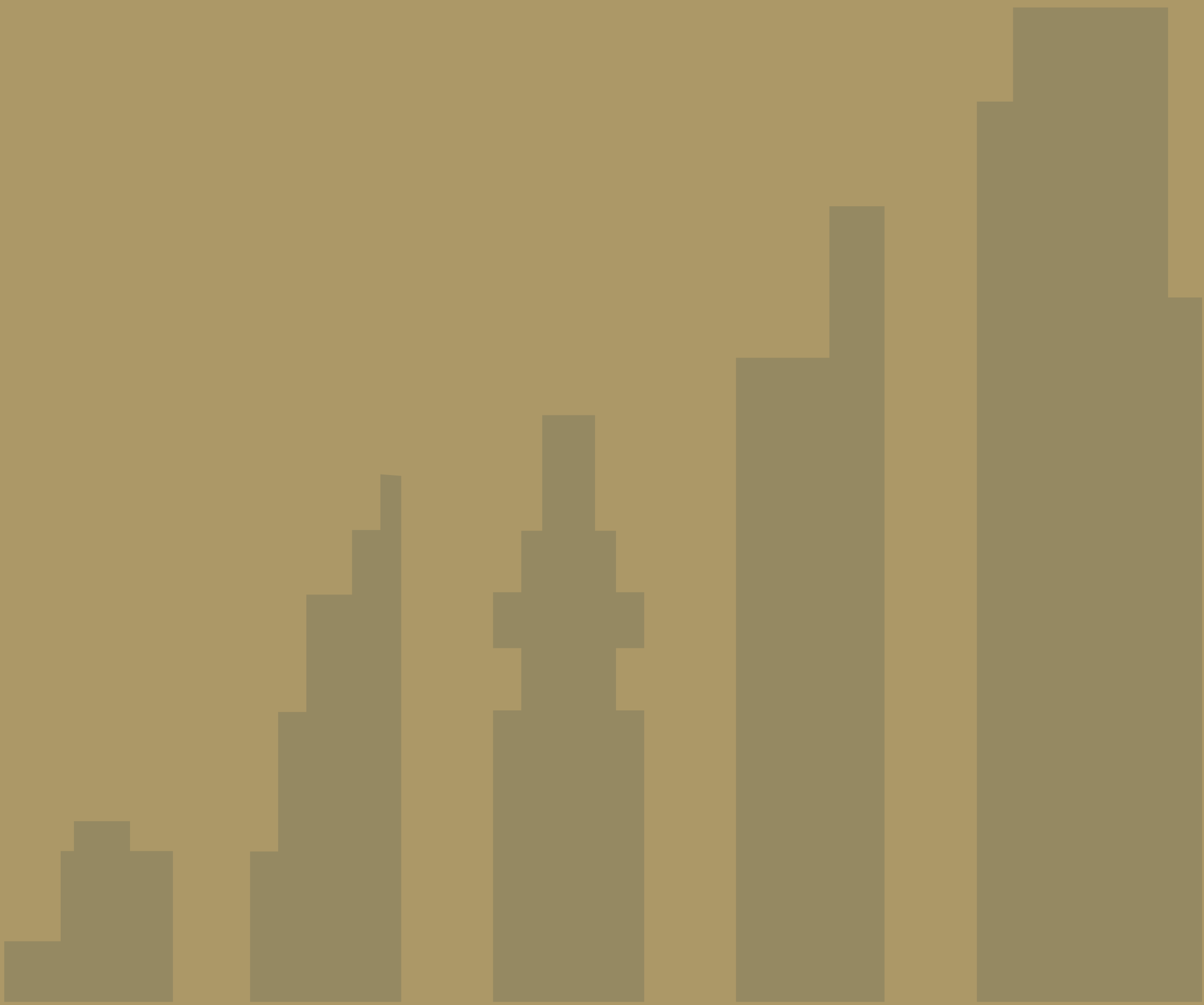


Interim Report 2018

Results for the six months ended 30 June 2018

SECURE INCOME REIT PLC

Secure Income REIT Plc is a specialist UK REIT, investing in key operating real estate assets that provide long term rental income with inflation protection.

The Company owns a 177 property, £2.3 billion portfolio at 30 June 2018 external valuation. High quality assets are let to financially strong businesses in defensive sectors on leases with a 21.4 year weighted average unexpired term.

An investment in the Company offers secure, growing income streams and strong foundations for sustainable capital growth, while continuing to deliver attractive risk adjusted returns for shareholders over the long term.

The Company has a highly experienced board, chaired by Martin Moore, and is advised by Prestbury Investments LLP, which is owned and managed by a team led by Nick Leslau, Mike Brown and Sandy Gumm, who have an established and successful track record in real estate investments and asset management.

Contents

Highlights

- **£436 million acquisition** of two off-market portfolios during the period:
  - £212 million hotels portfolio acquisition completed on 24 April 2018
  - £224 million leisure portfolio acquisition completed immediately after the balance sheet date on 2 July 2018
  - financed by £315.5 million (gross) equity issue at 365.0 pence per share and £128.7 million of new secured debt at c. 30% Loan To Cost ratio
- **EPRA NAV of 382.4 pence per share**, an increase of:
  - **3.2%** over the six months to 30 June 2018
  - **4.8%** above the March 2018 placing price
  - **120%** since listing in June 2014
- **Adjusted EPRA EPS of 6.2p** for the six months to 30 June 2018
- **Total Accounting Return of 4.9%** for the six months to 30 June 2018
- **Total Shareholder Return of 8.1%** for the six months to 30 June 2018
- **Like for like portfolio valuation up 2.8%** over the six months to 30 June 2018
- Portfolio externally valued at a **blended net initial yield of 5.2%**
- **Net Loan To Value ratio further reduced** to 44.4% (including the 2 July completion of the leisure portfolio), down from 49.6% at 31 December 2017
- Fully covered distributions currently yielding an annualised **4.1%** on 30 June 2018 EPRA NAV
- 177 Key Operating Assets in defensive sectors producing **£124.5 million per annum** of passing rent at 30 June 2018:
  - like for like passing rents up 2.4% over the period
  - rents on portfolios acquired in the period added £26.6 million per annum to passing rents
- **Strong and predictable growth prospects with long term inflation protection** underpinned by annual portfolio rental uplifts:
  - 48% of passing rent subject to fixed uplifts, 94% of which is reviewed annually
  - 25% subject to annual upwards only RPI, 88% of which is uncapped
  - 27% subject to three or five yearly upwards only RPI, 94% of which is uncapped
- Weighted average unexpired lease term of **21.4 years with no breaks**
- Management team strongly aligned with shareholders, with a 13.5% stake worth c. £166 million at 30 June 2018 EPRA NAV

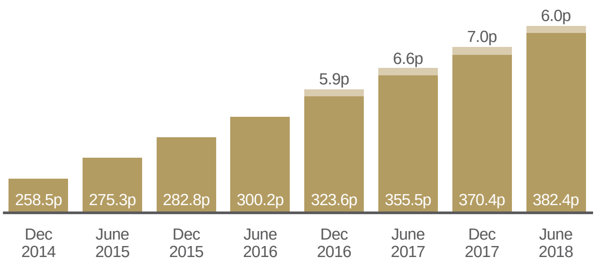
	30 June 2018	31 December 2017	Change since 31 December 2017
Net assets	**£1,218.9m**	£860.6m	+41.6%
EPRA NAV	**£1,229.8m**	£870.8m	+41.2%
EPRA NAV per share	**382.4p**	370.4p	+3.2%
Net LTV	**44.4%***	49.6%	-10.5%

* pro forma adjusted for 2 July 2018 completion of leisure portfolio acquisition

	30 June 2018	30 June 2017	Change since 30 June 2017
Annualised passing rent	**£124.5m**	£95.2m	+30.8%
Adjusted EPRA EPS	**6.2p**	6.7p	-7.5%†
Dividends per share	**6.0p**	6.6p	-9.1%†
Latest dividend per share annualised, as a percentage of EPRA NAV	**4.1%**	3.9%	+5.1%

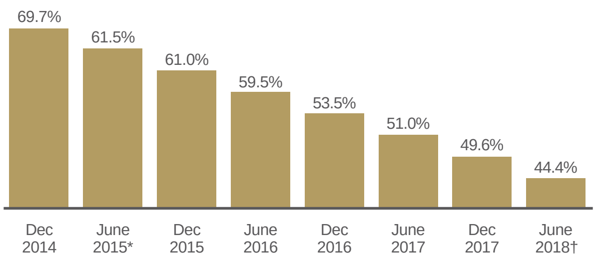
† the reduction in earnings per share and dividends per share for the six months to 30 June 2018 reflects the three month period between the placing to raise £315.5 million follow exchange of contracts and the full deployment of funds raised on 2 July 2018 following completion of the acquisitions

NAV and dividend progression



Dividends per share
EPRA NAV per share

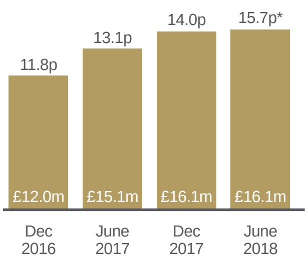
Net LTV



* pro forma adjusted for completion of property sale and debt refinancing after the balance sheet date

† pro forma adjusted for 2 July 2018 completion of leisure portfolio acquisition

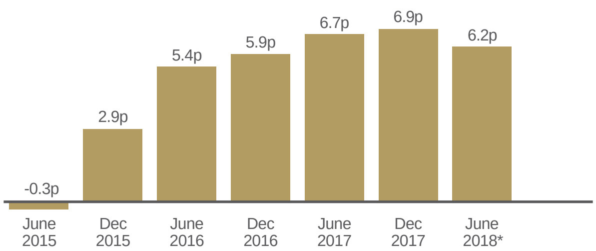
Dividends and annualised dividends per share



Dividends paid in the period

* Q3 2018 dividend annualised

Adjusted EPRA EPS



* the reduction in earnings per share reflects the three month period between the placing to raise £315.5 million following exchange of contracts and the full deployment of funds raised on 2 July 2018 following completion of the acquisitions

Chairman's Statement

"The core attributes of our business remain very appealing with a net initial property yield of 5.2% secured on Key Operating Assets in defensive sectors let to good covenants with RPI or fixed uplifts and a weighted average unexpired lease term of 21.4 years. The biggest strength of Secure Income REIT is that it is not dependent upon new acquisitions to continue to deliver an attractive risk-adjusted return and we continue to view the future prospects of the business with confidence."

Martin Moore, Chairman

Dear shareholder,

The first half of 2018 was a very active one for the Company, with the simultaneous acquisition of two large off-market portfolios totalling £436 million gross cost, funded by an equity issue and two new non-recourse debt facilities.

These results reflect the £315.5 million share placing, which closed over a week earlier than planned on 29 March, and the acquisitions of the £212 million hotels portfolio, which completed on 24 April, and the £224 million leisure portfolio, which completed immediately after the balance sheet date on 2 July. The leisure portfolio is included in these financial statements in line with the Group's accounting policy to recognise acquisitions at the point of unconditional exchange.

Results and financial position

	£m	Pence per share
EPRA NAV at 1 January 2018	870.8	370.4
Share placing to finance portfolio acquisitions (net of costs)	309.8	(3.1)
Investment property revaluation	48.1	14.9
Other retained earnings	17.2	6.2
Dividends paid	(16.1)	(6.0)
EPRA NAV at 30 June 2018	**1,229.8**	**382.4**

The Group's EPRA NAV at 30 June 2018 was 382.4 pence per share, an increase of 3.2% since 31 December 2017 which, when added to the dividends paid of 6.0 pence per share, represents a Total Accounting Return of 4.9% over the six months. The Total Shareholder Return for the period amounted to 8.1%.

The increase in EPRA NAV per share over the period was driven by a 2.8% like for like valuation increase, predominantly due to annual passing rent on the portfolio held throughout the period rising by 2.4%. With the addition of two newly acquired portfolios increasing annual passing rent by £26.6 million, the blended Net Initial Yield at 30 June 2018 is 5.2% and is expected to rise to 5.3% after completion of the rent reviews occurring in the next 12 months.

The Group's Adjusted EPRA EPS for the period is 6.2 pence per share. This is lower than the 6.7 pence per share reported for the equivalent period last year as a result of the 86.4 million shares issued at the end of March to finance the acquisitions, ahead of the completion of those acquisitions in April and July. Consequently, the results reported in this six month period reflect an increase of approximately 37% in the number of shares in issue half way through the period, with the £212 million hotels portfolio contributing to earnings for just over two months and no income contribution in this period from the £224 million leisure portfolio which completed immediately after the balance sheet date. This will normalise in the second six months of the year and beyond, with the enhanced earnings from the new portfolios fully on stream.

The Net Loan To Value ratio is 44.4% following completion of the purchase of the leisure portfolio on 2 July 2018, down from 49.6% at the end of 2017 and continuing its downward trajectory since listing in line with our strategy. Our expectation is that this ratio will, on our base case scenario (which assumes rents rising in line with the contractual terms, constant valuation yields and no acquisitions, disposals or lease variations), fall to below 40% in the next three years.

Outlook

The UK commercial property market continues to be highly polarised with logistics and alternative property values rising whilst retail values decline. In our judgment this is being driven by two separate structural shifts rather than a traditional property market cycle. The diversion of retail sales online and the extent to which that benefits logistics over retail property is now well understood, but the growth in popularity in alternatives has received less publicity. Nonetheless, alternative real estate is now firmly established within the investment universe with its market share of total annual UK commercial property volumes rising from 16% a decade ago to 34% last year – greater than the combined share of retail and industrial property. One of the key drivers is the desire for property investors to maintain income security. 20 years ago, new lease terms were granted on average for over 15 years and break clauses were rare. Today just 5% of new leases granted exceed 15 years, whilst average terms span just seven and 40% of leases contain break clauses.

Income security is particularly prized at a time of political and economic uncertainty caused by the ongoing Brexit negotiations. CBRE estimate that long lease property has benefitted from a 50 basis point relative yield movement compared to mainstream commercial property since the EU referendum, with long income yields compressing 39 basis points against an 11 basis point yield increase in the CBRE monthly index. Volatility of total returns for long income property has been less than half conventional commercial property over the last four years whilst net income growth has been higher. Liability matching provided by RPI uplifts is an attractive feature of alternatives not just to UK institutions; overseas investors made up 35% of buyers last year.

Whilst the sun continues to shine on our sector it is important that we continue to survey the horizon for dark clouds. Our tenants may operate in less cyclical, more defensive sectors but they are not entirely immune from a reversal in the UK economy. Certainly, the significant rise in retailer CVAs and administrations has put the risk of tenant default firmly back on the property market's agenda and placed owners of retail assets in the direct firing line. Even the much-favoured logistics sector cannot entirely side-step such risks given the high concentration of retail tenants occupying distribution space either directly or via their distribution partners. In this context our concerns are of a lower order, revolving around the possibility of a short term reduction in tenant profitability and this is before we draw comfort from the protection provided by the very substantial global covenants that guarantee the leases of all our healthcare assets and the majority of our leisure assets.

Chairman’s Statement continued

Outlook continued

Clouds also have the potential to form over Threadneedle Street as the Bank of England has finally started to raise interest rates. This has prompted a debate within the property industry as to the extent to which yields are vulnerable to future interest rate rises. History is no guide as there is little correlation between interest rates and property yields. Interest rates often rise when the economy is expanding, a time of increasing tenant demand and rental growth when property yields usually hold firm. Conversely rising interest rates at a time of economic weakness would typically be negative for property yields but the interplay between the level of interest rates and property yields is also critical. Short term rates are moving up but from all-time historic lows and are still only a fraction of property yields. Those property investors who borrow can continue to fix their debt at rates that are meaningfully yield accretive. Other investors who are more inclined to price assets against the risk free rate of long-dated gilts observe 15 year gilt yields today of 1.5%, a level that has only been lower for about one year over the last ten and implies that the financial markets predict that future interest rate rises are likely to be extremely modest or that the impact of QE is keeping gilt yields artificially low. Either way this remains highly supportive of our current valuation yields, as does the gross redemption yield on long-dated index-linked gilts of 1.6%.

Our conclusion is that there remains a shortage of investments that can provide what many investors seek – an attractive level of income return combined with a highly predictable and appealing level of long term income growth. As such the core attributes of our business remain very appealing with a net initial property yield of 5.2% secured on Key Operating Assets in defensive sectors let to strong tenant covenants with RPI or fixed uplifts and a weighted average unexpired lease term of 21.4 years.
The biggest challenge faced by our investment adviser remains unchanged – to secure new deals that enhance earnings and shareholder returns at a time of limited supply and ever-growing competition for well-let stock in the alternative space. Whilst their enviable ability to unearth accretive opportunities continues to be a mark of distinction, the biggest strength of Secure Income REIT is that it is not dependent upon new acquisitions to continue to deliver an attractive risk-adjusted return. We therefore continue to view the future prospects of the business with confidence.

Martin Moore
Chairman
7 September 2018

Investment Adviser's Report

Prestbury Investments LLP, the investment adviser to Secure Income REIT Plc, is pleased to report on the operations of the Group for the six months to 30 June 2018.

The portfolio

The Group's portfolio has grown from 81 properties at 31 December 2017 to 140 at the balance sheet date and 177 following the completion of the purchase of the £224 million, 37 property leisure portfolio on 2 July 2018. At 30 June 2018, the Group was unconditionally committed to completing the acquisition of that portfolio and had issued an irrevocable drawdown notice to the relevant lenders in respect of the £69.5 million debt financing for the purchase. The acquisition completed on schedule on 2 July 2018, and therefore all portfolio and debt data in this report is inclusive of that portfolio.

The Group's portfolio offers secure, long term income and contractual rental uplifts offering inflation protection, producing £124.5 million of passing rent, up 30% from £95.7 million at 31 December 2017.

The basis of rent review for the portfolio is:

	Percentage of rents
Fixed uplifts (94% of which are annual) averaging 2.8% per annum	**48%**
Annual upwards only RPI-linked reviews (88% of which are uncapped)	**25%**
Three or five yearly upwards only RPI-linked reviews (94% of which are uncapped)	**27%**

The Group invests in Key Operating Assets – those where operations on site are integral to the tenant's business, ensuring added income security for the landlord. The majority of the rent is secured by guarantors whose businesses offer global spread and which have performed very well over many years, demonstrating strong defensive qualities.

The portfolio is fully let for a weighted average term of 21.4 years from 30 June 2018 on full repairing and insuring terms, meaning that property running costs are low, there are only negligible void costs and there is no material capital expenditure or maintenance requirement.

The portfolio continued

Portfolio valuation

The portfolio is valued by qualified external valuers every six months for the Group's interim and annual reports. The overall change in composition of the portfolio over the six month period is as follows:

	Healthcare		Leisure		Hotels		Total		
	30 June 2018 £m	Change in period	**30 June 2018 £m**	Change in period	**30 June 2018 £m**	Change in period	**30 June 2018 £m**	31 Dec 2017 £m	Change in period
Passing rent:									
Like for like	**50.2**	2.8%	**33.5**	2.6%	**14.2**	–	**97.9**	95.7	2.4%
Acquisitions	**–**	–	**11.9**	–	**14.7**	–	**26.6**	–	n/a
Total	**50.2**	2.8%	**45.4**	38.9%	**28.9**	104.4%	**124.5**	95.7	30.1%
Valuation:									
UK:									
Like for like	**967.9**	2.5%	**503.8**	3.4%	**236.6**	2.6%	**1,708.3**	1,662.4	2.8%
Acquisitions*	**–**	–	**188.7**	–	**245.5**	–	**434.2**	–	n/a
Germany:									
At constant exchange rate	**–**	–	**111.3**	3.3%	**–**	–	**111.3**	107.8	3.3%
Exchange rate movement	**–**	–	**(0.3)**	(0.3)%	**–**	–	**(0.3)**	–	(0.3)%
Total	**967.9**	2.5%	**803.5**	35.0%	**482.1**	109.1%	**2,253.5**	1,770.2	27.3%

* the £224 million leisure portfolio acquisition included a number of hotels and is therefore split across these categories

The valuation increase comprises:

	Six months to 30 June 2018 £m	Six months to 30 June 2017 £m
Investment properties at the start of the period	**1,770.2**	1,641.7
Portfolio held throughout the period:		
Revaluation movement at constant currency	**49.4**	76.2
Currency translation movements on German properties	**(0.3)**	2.3
Acquisitions:		
Purchase price plus acquisition costs	**435.5**	–
Revaluation movement	**(1.3)**	–
Total increase in portfolio valuation	**483.3**	78.5
Investment properties at the end of the period	**2,253.5**	1,720.2

Yields and unexpired lease terms

	Healthcare		Leisure		Hotels		Total	
	30 June 2018	31 Dec 2017	30 June 2018	31 Dec 2017	30 June 2018	31 Dec 2017	**30 June 2018**	31 Dec 2017
Net Initial Yield	4.9%	4.9%	5.3%	5.1%	5.6%	5.8%	**5.2%**	5.1%
Running Yield within 12 months	5.0%	5.0%	5.5%	5.3%	5.7%	5.8%	**5.3%**	5.2%
Weighted average unexpired lease term (years)	19.1	19.6	22.2	24.5	23.9	25.4	**21.4**	22.2

The healthcare yields include the effect of the fixed rental uplift that took effect in May 2018 but do not reflect any additional uplift that might arise from the May 2017 Ramsay hospitals earnings-based rent review, which is currently being determined by an independent expert.

The portfolio continued

The leisure valuation yields include the effect of the RPI-linked rental uplifts on the UK properties that took effect in June 2018 and resulted in a 3.4% uplift, while running yield reflects the assumption that RPI-linked rents increase by either 2.5% or 2.7% in line with the estimates of the external valuers.

The hotels running yield reflects the assumption that RPI-linked rents increase by 8.7% (three year reviews) and 12.0% (five year reviews) in line with the estimates of the external valuers.

Portfolio total rents

All properties are fully let on long leases to tenants. Passing rents on the principal tenants are as follows:

Tenant/guarantor	30 June 2018 £m	31 December 2017 £m
Ramsay Health Care Limited	**48.2**	46.9
Merlin Entertainments Plc*	**33.5**	32.7
Travelodge Hotels Limited	**28.9**	14.1
SMG Europe Holdings Limited & SMG	**3.8**	–
Orpea SA	**2.0**	2.0
Others	**8.1**	–
	124.5	95.7

* £6.3 million (2017: £6.3 million) of the Merlin rents are Euro denominated

Further information on the larger tenants and guarantors underpinning each portfolio is given within the portfolio analyses that follow this section.

Healthcare assets (43% of portfolio value)

Passing rents	30 June 2018 £m	31 December 2017 £m
Ramsay hospitals	**48.2**	46.9
London psychiatric hospital	**2.0**	2.0
	50.2	48.9

The healthcare assets comprise 20 freehold private hospitals: a portfolio of 19 located throughout England let to a subsidiary of Ramsay Health Care Limited, the listed Australian healthcare company, and a private psychiatric hospital in central London let to Groupe Sinoué, a French company specialising in mental health and guaranteed by its listed French parent company, Orpea SA.

Each lease on the Ramsay hospitals is guaranteed by Ramsay Health Care Limited, the listed parent company, one of the top five private hospital operators in the world and a constituent of the ASX 50 index of Australia's largest companies, with a market capitalisation at 6 September 2018 of £6.1 billion.

The Ramsay hospitals are let on full repairing and insuring leases with a term to expiry at 30 June 2018 of 18.9 years without break. The rent increases in May each year by a minimum of a fixed 2.75% per annum throughout the lease term. In addition, at the Group's option, rent could be increased with effect from 3 May 2017 to the higher of the 2.75% per annum uplift or 57.525% of site earnings before interest, tax, depreciation, amortisation, rent and head office costs.

Investment Adviser’s Report continued

The portfolio continued

While the 3 May 2017 and 2018 fixed uplifts are reflected in these results, the earnings-based rent review at 3 May 2017 remains outstanding. In accordance with the process laid out in the leases, in the absence of agreement of the uplift with the tenant the matter has been referred to an independent expert. The expert’s opinion, which has yet to be received, will be binding on the parties. These financial statements take no account of any potential increase in rental income that may arise from the review, as we consider that the estimate of the additional revenue in the period is not material, particularly as any uplift would need to be spread over the 20 years of the lease remaining as at the review date, meaning that the impact on this reporting period would not represent more than a fraction of the increase.

The lease on the London psychiatric hospital is guaranteed by Orpea SA, the parent of the Orpea Group, a leading European operator of nursing homes, post-acute care and psychiatric care, listed on Euronext Paris with a market capitalisation at 6 September 2018 of £6.6 billion. The hospital is let on a full repairing and insuring lease with a term to expiry at 30 June 2018 of 26.1 years without break. The rent increases in May each year by a fixed 3.0% per annum throughout the lease term.

Leisure assets (36% of portfolio value)

Passing rents	**30 June 2018 £m**	31 December 2017 £m
UK assets held throughout the period	**27.2**	26.4
German assets (at constant Euro exchange rate)	**6.3**	6.3
Movement in Euro exchange rate	**–**	–
Leisure assets held throughout the period	**33.5**	32.7
Acquisition completed on 2 July	**11.9**	–
Portfolio currently held	**45.4**	32.7

The leisure assets held throughout the period comprise four well known visitor attractions and two hotels, located in England and Germany, and include two of the UK’s top three theme parks. The UK assets are Alton Towers theme park and the Alton Towers hotel, Thorpe Park theme park and Warwick Castle. The German assets are Heide Park theme park (the largest in Northern Germany) and the Heide Park hotel, both located in Soltau, Saxony.

The properties are held freehold and are let to substantial operating subsidiaries of Merlin Entertainments plc, the guarantor of each lease. Merlin is a FTSE 250 company with a market capitalisation at 6 September 2018 of £3.9 billion. Measured by the number of visitors, it is Europe’s largest and the world’s second largest operator of leisure attractions.

The average term to expiry of the Merlin leases is 24.0 years without break from 30 June 2018 and the tenants have two successive rights to renew them for 35 years at the end of each term. The leases are on full repairing and insuring terms. There are upwards only uncapped RPI-linked rent reviews every June throughout the term (based on RPI in the twelve months to April each year) for the UK assets, which in 2018 resulted in a rental increase of 3.4%. The German properties are subject to fixed annual increases of 3.34% every July throughout the term, as a result of which the German rents increased from £6.3 million to £6.5 million on 30 July 2018 (translated at the 30 June 2018 rate).

In the period an additional 20 leisure assets were acquired in an off-market transaction including Manchester Arena, The Brewery on Chiswell Street, London and a UK wide portfolio of 18 freehold high street pubs.

The portfolio continued

Manchester Arena is a strategic eight-acre leasehold site located on top of Manchester Victoria Railway and Metrolink station. It comprises the UK's largest indoor arena by capacity and 160,000 sq ft of additional office and leisure space, together with a 1,000 space multi-storey car park and advertising hoardings. The Arena is let to SMG, the world's largest venue management company, for a further 27.0 years with annual RPI-linked rent reviews collared between 2% and 5%. SMG operate c. 200 venues globally, hosting approximately 30,000 events each year, and the group has achieved 25 years of annual EBITDA growth. The offices and ancillary leisure space are let to tenants including Serco, Manchester City Council, Unison, JC Decaux and go-karting operator TeamSport. The leases on the Manchester site as a whole have an average term to expiry of 17.7 years and produce net passing rent of £5.9 million per annum as at 30 June 2018.

The Brewery at Chiswell Street is a predominantly freehold investment let to a specialist venue operator on a full repairing and insuring lease with a term to expiry of 13.0 years. It is the largest catered event space in the City of London and is located within five minutes' walk of the Moorgate entrance to the new Crossrail Station at Liverpool Street. The lease has five yearly fixed uplifts and passing rent of £3.4 million per annum as at 30 June 2018, with the next uplift falling due in July 2021.

The portfolio of 18 high street pubs is let on individual leases either to or guaranteed by Stonegate Pub Company Ltd, one of the UK's largest privately managed pub companies. The portfolio produces passing rent of £2.0 million per annum as at 30 June 2018 and has an average unexpired lease term of 21.6 years. Rents are subject to five yearly RPI-linked rental increases collared at 1% to 4% per annum compounded, with the next reviews falling due in February 2020. Stonegate held over 690 pubs and bars nationwide and reported revenue of £721 million and adjusted EBITDA of £106 million for the 52 weeks to 8 April 2018.

Hotel assets (21% of portfolio value)

Passing rents	**30 June 2018 £m**	31 December 2017 £m
Assets held throughout the period	**14.1**	14.1
Acquisition completed on 24 April	**12.7**	–
Acquisition completed on 2 July	**2.1**	–
Portfolio currently held	**28.9**	14.1

The hotel assets comprise 131 Travelodge hotels, located in England and Scotland, let to Travelodge Hotels Limited which is the main operating company within the Travelodge Group trading in the UK, Ireland and Spain. Travelodge is the UK's second largest budget hotel brand, with 564 hotels and over 42,000 rooms as at 30 June 2018.

55 of the hotels were owned throughout the period. A further 59 were purchased in the £212 million acquisition that completed in April 2018 and the remaining 17 were purchased as part of the £224 million acquisition that completed in July 2018.

The average unexpired lease term is 23.9 years as at 30 June 2018 with no break clauses. The leases are on full repairing and insuring terms and Travelodge is also responsible for the cost of any headlease rentals and any other amounts owing to the superior landlords of the 55 leasehold properties. There are upwards only uncapped RPI-linked rent reviews every five years throughout the term of each lease, with reviews falling due over a staggered pattern across the portfolio. No rent reviews fell due in the six month period to 30 June 2018.

Investment Adviser's Report continued

Financing

At the balance sheet date, the Group had an unconditional commitment to complete the purchase of the £224 million leisure portfolio. That completion occurred on 2 July 2018. The purchase was part financed by £69.5 million of new secured debt which is undrawn at the balance sheet date with the balance financed by the share issue which completed at the end of March. The pro forma position, adjusting the 30 June 2018 financial position only for completion of the leisure acquisition, is set out below.

	30 June 2018 £000	Completion of leisure acquisition £000	**Pro forma following completion £000**
Investment properties at external valuation	2,253,504	–	**2,253,504**
Cash and cash equivalents:			
Free cash	66,144	–	**66,144**
Cash held for property acquisition (including costs)	132,782	(132,782)	**–**
Secured cash	27,070	–	**27,070**
Regulatory capital	633	–	**633**
Secured debt:			
Gross debt	(1,024,197)	(69,507)	**(1,093,704)**
Unamortised finance costs	13,746	930	**14,676**
Property acquisition completion liability	(198,508)	198,508	**–**
Other net liabilities	(52,273)	2,851	**(49,422)**
Reported net assets	1,218,901	–	**1,218,901**
EPRA adjustments (note 17)	10,862	–	**10,862**
EPRA NAV	1,229,763	–	**1,229,763**
Gross debt	1,024,197	69,507	**1,093,704**
Net debt	797,568	202,289	**999,857**
Net LTV	35.4%		**44.4%**

Because the property purchase was unconditional and the related loan irrevocably called for drawdown, with both the purchase and loan drawdown having completed very shortly after the balance sheet date on 2 July 2018, the financing analysis in this report includes the £69.5 million of new debt drawn immediately after the balance sheet date.

The Group's operations are financed by a combination of cash resources and non-recourse debt finance, where the equity at risk is limited to the net assets within six ring-fenced sub-groups. Each sub-group is self-contained, with no cross default provisions between the six of them.

The weighted average interest cost is 4.9% per annum, down from 5.1% per annum at 31 December 2017 following drawing of the £128.7 million new debt facilities which part financed the acquisitions in the period. To reduce uncertainty over the Group's interest cost, rates are fixed or capped as follows:

	30 June 2018		31 December 2017		30 June 2017	
	Principal* £m	**Interest rate**	Principal £m	Interest rate	Principal £m	Interest rate
Fixed rate debt	**1,017.2**	**5.0%**	967.3	5.1%	968.7	5.1%
Floating rate debt fixed by interest rate swaps	**50.0**	**3.1%**	–	–	–	–
Floating rate debt with interest capped†	**26.5**	**3.6%**	–	–	–	–
	1,093.7	**4.9%**	967.3	5.1%	968.7	5.1%

* including £69.5 million drawn on 2 July 2018
† rate shown is maximum rate

Financing continued

The weighted average term to debt maturity is 5.9 years at 30 June 2018 compared to 6.5 years at 31 December 2017. As the Group has grown substantially and the Net LTV ratio has reduced significantly in recent years, it should be in a position to access wider sources of capital in future. The reduction in the weighted average term to debt maturity is part of a strategy to allow the Group better access to such sources of capital.

Key terms of the facilities are as follows:

	Principal* £m	Number of properties securing loan	Maximum annual interest rate	Interest rate protection	Annual cash amortisation	Final repayment date
Merlin Leisure	380.2†	6	5.68%	Fixed	£3.8m years 6 and 7	Oct 2022
Hotels loan 2	68.7	76	3.35%	76% fixed 24% capped	None	April 2023
Leisure loan 2	60.0	20	3.20%	83% fixed 17% capped	None	June 2023
Hotels loan 1	60.0	55	2.71%	Fixed	None	Oct 2023
Healthcare loan 1	217.3	9	4.29%	Fixed	£1.0m	Sept 2025
Healthcare loan 2	307.5	11	5.30%	Fixed	£3.2m	Oct 2025
Total	**1,093.7**	**177**	**4.85%**			

* including £69.5 million drawn on leisure and hotels loans on 2 July 2018

† comprising £316.8 million of senior and mezzanine Sterling loans secured on the UK assets and €71.8 million of senior and mezzanine Euro denominated loans secured on the German assets (translated at the period end exchange rate of €1:£0.8843) with all four loans cross-collateralised. The amortisation in each of the 12 month periods ending October 2021 and October 2022 comprises £3.2 million on the Sterling facility and €0.7 million on the Euro facility.

The Group's gross and net debt at 30 June 2018 was as follows:

	Secured amounts £m	Unsecured amounts £m	Regulatory capital £m	**Group total £m**
Gross debt:				
Drawn at the balance sheet date	**1,024.2**	–	–	**1,024.2**
Irrevocably called and drawn on 2 July 2018	**69.5**	–	–	**69.5**
	1,093.7	–	–	**1,093.7**
Secured cash	**(27.1)**	–	(0.6)	**(27.7)**
Free cash excluding cash held for portfolio acquisition	**(2.4)**	(63.7)	–	**(66.1)**
Net debt	**1,064.2**	(63.7)	(0.6)	**999.9**
Property valuation	**2,253.5**	–	–	**2,253.5**
Net LTV	**47.2%**			**44.4%**
Interest cover*	**2.4 x**			

* interest cover for these purposes is measured as passing rent divided by annualised interest cost, both as at the balance sheet date

The extent of headroom on financial covenants at the balance sheet date is analysed in the business review on the following pages. There have been no defaults or potential defaults in any facility during the period or since the balance sheet date.

Investment Adviser's Report continued

Financing continued

Financial review

Key performance indicator – Total Accounting Return

The principal financial outcome that the Board seeks to achieve is attractive growth in shareholder returns. The Board monitors both Total Accounting Return, which is the movement in EPRA NAV per share plus distributions, and Total Shareholder Return, which is the share price movement plus distributions. As the share price is influenced by factors outside the control of the Group, the principal focus for the Board is Total Accounting Return.

The Board's primary focus is on the financial results, principally Net Asset Value ("NAV") per share and Earnings Per Share ("EPS"), adjusted to conform with the industry standard EPRA guidelines which it considers provide a better comparison with other real estate companies. However, the Board also considers the financial position and results prepared in accordance with accounting standards, without adjustment.

The analysis of movements in the Group's NAV and NAV per share is as follows:

	Six months to 30 June 2018		Six months to 30 June 2017	
	£m	**Pence per share**	£m	Pence per share
NAV at start of period	**860.6**	**373.3**	737.4	324.5
March 2018 share issue	**309.8**	**(2.0)**	–	–
Investment property revaluation	**42.8**	**13.1**	70.1	33.0
Net results: rental income less administrative expenses and finance costs	**22.8**	**8.3**	21.4	6.7
Dividends paid	**(16.1)**	**(6.0)**	(15.1)	(6.6)
Tax charge	**(1.0)**	**(0.3)**	(1.2)	(0.5)
Dilution from shares issued in settlement of previous year's incentive fee	**–**	**(7.3)**	–	(4.6)
Currency translation movements	**–**	**–**	0.7	0.3
NAV at end of period	**1,218.9**	**379.1**	813.3	352.8

EPRA NAV takes the balance sheet measure of NAV and excludes items that are considered to have no relevance to the assessment of long term performance. In accordance with the EPRA guidance, to calculate EPRA NAV the Group's reported NAV is adjusted to exclude deferred tax on investment property revaluations relating to the German assets and is also adjusted to include the dilutive impact of any shares to be issued in satisfaction of any estimated incentive fee arising in the period. The latter adjustment arises because, despite any incentive fee being accounted for in the results for a period, basic NAV per share does not include in the calculation of the number of shares in issue the impact of the shares to be issued in satisfaction of that fee until those shares are actually issued.

The Group's EPRA NAV per share at 30 June 2018 was 382.4 pence, which represents a 3.2% increase over the six months since 31 December 2017. This 12.0 pence per share uplift, together with 6.0 pence per share of distributions, results in a 4.9% Total Accounting Return for the six month period.

Financial review continued

The analysis of movements in the Group's EPRA Net Asset Value and EPRA Net Asset Value per share is as follows:

	Six months to 30 June 2018		Six months to 30 June 2017	
	£m	**Pence per share**	£m	Pence per share
EPRA NAV at start of period	**870.8**	**370.4**	745.9	323.6
March 2018 share placing (net of costs)	**309.8**	**(3.1)**	–	–
Investment property revaluation*	**48.1**	**14.9**	76.1	33.0
Rental income* and other income less administrative expenses, finance costs and current tax	**17.3**	**6.3**	15.4	6.7
Dividends paid	**(16.1)**	**(6.0)**	(15.1)	(6.6)
Currency translation and other movements	**(0.1)**	**(0.1)**	1.0	0.3
Incentive fee				
Dilution from shares to be issued	**–**	**–**	–	(1.4)
Irrecoverable VAT on fee	**–**	**–**	(0.3)	(0.1)
EPRA NAV at end of period	**1,229.8**	**382.4**	823.0	355.5
Growth in EPRA NAV per share		**12.0**		31.9
Dividends paid		**6.0**		6.6
Total Accounting Return		**18.0**		38.5
Total Accounting Return – percentage		**4.9%**		11.9%

* adjusted by £5.2 million or 1.9 pence per share (2017: £6.0 million or 2.6 pence per share) of Rent Smoothing Adjustments

The placing price for the March 2018 share issue was 365.0 pence per share which took the audited 31 December 2017 EPRA NAV and adjusted it for the two portfolio acquisitions on a pro forma basis. The new portfolios were included in that pro forma NAV at their contract price, after excluding nearly £7.0 million of acquisition costs which were written off and hence reduced pro forma net assets. The external valuations of those portfolios at 30 June 2018 reflected a £5.2 million uplift over and above the contract price, thus the very small apparent dilutive effect of the placing is largely offset by the subsequent valuation uplift.

EPRA NAV is reconciled to the balance sheet NAV measured in accordance with IFRS in note 17 to the interim financial statements. The calculation of Total Accounting Return and Total Shareholder Return is included in the Supplementary Information at the end of this report.

Investment Adviser's Report continued

Financial review continued

Rent Smoothing Adjustments

In addition to the valuation movements, Rent Smoothing Adjustments to investment property revaluations arise from the Group's accounting policy, in line with IFRS, to spread the impact of any fixed or minimum rental uplifts evenly over the term of each relevant lease. The impact of this accounting treatment is to reflect a receivable, included in the book value of investment property, for the amount of rent included in the income statement ahead of actual cash receipts. The receivable increases over the first half of each lease term then unwinds to zero over the second half of each lease term. In order that the receivable does not overstate the value of the portfolio when included in the book value of the investment properties, any movement in the receivable is offset against property revaluation movements. Since this adjustment increases rental income and reduces property revaluation gains (or vice versa in the second half of each lease term) it does not change the Group's retained earnings or net assets.

The impact over time for each of the rental income flows subject to a Rent Smoothing Adjustment is as follows:

	Receivable at 30 June 2018 £m	Maximum receivable at midway point £m	Midway point in lease term
Healthcare – Ramsay hospitals	**148.7**	165.2	May 2022
Leisure – Germany*	**32.9**	41.5	Jan 2025
Healthcare – Lisson Grove	**9.3**	20.6	Nov 2025
Leisure – Manchester Arena	**–**	8.9	Dec 2031
Leisure – pubs portfolio	**–**	1.3	Apr 2029
Total	**190.9**	237.5	

* at the period end Euro conversion rate of €1:£0.8843

The annual impact of this adjustment would only change if there are acquisitions, disposals or lease variations of properties with fixed or minimum RPI-linked rental uplifts. The adjustment that is expected to be recognised on the portfolio during 2018 and the next three financial years, with the German adjustment translated at the average Euro conversion rate for the six months to 30 June 2018 of €1:£0.8795, is as follows:

	Total £m
2018	**10.8**
2019	**10.2**
2020	**8.4**
2021	**6.4**

Financial review continued

Key performance indicator – Adjusted EPRA EPS

The Company's intention is to distribute its Adjusted EPRA EPS through payment of a fully covered cash dividend, paid quarterly.

The Group's basic EPS, calculated in accordance with accounting standards, not only includes property valuation movements and Rent Smoothing Adjustments but is also required to be calculated on the assumption that any shares issued in settlement of an incentive fee are treated as having been issued on the first day of the year when in fact they are issued some three months after the end of the year in which they have been earned. These factors have a distorting effect on the reported EPS. However, recognising the importance of the earnings per share measure calculated in accordance with accounting standards, the analysis of reported EPS in the period is as follows:

	Six months to 30 June 2018		Six months to 30 June 2017	
	£m	**Pence per share**	£m	Pence per share
Rental income net of property outgoings	**55.6**	**19.8**	52.6	22.9
Investment property revaluation	**42.8**	**15.2**	70.1	30.4
Net finance costs	**(25.5)**	**(9.1)**	(25.4)	(11.1)
Administrative expenses	**(7.3)**	**(2.6)**	(5.7)	(2.5)
Tax charge	**(0.9)**	**(0.3)**	(1.2)	(0.5)
Incentive fee and irrecoverable VAT thereon	**–**	**–**	(3.5)	(1.5)
Other income	**–**	**–**	0.1	–
Basic earnings	**64.7**	**23.0**	87.0	37.7
Diluted earnings	**64.7**	**23.0**	87.0	37.6

EPRA EPS excludes from basic EPS any investment property revaluations, profits on the sale of investment properties and related deferred tax to give a measure of underlying earnings from core operating activities. Adjusted EPRA EPS takes EPRA EPS and removes the effect of Rent Smoothing Adjustments (in order not to artificially flatter dividend cover calculations) and any significant non-recurring costs. The measure also excludes any incentive fee and the associated irrecoverable VAT, which is considered to be linked to revaluation movements and therefore best treated consistently with revaluations.

EPRA Earnings and Adjusted EPRA Earnings in the period are analysed as follows:

	Six months to 30 June 2018		Six months to 30 June 2017	
	£m	**Pence per share**	£m	Pence per share
Rental income net of property outgoings:				
Portfolio owned throughout the period	**53.1**	**19.0**	52.5	22.7
Hotels portfolio purchased April 2018	**2.4**	**0.7**	–	–
Net finance costs:				
Facilities drawn throughout the period	**(25.0)**	**(8.8)**	(25.2)	(10.9)
Hotels loan drawn down April 2018	**(0.4)**	**(0.1)**	–	–
Administrative expenses	**(7.3)**	**(2.6)**	(5.7)	(2.5)
Tax	**(0.3)**	**(0.2)**	(0.2)	(0.1)
Incentive fee and irrecoverable VAT thereon	**–**	**–**	(3.5)	(1.5)
EPRA earnings	**22.5**	**8.0**	17.9	7.7
Rent Smoothing Adjustment	**(5.2)**	**(1.9)**	(6.0)	(2.5)
Adjustment for weighted average number of shares*	**–**	**0.1**	–	–
Incentive fee	**–**	**–**	3.5	1.5
Adjusted EPRA earnings	**17.3**	**6.2**	15.4	6.7

* Adjusted EPRA EPS reflects the actual date shares are issued in settlement of any incentive fee, which in the period was in March 2018. All other EPS measures are calculated on the assumption that those shares are in issue from the start of the reporting period.

Adjusted EPRA EPS is reconciled to basic EPS in note 8 to the financial statements. The EPRA EPS calculations are set out in the Supplementary Information.

Investment Adviser's Report continued

Financial review continued

Adjusted EPRA EPS – administrative expenses

The administrative expenses included in Adjusted EPRA EPS for the period, which are the same as those included in reported EPS, are as follows:

	Six months to 30 June 2018		Six months to 30 June 2017	
	£m	**Pence per share**	£m	Pence per share
Advisory fees	**6.2**	**2.2**	5.0	2.2
Other administrative expenses	**0.8**	**0.3**	0.5	0.2
Corporate costs	**0.3**	**0.1**	0.2	0.1
Recurring administrative expenses	**7.3**	**2.6**	5.7	2.5
Incentive fee payable in shares	**–**	**–**	3.2	1.4
VAT on incentive fee payable in cash	**–**	**–**	0.3	0.1
Total administrative expenses	**7.3**	**2.6**	9.2	4.0

As an externally managed business, the majority of the Group's overheads are covered by the advisory fees paid to the Investment Adviser. The Investment Adviser meets all office running costs and remuneration for the whole management and support team. The other recurring administrative expenses are principally professional fees, such as tax compliance and audit fees, which are billed directly to Group companies.

Corporate costs are those costs necessarily incurred as a result of the Company being listed and comprise:

- the cost of the Board of seven Directors, four of whom received fees totalling £0.1 million in the period. The other three Directors are partners in the Investment Adviser and receive no remuneration from the Company; and
- other costs of being listed, such as listing fees, nominated adviser's fees and registrar's fees, which totalled £0.2 million in the period.

Because VAT cannot be charged on the rents on the healthcare assets, there is an element of irrecoverable VAT incurred on the Group's running costs and included within the relevant line items in the table above. The proportion of disallowed VAT on administrative expenses and corporate costs was 44% during the period and is 37% on an annualised basis following completion of the portfolio acquisitions.

An incentive fee becomes due if total returns to investors over a financial year, as set out in audited accounts, exceed a compound growth rate of 10% per annum above the EPRA NAV per share the last time any incentive fee was paid. In the current year the threshold EPRA NAV plus distributions is 407.4 pence per share at 31 December 2018. If the threshold return is exceeded, the Investment Adviser receives 20% of any surplus above that priority return received by shareholders, with any such fee payable in shares. Any shares received are not permitted to be sold, save in certain limited circumstances, for a period of between 18 and 42 months following the end of the year for which they were earned.

Financial review continued

In order to make a reasonable assessment of whether or not such a fee is likely to be payable in respect of the 2018 financial year, the Board has estimated the EPRA NAV of the Group at 31 December 2018, assuming that:

- the property portfolio valuation yields do not change from those applied as at 30 June 2018;
- there are no acquisitions, disposals or lease variations;
- any additional uplift in rent from the outstanding Ramsay rent review is not included, on the basis that the outcome of the review is not yet known with sufficient certainty;
- there are no currency translation gains or losses beyond those recognised at 30 June 2018;
- RPI uplifts are consistent with the expectations reflected in the June 2018 external investment property valuations; and
- the Group's Adjusted EPRA EPS over the remainder of the year is fully distributed on a quarterly basis.

This estimate does not constitute a forecast but represents an illustrative case considered to provide a reasonable basis for assessing whether an incentive fee will be payable, while recognising the limitations inherent in any estimate of future values. On the basis of these assumptions, no fee would be payable for the 2018 financial year and as a result no fee is accrued at 30 June 2018 (30 June 2017: £3.5 million).

Adjusted EPRA EPS – net finance costs

Net finance costs in the period include six months of costs relating to the £967.3 million of debt in place at 1 January 2018, approximately two and half months of costs relating to the £59.2 million of debt financing the £212 million hotels portfolio, and no costs relating to the £69.5 million of debt drawn on 2 July 2018 to part finance the £224 million leisure portfolio.

	Six months to 30 June 2018		Six months to 30 June 2017	
	£m	Pence per share	£m	Pence per share
Interest on secured debt:				
Loans held throughout the period	**24.2**	**8.7**	24.2	10.5
Loans drawn in the period	**0.4**	**0.1**	–	–
Total interest charge on secured debt	**24.6**	**8.8**	24.2	10.5
Amortisation of costs of arranging facilities (non-cash)	**1.0**	**0.4**	1.0	0.4
Interest charge on headlease liabilities	**0.1**	**–**	0.1	0.1
Interest income on cash deposits	**(0.2)**	**(0.1)**	–	–
Net finance costs for the year (IFRS and EPRA basis)	**25.5**	**9.1**	25.3	11.0
Reclassification of interest charge on headlease liabilities against revenue*	**(0.1)**	**–**	(0.1)	(0.1)
Adjustment for weighted average number of shares	**–**	**(0.2)**	–	–
Net finance costs for the period (Adjusted EPRA basis)	**25.4**	**8.9**	25.2	10.9

* headlease costs are largely recoverable from tenants so this charge is netted off against the relevant amounts received in revenue

The current annualised weighted average interest rate (including the costs of the debt drawn on 2 July 2018) is 4.9%, down from 5.1% per annum at the start of the period. The Group's interest costs on all secured facilities are at fixed or capped rates throughout the life of the loans, providing certainty of the Group's largest expense item over the term of each facility. The capped rates apply to £26.5 million of debt, capped at a blended rate of 3.6% per annum including lenders' margins.

Financial review continued

Adjusted EPRA EPS – tax

The Group operates under the UK REIT regime, so its UK and German rental operations (which make up the majority of the Group's earnings) are exempt from UK corporation tax, subject to the Group's continuing compliance with the UK REIT rules. The Group is otherwise subject to UK corporation tax.

German tax was payable in the period at an effective rate of 16% on realised profits from the Group's German rental operations and the resulting tax charge for the period was £0.2 million (year to 31 December 2017: 17% effective rate and £0.2 million tax charge). The balance sheet also includes a deferred tax liability of £10.9 million (31 December 2017: £10.2 million) relating to unrealised German capital gains tax at a rate of 20.5% on the investment properties which would only be crystallised on a sale of those assets. There are currently no plans to sell any of the Group's assets.

Adjusted EPRA EPS – currency translation

The majority of the Group's assets are located in the UK and the financial statements are therefore presented in Sterling. 4% (31 December 2017 and 30 June 2017: 5%) of the Group's EPRA NAV relates to assets and liabilities relating to properties located in Germany, valued in and generating net earnings in Euros. The fact that both assets and liabilities are Euro denominated acts as a partial hedge of currency fluctuations, but the Group remains exposed to currency translation differences on the net results and net assets of these operations, with movements recognised in the statement of other comprehensive income.

The German properties are valued at €125.5 million as at 30 June 2018, with the Euro denominated secured debt amounting to €71.8 million. The net currency translation loss reflected in EPRA NAV in the period was £0.1 million (year to 31 December 2017: gain of £1.4 million).

Key performance indicator – Net LTV ratio

The Board structures debt facilities with a view to maintaining a capital structure that will withstand varying market conditions. During the period and including the debt drawn on 2 July 2018, the Group's Net LTV fell from 49.6% to 44.4%. This reduction reflects the impact of £48.1 million of property valuation uplifts, £2.1 million of scheduled debt amortisation and the new £128.7 million secured loans arranged to part finance the £436 million portfolio acquisitions being at a Loan To Cost ratio of less than 30%, which is lower than the average for the rest of the portfolio.

Financial review continued

Key performance indicator – headroom on debt covenants

Debt covenants have been negotiated with the aim of protecting the Group as far as possible from movements in investment property valuations which are not related to changes in rental cash flows.

The Board reviews the headroom on all financial covenants at least quarterly. The headroom on key financial covenants at 30 June 2018 is summarised below, together with the net initial valuation yield, the fall in valuation or the fall in rent that would trigger a breach of the relevant covenant at the first test date after the balance sheet date:

	Actual	Covenant	Net Initial Yield triggering LTV test	Valuation fall before LTV test triggered	Rental fall before ICR test triggered
Merlin leisure facility (£380.2 million loan at 30 June 2018)					
Cash trap LTV test (1% per annum loan amortisation if triggered)	62%	<80.0%	6.8%	23%	
Cash trap LTV test (full cash sweep if triggered)	62%	<85.0%	7.3%	27%	
Healthcare facility (£307.5 million loan at 30 June 2018)					
Cash trap LTV test (full cash sweep if triggered)	57%	<80.0%	6.8%	29%	
LTV test	57%	<84.0%	7.1%	32%	
Cash trap projected interest cover test (full cash sweep if triggered)	173%	>140%			19%
Projected interest cover test	173%	>120%			31%
Healthcare facility (£217.3 million loan at 30 June 2018)					
LTV test (from September 2019)	51%	<80.0%	8.0%	36%	
Cash trap projected debt service cover test (full cash sweep if triggered)	218%	>150%			31%
Projected debt service cover test	218%	>125%			43%
Hotels facility (£59.2 million loan at 30 June 2018 and £9.5 million loan drawn on 2 July 2018)					
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	28%	40% – 45%	8.0%	30%	
Cash trap LTV test (full cash sweep if triggered)	28%	45% – 50%	9.0%	38%	
LTV test	28%	<50%	10.0%	44%	
Cash trap projected interest cover test (full cash sweep if triggered)	638%	>300%			53%
Projected interest cover test	638%	>250%			61%
Hotels facility (£60.0 million loan at 30 June 2018)					
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	25%	40% – 45%	8.8%	37%	
Cash trap LTV test (full cash sweep if triggered)	25%	45% – 50%	9.9%	44%	
LTV test	25%	<50%	11.0%	49%	
Cash trap projected interest cover test (full cash sweep if triggered)	870%	>300%			66%
Projected interest cover test	870%	>250%			71%
Leisure facility (£60.0 million loan drawn on 2 July 2018)					
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	32%	40% – 45%	7.4%	21%	
Cash trap LTV test (full cash sweep if triggered)	32%	45% – 50%	8.3%	29%	
LTV test	32%	<50%	9.3%	36%	
Projected interest cover test	619%	>150%			76%

Financial review continued

Key performance indicator – uncommitted cash

The Board considers that the ability to manage potential debt covenant breaches is at least as important as the level of the financial covenants themselves. The Group has negotiated headroom on financial covenants considered appropriate to the business and also certain cure rights, including the ability to inject cash into ring-fenced financing structures in the event of actual or prospective breaches of financial covenants. Consequently, along with managing the execution risk inherent in arranging and documenting credit facilities, the Board regularly monitors the Group's levels of uncommitted cash. Uncommitted cash is measured as cash balances outside ring-fenced structures secured to lenders, net of any creditors or other cash commitments and excluding any cash required to be retained under the regulatory capital rules of the AIFMD regime.

The Group's uncommitted cash was £59.6 million as at 30 June 2018, compared to £63.4 million as at 31 December 2017 and 30 June 2017.

Cash flow

The movement in cash over the period comprises:

	Six months to 30 June 2018		Six months to 30 June 2017	
	£m	**Pence per share**	£m	Pence per share
Cash from operating activities	**46.1**	**16.4**	40.7	17.7
Net proceeds of share issue	**309.8**	**96.3**	–	–
Net proceeds of new loan drawn to finance hotels acquisition	**57.9**	**18.0**	–	–
Acquisition of hotels portfolio including acquisition costs	**(211.6)**	**(65.8)**	–	–
Deposit paid for acquisition of leisure portfolio	**(21.9)**	**(6.8)**	–	–
Net interest and finance costs paid	**(24.3)**	**(8.6)**	(24.5)	(10.6)
Distributions paid	**(16.1)**	**(6.0)**	(15.1)	(6.6)
Scheduled debt amortisation	**(2.1)**	**(0.7)**	(2.1)	(0.9)
Cash flow in the period	**137.8**	**42.8**	(1.0)	(0.4)
Cash at the start of the period	**88.8**	**38.5**	91.7	40.3
Dilution from March 2018 share issue	**–**	**(10.0)**	–	–
Dilution from incentive fee share issues	**–**	**(0.8)**	–	(0.6)
Cash at the end of the period	**226.6**	**70.5**	90.7	39.3

Comprising:	**£m**	**Pence per share**	£m	Pence per share
Cash and deposits	**66.1**	**20.6**	66.9	29.0
Cash held for completion of leisure portfolio acquisition	**132.8**	**41.3**	–	–
Free cash	**198.9**	**61.9**	66.9	29.0
Cash reserved for regulatory capital	**0.6**	**0.2**	0.5	0.2
Cash secured under lending facilities	**27.1**	**8.4**	23.3	10.1
	226.6	**70.5**	90.7	39.3

The Company's dividend policy is to fully distribute the Group's Adjusted EPRA earnings. The Group's investment properties are let on full repairing and insuring terms, with each tenant obliged to keep the premises in good and substantial repair and condition, including rebuilding, reinstating, renewing or replacing premises where necessary. Consequently, no capital expenditure, property maintenance or insurance costs have been incurred in the period and it is not expected that material costs of that nature will be incurred on the current portfolio. As a result, in the absence of asset purchases or disposals, cash balances should remain relatively stable over time.

Nick Leslau
Chairman, Prestbury Investments LLP
7 September 2018

Independent Review Report

Introduction

We have been engaged by the Company to review the condensed financial statements included within this interim report for the six months to 30 June 2018 which comprise the Group Income Statement, the Group Statement of Other Comprehensive Income, the Group Statement of Changes in Equity, the Group Balance Sheet, the Group Cash Flow Statement and the related notes.

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

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the Directors. The Directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market ("AIM"). Those rules require that the interim report be presented and prepared in a form consistent with that which will be adopted in the Company's annual accounts having regard to the accounting standards applicable to such annual accounts.

As disclosed in note 2, the annual financial statements of the Group will be prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The condensed financial statements included in this interim report have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed financial statements in the interim report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on AIM and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Independent Review Report continued

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed financial statements in the interim report for the six months to 30 June 2018 are not prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the European Union, and the rules of the London Stock Exchange for companies trading securities on AIM.

BDO LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
7 September 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Group Income Statement

	Notes	**Unaudited six months to 30 June 2018 £000**	Audited year to 31 December 2017 £000	Unaudited six months to 30 June 2017 £000
Revenue	3,4	**56,109**	106,930	52,984
Property outgoings		**(569)**	(256)	(341)
Gross profit		**55,540**	106,674	52,643
Administrative expenses	5	**(7,257)**	(29,487)	(9,201)
Other income		**–**	171	131
Investment property revaluation	9	**42,835**	113,428	70,120
Operating profit		**91,118**	190,786	113,693
Finance income		**214**	85	31
Finance costs	6	**(25,720)**	(51,919)	(25,477)
Profit before tax		**65,612**	138,952	88,247
Tax charge	7	**(955)**	(1,713)	(1,241)
Profit for the period		**64,657**	137,239	87,006

		Pence per share	Pence per share	Pence per share
Earnings per share				
Basic	8	**23.0**	59.5	37.7
Diluted	8	**23.0**	58.4	37.6

All amounts relate to continuing activities.

The notes on pages 30 to 43 form part of this interim report.

Group Statement of Other Comprehensive Income

	Unaudited six months to 30 June 2018 £000	Audited year to 31 December 2017 £000	Unaudited six months to 30 June 2017 £000
Profit for the period	**64,657**	137,239	87,006
Items that may subsequently be reclassified to profit or loss:			
Currency translation differences	**(31)**	1,148	709
Total comprehensive income for the period, net of tax	**64,626**	138,387	87,715

The notes on pages 30 to 43 form part of this interim report.

Group Statement of Changes in Equity

	Share capital £000	Share premium reserve £000	Other reserves £000	Retained earnings £000	**Total £000**
Period to 30 June 2018 (unaudited)					
At 1 January 2018	23,054	196,975	20,852	619,696	**860,577**
Profit for the period	–	–	–	64,657	**64,657**
Other comprehensive income – currency translation differences	–	–	(31)	–	**(31)**
Total comprehensive income	–	–	(31)	64,657	**64,626**
Issue of shares	9,102	316,749	(16,015)	–	**309,836**
Dividends paid	–	–	–	(16,138)	**(16,138)**
At 30 June 2018	32,156	513,724	4,806	668,215	**1,218,901**
Year to 31 December 2017 (audited)					
At 1 January 2017	22,723	187,947	13,048	513,705	**737,423**
Profit for the year	–	–	–	137,239	**137,239**
Other comprehensive income – currency translation differences	–	–	1,148	–	**1,148**
Total comprehensive income	–	–	1,148	137,239	**138,387**
Issue of shares	331	9,028	(9,359)	–	**–**
Shares to be issued	–	–	16,015	–	**16,015**
Dividends paid	–	–	–	(31,248)	**(31,248)**
At 31 December 2017	23,054	196,975	20,852	619,696	**860,577**
Period to 30 June 2017 (unaudited)					
At 1 January 2017	22,723	187,947	13,048	513,705	**737,423**
Profit for the period	–	–	–	87,006	**87,006**
Other comprehensive income – currency translation differences	–	–	709	–	**709**
Total comprehensive income	–	–	709	87,006	**87,715**
Issue of shares	331	9,028	(9,359)	–	**–**
Shares to be issued	–	–	3,224	–	**3,224**
Dividends paid	–	–	–	(15,111)	**(15,111)**
At 30 June 2017	23,054	196,975	7,622	585,600	**813,251**

Interim dividends totalling 6.0 pence per share (31 December 2017: 13.6 pence per share; 30 June 2017: 6.6 pence per share) were paid during the period.

The notes on pages 30 to 43 form part of this interim report.

Group Balance Sheet

	Notes	**Unaudited 30 June 2018 £000**	Audited 31 December 2017 £000	Unaudited 30 June 2017 £000
Non-current assets				
Investment properties	3,9	**2,282,028**	1,781,884	1,731,914
Headlease rent deposits		**2,766**	1,686	1,686
		2,284,794	1,783,570	1,733,600
Current assets				
Cash and cash equivalents	10	**226,629**	88,755	90,661
Trade and other receivables	11	**909**	394	310
Current tax receivable		**–**	111	22
		227,538	89,260	90,993
Total assets		**2,512,332**	1,872,830	1,824,593
Current liabilities				
Trade and other payables	12	**(243,546)**	(34,981)	(34,073)
Secured debt	13	**(1,674)**	(2,227)	(2,236)
Current tax liability		**(48)**	–	–
		(245,268)	(37,208)	(36,309)
Non-current liabilities				
Secured debt	13	**(1,008,777)**	(953,086)	(953,566)
Head rent obligations under finance leases		**(28,524)**	(11,721)	(11,734)
Deferred tax liability	14	**(10,862)**	(10,238)	(9,733)
		(1,048,163)	(975,045)	(975,033)
Total liabilities		**(1,293,431)**	(1,012,253)	(1,011,342)
Net assets		**1,218,901**	860,577	813,251
Equity				
Share capital	15	**32,156**	23,054	23,054
Share premium reserve	16	**513,724**	196,975	196,975
Retained earnings	16	**668,215**	619,696	585,600
Other reserves	16	**4,806**	20,852	7,622
Total equity		**1,218,901**	860,577	813,251

	Notes	**Pence per share**	Pence per share	Pence per share
Basic NAV per share	17	**379.1**	373.3	352.8
Diluted NAV per share	17	**379.1**	366.0	351.3
EPRA NAV per share	17	**382.4**	370.4	355.5

The notes on pages 30 to 43 form part of this interim report.

Group Cash Flow Statement

	Notes	**Unaudited six months to 30 June 2018 £000**	Audited year to 31 December 2017 £000	Unaudited six months to 30 June 2017 £000
Operating activities				
Profit before tax		**65,612**	138,952	88,247
Adjustments for non-cash items:				
Investment property revaluation	9	**(42,835)**	(113,428)	(70,120)
Movement in Rent Smoothing Adjustments	9	**(5,223)**	(11,443)	(5,962)
Movement in gross-up of headlease liabilities		**(59)**	(83)	(70)
Administrative expenses payable in shares		**–**	16,015	3,224
Finance income		**(214)**	(85)	(31)
Finance costs	6	**25,720**	51,919	25,477
Cash flows from operating activities before changes in working capital		**43,001**	81,847	40,765
Changes in working capital:				
Trade and other receivables		**(515)**	209	293
Trade and other payables		**3,791**	813	(61)
Headlease rent deposits		**–**	(8)	(8)
Cash generated from operations		**46,277**	82,861	40,989
Tax paid		**(142)**	(431)	(281)
Cash flows from operating activities		**46,135**	82,430	40,708
Investing activities				
Acquisition of investment properties		**(232,240)**	–	–
Headlease rent deposits acquired		**(1,225)**	–	–
Interest received		**214**	85	31
Cash flows from investing activities		**(233,251)**	85	31
Financing activities				
Net proceeds of share issue		**309,836**	–	–
Drawdown of new secured debt		**59,193**	–	–
Loan costs paid on new facilities		**(1,261)**	–	–
Scheduled amortisation of secured debt		**(2,078)**	(4,156)	(2,079)
Interest and finance costs paid		**(24,555)**	(50,086)	(24,597)
Dividends paid		**(16,138)**	(31,248)	(15,111)
Cash flows from financing activities		**324,997**	(85,490)	(41,787)
Increase/(decrease) in cash and cash equivalents		**137,881**	(2,975)	(1,048)
Cash and cash equivalents at the beginning of the period		**88,755**	91,667	91,667
Effect of currency translation movements		**(7)**	63	42
Cash and cash equivalents at the end of the period		**226,629**	88,755	90,661

The notes on pages 30 to 43 form part of this interim report.

Notes to the Interim Report

1. General information about the Group

The financial information set out in this report covers the six months to 30 June 2018, with comparative amounts shown for the year to 31 December 2017 and the six months to 30 June 2017, and includes the results and net assets of the Company and its subsidiaries, together referred to as the Group.

The Company is incorporated in the United Kingdom. The address of the registered office and principal place of business is Cavendish House, 18 Cavendish Square, London, W1G 0PJ.

The Company is listed on the AIM market of the London Stock Exchange. Further information about the Group and Company can be found on its website, www.SecureIncomeREIT.co.uk.

2. Basis of preparation and accounting policies

The financial information contained in this report has been prepared in accordance with IAS 34 “Interim Financial Reporting” as adopted by the European Union, and on a going concern basis which the Directors have considered and believe remains appropriate for the financial statements. The accounting policies adopted in this report are consistent with those applied in the Group’s statutory accounts for the year to 31 December 2017, apart from the adoption of IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” with effect from 1 January 2018, neither of which required any restatements to the Group’s financial statements. The accounting policies are expected to be consistently applied in the financial statements for the year to 31 December 2018.

The IASB has issued one standard, IFRS 16 “Leases”, that is mandatory for periods subsequent to 31 December 2018 (the date to which the Group’s next annual financial statements will be prepared), which is relevant to the Group and has not been adopted early. The Directors’ assessment of the impact of this new accounting standard remains unchanged from that reported in the 2017 financial statements, where it was noted that its adoption is not expected to have a material impact on the Group’s financial statements since it will not result in significant changes of accounting policies for lessors.

No other new or revised standard is expected to be relevant to the Group and have a material effect on the Group’s financial statements in future.

The Directors are required to assess whether it is appropriate to make provision at the balance sheet date for the relevant proportion of any incentive fee expected to be payable for the whole of the current financial year. In making this assessment, the Directors estimate the EPRA NAV per share of the Group at the end of the financial year. As described in note 18, this estimate does not constitute a forecast but represents an estimated illustrative case only, and is considered to provide a reasonable basis for estimating whether an incentive fee will be payable while recognising the limitations inherent in any estimate of future values.

Euro denominated results for the German operations have been converted to Sterling at an average exchange rate for the period of €1:£0.8795 (period to 30 June 2017: €1:£0.8603; year to 31 December 2017: €1:£0.8762) and period end balances converted to Sterling at the 30 June 2018 exchange rate of €1:£0.8843 (period to 30 June 2017: €1:£0.8779; year to 31 December 2017: €1:£0.8873).

The condensed financial statements for the period are unaudited and do not constitute statutory accounts for the purposes of the Companies Act 2006. The annual report and financial statements for 2017 have been filed at Companies House. The independent auditor’s report on the annual report and financial statements for 2017 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under sections 498 (2) or 498 (3) of the Companies Act 2006.

The Group’s financial performance is not subject to material seasonal fluctuations.

3. Operating segments

IFRS 8 "Operating Segments" requires operating segments to be identified on a basis consistent with internal reports about components of the Group that are reviewed by the chief operating decision maker to make decisions about resources to be allocated between segments and assess their performance. The Group's chief operating decision maker is considered to be the Board.

At 30 June 2018 the Group owned 140 properties and was unconditionally bound to acquire a further 37 properties in a transaction which completed on 2 July 2018. These 177 properties were originally contracted for acquisition within six separate portfolios. Although certain information about these portfolios is described on a portfolio basis within the Investment Adviser's report or grouped by property type (Healthcare, Leisure and Hotels), when considering resource allocation and performance the Board reviews quarterly management accounts prepared on a basis which aggregates the performance of the portfolios and focuses on Total Accounting Return. The Board has therefore concluded that the Group has operated in, and was managed as, one business segment of property investment in both the current period and prior year.

The geographical split of revenue and applicable non-current assets was as follows:

	Unaudited six months to 30 June 2018 £000	Audited year to 31 December 2017 £000	Unaudited six months to 30 June 2017 £000
Revenue			
UK	**51,939**	98,606	48,907
Germany	**4,170**	8,324	4,077
	56,109	106,930	52,984
Investment property			
UK	**2,171,048**	1,674,120	1,627,224
Germany	**110,980**	107,764	104,690
	2,282,028	1,781,884	1,731,914

Revenue comprises:

	Unaudited six months to 30 June 2018 £000	Audited year to 31 December 2017 £000	Unaudited six months to 30 June 2017 £000
Revenue including Rent Smoothing Adjustments			
Largest tenant	**27,116**	54,400	27,131
Second largest tenant	**13,151**	25,914	16,782
Third largest tenant	**10,031**	15,002	7,429
Other tenants (each less than 10% of revenue)	**5,811**	11,614	1,642
Reported revenue	**56,109**	106,930	52,984
Revenue excluding Rent Smoothing Adjustments			
Largest tenant	**23,571**	46,463	22,953
Second largest tenant	**13,151**	25,914	12,705
Third largest tenant	**10,031**	15,002	7,429
Other tenants (each less than 10% of revenue)	**4,133**	8,108	2,080
Revenue on Adjusted EPRA Earnings basis	**50,886**	95,487	45,167

Notes to the Interim Report continued

4. Revenue

	Unaudited six months to 30 June 2018 £000	Audited year to 31 December 2017 £000	Unaudited six months to 30 June 2017 £000
Rental income	**50,292**	94,375	46,472
Rent Smoothing Adjustments	**5,223**	11,443	5,962
Recovery of head rent and service charge costs from occupational tenants	**594**	1,112	550
	56,109	106,930	52,984

The Rent Smoothing Adjustments arise through the Group's accounting policy in respect of leases, which requires the recognition of rental income on a straight line basis over the lease term in certain circumstances, including for the 45% (31 December 2017: 58%; 30 June 2017: 58%) of passing rent as at 30 June 2018 which increases by a fixed percentage each year. At this stage in the lease terms, which is before the midway point in each lease, this results in an increase in revenue and an offsetting entry is recognised in the income statement as a reduction in the gains on investment property revaluation.

5. Administrative expenses

	Unaudited six months to 30 June 2018 £000	Audited year to 31 December 2017 £000	Unaudited six months to 30 June 2017 £000
Advisory fee (note 18)	**6,214**	10,148	4,952
Other administrative expenses	**779**	1,262	474
Corporate costs	**264**	502	236
Incentive fee (note 18)	**–**	17,575	3,539
	7,257	29,487	9,201

6. Finance costs

	Unaudited six months to 30 June 2018 £000	Audited year to 31 December 2017 £000	Unaudited six months to 30 June 2017 £000
Interest on secured debt	**24,616**	49,198	24,379
Amortisation of loan costs (non–cash)	**1,009**	1,922	951
Interest charge on headlease liabilities	**95**	799	147
	25,720	51,919	25,477

7. Tax

Analysis of tax charge in the period	**Unaudited six months to 30 June 2018 £000**	Audited year to 31 December 2017 £000	Unaudited six months to 30 June 2017 £000
Current tax – UK			
Adjustments in respect of prior periods	**–**	(7)	(6)
Current tax – Germany			
Corporation tax charge	**175**	266	168
Adjustments in respect of prior periods	**125**	17	57
Deferred tax			
Deferred tax charge	**655**	1,437	1,022
	955	1,713	1,241

The tax assessed for the period varies from the standard rate of corporation tax in the UK applied to the profit before tax. The differences are explained below:

	Unaudited six months to 30 June 2018 £000	Audited year to 31 December 2017 £000	Unaudited six months to 30 June 2017 £000
Profit before tax	**65,612**	138,952	88,247
Profit before tax at the standard rate of corporation tax in the UK of 19% (31 December 2017: and 30 June 2017: 19.25%)	**12,466**	26,748	16,988
Effects of:			
Investment property revaluation not taxable	**(8,476)**	(22,481)	(13,624)
Qualifying property rental business not taxable under UK REIT rules	**(3,547)**	(3,601)	(2,759)
Finance costs disallowed under corporate interest restriction rules	**–**	926	–
German current tax charge	**175**	266	168
Recognition/(utilisation) of tax losses	**211**	(164)	413
Adjustments in respect of prior periods	**125**	10	51
Amounts not deductible for tax	**1**	9	4
Tax charge for the period	**955**	1,713	1,241

The Company and its subsidiaries operate as a UK Group REIT. Subject to continuing compliance with certain rules, the UK REIT rules exempt the profits of the Group's UK and German property rental business from UK corporation tax. Gains on the Group's UK and German properties are also generally exempt from UK corporation tax, provided they are not held for trading or in certain circumstances sold in the three years after completion of a development.

To remain a UK REIT, a number of conditions must be met in respect of the Company, the Group's qualifying activity and the Group's balance of business. Since entering the UK REIT regime the Group has met all applicable conditions.

The Group is subject to German corporation tax on its German property rental business at an effective rate of 16%, resulting in a tax charge of £0.2 million (year to 31 December 2017: £0.3 million; six months to 30 June 2017: £0.2 million). A deferred tax liability of £10.9 million (31 December 2017: £10.2 million; 30 June 2017: £9.7 million) is recognised for the German capital gains tax that would potentially be payable on the sale of the relevant investment properties.

Notes to the Interim Report continued

8. Earnings per share

Basic EPS

Earnings per share ("EPS") is calculated as profit attributable to ordinary shareholders of the Company for each period divided by the weighted average number of ordinary shares in issue throughout the relevant period.

Diluted EPS

Diluted EPS reflects shares to be issued, including any to be issued in settlement of incentive fees that may be earned in the relevant period as if those shares had been issue throughout the period over which the incentive fee was earned. Where shares are issued in one reporting period relating to the results of the prior period, the shares are treated, for the purposes of calculating the weighted average of shares in issue, as having been issued on the earlier of the last day of that prior period and the actual date of issue.

	Unaudited six months to 30 June 2018 £000	Audited year to 31 December 2017 £000	Unaudited six months to 30 June 2017 £000
Profit	**64,657**	137,239	87,006

Weighted average number of shares in issue	**Number**	Number	Number
Basic EPS calculation	**281,091,238**	230,536,874	230,536,874
Shares to be issued in satisfaction of incentive fee	**–**	4,588,479	–
Estimate of shares to be issued in satisfaction of accrued incentive fee	**–**	–	958,532
Diluted EPS calculation	**281,091,238**	235,125,353	231,495,406

	Pence per share	Pence per share	Pence per share
Basic EPS	**23.0**	59.5	37.7
Diluted EPS	**23.0**	58.4	37.6

EPRA EPS

The European Public Real Estate Association ("EPRA") publishes guidelines for calculating adjusted earnings designed to represent core operational activities. As well as the standard EPRA earnings figure, an Adjusted EPRA earnings calculation has also been presented. This removes the effect of smoothing the fixed rental uplifts (in order not to artificially flatter dividend cover calculations) and any non-recurring costs, such as those for share placings or share issues. The adjusted measure also excludes any incentive fees, as they are considered to be linked to revaluation movements and are therefore best treated consistently with revaluations.

	Unaudited six months to 30 June 2018 £000	Audited year to 31 December 2017 £000	Unaudited six months to 30 June 2017 £000
Basic earnings attributable to shareholders	**64,657**	137,239	87,006
EPRA adjustments:			
Investment property revaluation	**(42,835)**	(113,428)	(70,120)
Other income	**–**	(171)	(131)
German deferred tax on investment property revaluations	**655**	1,437	1,022
EPRA earnings	**22,477**	25,077	17,777
Other adjustments:			
Rent Smoothing Adjustments	**(5,223)**	(11,443)	(5,962)
Incentive fee	**–**	17,575	3,539
Adjusted EPRA earnings	**17,254**	31,209	15,354

8. Earnings per share continued

As a result of those adjustments, the EPRA EPS figures are as follows:

	Unaudited six months to 30 June 2018 Pence per share	Audited year to 31 December 2017 Pence per share	Unaudited six months to 30 June 2017 Pence per share
EPRA EPS	**8.0**	10.9	7.7
Diluted EPRA EPS	**8.0**	10.7	7.7
Adjusted EPRA EPS	**6.2**	13.6	6.7

9. Investment properties

Freehold investment properties	**Unaudited six months to 30 June 2018 £000**	Audited year to 31 December 2017 £000	Unaudited six months to 30 June 2017 £000
At the start of the period	**1,693,956**	1,573,281	1,573,281
Additions	**228,574**	–	–
Revaluation movement	**47,720**	117,167	72,142
Currency translation movement	**(330)**	3,508	2,327
At the end of the period	**1,969,920**	1,693,956	1,647,750
Leasehold investment properties			
At the start of the period	**87,928**	80,224	80,224
Additions	**206,980**	–	–
Recognition of headlease liabilities acquired	**16,862**	–	–
Revaluation movement	**397**	7,787	4,010
Movement in headlease liabilities	**(59)**	(83)	(70)
At the end of the period	**312,108**	87,928	84,164
Total investment properties			
At the start of the period	**1,781,884**	1,653,505	1,653,505
Additions:			
Acquisitions completed in the period	**211,310**	–	–
Acquisitions completed 2 July 2018	**224,244**	–	–
	435,554	–	–
Revaluation movement	**48,117**	124,954	76,152
Recognition of headlease liabilities acquired	**16,862**	–	–
Currency translation movement	**(330)**	3,508	2,327
Movement in headlease liabilities	**(59)**	(83)	(70)
At the end of the period	**2,282,028**	1,781,884	1,731,914

Investment property additions in the period include £224.2 million relating to the acquisition of a portfolio of 37 properties that had unconditionally exchanged at the balance sheet date but that did not complete until 2 July 2018. The Group’s accounting policy is to recognise acquisitions on the date of unconditional exchange, and the outstanding amount payable to the seller at completion is included on the balance sheet as a liability in trade and other payables.

Notes to the Interim Report continued

9. Investment properties continued

As at 30 June 2018 the properties were externally valued at £2,253.5 million (31 December 2017: £1,770.2 million; 30 June 2017: £1,720.2 million). 98% of the portfolio was valued by CBRE Limited or Christie & Co, and 2% by another qualified valuation firm, in their capacity as external valuers. The valuations were prepared on a fixed fee basis, independent of the portfolio value, and were undertaken in accordance with RICS Valuation – Global Standards 2017 on the basis of fair value, supported by reference to market evidence of transaction prices for similar properties.

Under the Group's accounting policy, in line with International Financial Reporting Standards, the carrying values of leasehold properties are grossed up by the present value of minimum headlease payments. The corresponding liability to the head leaseholder is included in the balance sheet as a finance lease obligation. The resulting reconciliation between the carrying values of the investment properties and their external valuations is therefore as follows:

	Unaudited 30 June 2018 £000	Audited 31 December 2017 £000	Unaudited 30 June 2017 £000
Carrying value	**2,282,028**	1,781,884	1,731,914
Gross-up of headlease liabilities	**(28,524)**	(11,721)	(11,734)
External valuation	**2,253,504**	1,770,163	1,720,180

Included within the carrying value of investment properties at 30 June 2018 is £190.9 million (31 December 2017: £185.8 million; 30 June 2017: £180.0 million) in respect of the smoothing of fixed contractual rental uplifts as described in note 4. The difference between rents on a straight line basis and rents actually receivable is included within the carrying value of investment properties but does not increase that carrying value over fair value. The revaluation movement therefore comprises:

	Unaudited six months to 30 June 2018 £000	Audited year to 31 December 2017 £000	Unaudited six months to 30 June 2017 £000
Revaluation movement	**48,117**	124,954	76,152
Rent Smoothing Adjustments	**(5,223)**	(11,443)	(5,962)
Movement in gross-up of headlease liabilities	**(59)**	(83)	(70)
Revaluation movement in the income statement	**42,835**	113,428	70,120

The historic cost of the Group's investment properties as at 30 June 2018 was £1,693.5 million (31 December 2017 and 30 June 2017: £1,258.0 million). All of the investment properties are held within separate ring-fenced security pools, as security under fixed charges in respect of secured debt. At 30 June 2018 there were five separate security pools and since 2 July 2018, following completion of the purchase of the leisure portfolio for which contracts were exchanged on 9 March 2018, there are six separate security pools.

The Board determines the Group's valuation policies and procedures and is responsible for overseeing the valuations. Valuations are based on information provided from the Group's financial and property reporting systems, such as current rents and the terms and conditions of lease agreements, together with assumptions used by the valuers (based on market observation and their professional judgement) in their valuation models.

9. Investment properties continued

At each reporting date, certain partners of the Investment Adviser who have recognised professional qualifications and are experienced in valuing the types of property owned by the Group, initially analyse the external valuers' assessments of movements in the property valuations from the prior reporting date. Fair value changes (positive or negative) over a certain materiality threshold are considered. Changes in fair value are also compared to external sources (such as the Investment Property Databank and other relevant benchmarks) for reasonableness. Once the Investment Adviser has considered the valuations, the results are discussed with the Group's external valuers, focusing on properties with unexpected fair value changes or any with unusual characteristics. The Audit Committee considers the valuation process as part of its overall responsibilities, including meeting with the external valuers, and reports on its assessment of the valuation process to the Board.

The fair value of the investment property portfolio has been determined using an income capitalisation technique, whereby contracted and market rental values are capitalised with a market capitalisation rate. This technique is consistent with the principles in IFRS 13 and uses significant unobservable inputs, such that the fair value measurement of each property within the portfolio has been classified as level 3 in the fair value hierarchy as defined in IFRS 13. There have been no transfers to or from other levels of the fair value hierarchy during the period. The key inputs for the level 3 valuations were as follows:

			Inputs	
Portfolio	Fair value £000	Key unobservable input	Range	Blended yield
At 30 June 2018 (unaudited):				
Healthcare	967,920	Net initial yield	3.9% – 5.5%	4.9%
		Running yield by June 2019	4.0% – 5.7%	5.0%
Leisure – UK	701,868	Net initial yield	5.0% – 7.0%	5.3%
		Running yield by June 2019	5.1% – 7.0%	5.5%
		Future RPI assumption per annum	2.5% – 2.7%	
Leisure – Germany	110,975	Net initial yield	5.3%	5.3%
		Running yield by July 2019	5.5%	5.5%
Hotels	501,265	Net initial yield	4.5% – 10.1%	5.6%
		Running yield by June 2019	4.5% – 10.1%	5.7%
		Future RPI assumption per annum	2.5%	
Total at 30 June 2018	**2,282,028**			**5.2%**
At 31 December 2017 (unaudited):				
Healthcare	944,450	Net initial yield	3.9% – 5.5%	4.4%
		Running yield by June 2018	4.0% – 5.7%	5.0%
Leisure – UK	487,425	Net initial yield	5.0% – 5.6%	5.1%
		Running yield by June 2018	5.1% – 5.7%	5.2%
		Future RPI assumption per annum	2.5%	
Leisure – Germany	107,750	Net initial yield	5.5%	5.5%
		Running yield by July 2018	5.7%	5.7%
Hotels	242,259	Net initial yield	4.8% – 10.0%	5.8%
		Running yield by June 2018	5.8%	5.8%
		Future RPI assumption per annum	2.5%	
Total at 31 December 2017	**1,781,884**			**5.1%**
At 30 June 2017 (unaudited):				
Healthcare	925,850	Net initial yield	4.0% – 5.5%	4.9%
		Running yield by June 2018	4.1% – 5.7%	5.1%
Leisure – UK	480,525	Net initial yield	5.0% – 5.7%	5.1%
		Running yield by June 2018	5.1% – 5.9%	5.2%
		Future RPI assumption per annum	2.0%	
Leisure – Germany	104,700	Net initial yield	5.4%	5.4%
		Running yield by June 2018	5.6%	5.6%
Hotels	220,839	Net initial yield	5.2% – 9.3%	6.2%
		Running yield by June 2018	5.3% – 9.4%	6.3%
		Future RPI assumption per annum	2.5%	
Total at 30 June 2017	**1,731,914**			**5.2%**

Notes to the Interim Report continued

9. Investment properties continued

The principal sensitivity of measurement to variations in the significant unobservable outputs is that decreases in net initial yield, decreases in running yield and increases in RPI will increase the fair value (and vice versa).

10. Cash and cash equivalents

	Unaudited 30 June 2018 £000	Audited 31 December 2017 £000	Unaudited 30 June 2017 £000
Cash and deposit accounts	**66,144**	64,838	66,895
Cash held for portfolio acquisition	**132,782**	–	–
Free cash	**198,926**	64,838	66,895
Secured cash	**27,070**	23,435	23,292
Regulatory capital	**633**	482	474
	226,629	88,755	90,661

Secured cash is held in accounts over which the providers of secured debt have fixed security. As the Company is considered to be an internally managed Alternative Investment Fund, it is required by the Financial Conduct Authority to hold a balance of regulatory capital, which is currently maintained in cash.

11. Trade and other receivables

	Unaudited 30 June 2018 £000	Audited 31 December 2017 £000	Unaudited 30 June 2017 £000
Trade receivables	**115**	61	120
Prepayments and accrued income	**793**	298	171
Other receivables	**1**	35	19
	909	394	310

12. Trade and other payables

	Unaudited 30 June 2018 £000	Audited 31 December 2017 £000	Unaudited 30 June 2017 £000
Trade payables	**878**	136	74
Property acquisition completion liability	**198,508**	–	–
Rent received in advance and other deferred income	**25,448**	22,024	22,071
Interest payable	**8,765**	8,613	8,624
Accrued portfolio acquisition costs	**4,646**	–	–
Tax and social security	**2,743**	3,451	2,584
Accrued finance costs	**1,479**	–	–
Accruals and deferred income	**1,079**	757	720
	243,546	34,981	34,073

13. Secured debt

	Unaudited 30 June 2018 £000	Audited 31 December 2017 £000	Unaudited 30 June 2017 £000
Amounts falling due within one year			
Secured debt – current portion of long term facilities	**4,156**	4,156	4,156
Unamortised finance costs	**(2,482)**	(1,929)	(1,920)
	1,674	2,227	2,236
Amounts falling due in more than one year			
Secured debt	**1,020,041**	963,142	964,544
Unamortised finance costs	**(11,264)**	(10,056)	(10,978)
	1,008,777	953,086	953,566

Secured debt, which comprised fixed and floating rate loans, is measured at amortised cost. As at 30 June 2018 its fair value was £1,050.4 million (31 December 2017: £1,005.3 million; 30 June 2017: £1,017.4 million). The secured debt was externally valued in accordance with IFRS 13 by reference to interbank bid market rates at the close of business on the balance sheet date by JC Rathbone Associates Limited. All secured debt was classified as level 2 in the fair value hierarchy as defined in IFRS 13 and its fair value was calculated using the present values of future cash flows, based on market benchmark rates (interest rate swaps) and the estimated credit risk of the Group for similar financings. It should be noted that fair value is not the same as a liquidation valuation so does not reflect the liability that would crystallise if the debt was repaid on the balance sheet date, which would be materially higher.

The debt is secured by charges over the Group's investment properties and by fixed and floating charges over the other assets of certain Group companies, not including the Company itself save for a limited share charge over the parent company of one of the ring-fenced subgroups. There have been no defaults or breaches of any loan covenants during the current or any prior period.

At 30 June 2018 the Group had served irrevocable notices to draw £69.5 million of secured debt on 2 July 2018 to finance the acquisition of a property portfolio. The Group had no undrawn, committed borrowing facilities at either prior period balance sheet date.

Notes to the Interim Report continued

14. Deferred tax

The movements in the deferred tax liability, which relate entirely to unrealised gains on the Group's German investment properties, were as follows:

	Unaudited six months to 30 June 2018 £000	Audited year to 31 December 2017 £000	Unaudited six months to 30 June 2018 £000
At the start of the period	**10,238**	8,496	8,496
Charge to the income statement	**609**	1,437	1,022
Charge to other comprehensive income	**15**	305	215
At the end of the period	**10,862**	10,238	9,733

15. Share capital

Share capital represents the aggregate nominal value of shares issued. The movement in the number of shares in issue over the period was as follows:

Fully paid ordinary shares of £0.10 each	**Unaudited 30 June 2018 Number**	Audited 31 December 2017 Number	Unaudited 30 June 2017 Number
Actual shares in issue at the start of the period	**230,536,874**	227,229,706	227,229,706
Issue of ordinary shares:			
in respect of March 2018 placing	**86,438,000**	–	–
in settlement of 2017 incentive fee	**4,588,479**	–	–
in settlement of 2016 incentive fee	**–**	3,307,168	3,307,168
Actual shares in issue at the end of the period	**321,563,353**	230,536,874	230,536,874
Dilution from settlement of 2017 incentive fee:			
Shares to be issued	**–**	4,588,479	–
Estimate of shares to be issued	**–**	–	958,532
Diluted shares in issue at the end of the period	**321,563,353**	235,125,353	231,495,406

16. Reserves

The share premium reserve represents the surplus of the gross proceeds of share issues over the nominal value of the shares, net of the direct costs of equity issues.

Other reserves represent the cumulative exchange gains and losses on the translation of the Group's net investment in its German operations, as well as the impact on equity of any shares to be issued after the balance sheet date, as described in note 18, under the terms of the incentive fee arrangements.

Retained earnings represent the cumulative profits and losses recognised in the income statement, together with any amounts transferred or reclassified from the other Group reserves, less dividends paid.

17. Net asset value per share

The net asset value ("NAV") per share of 379.1 pence (31 December 2017: 373.3 pence; 30 June 2017: 352.8 pence) is calculated as the net assets of the Group attributable to shareholders divided by the number of shares in issue at the end of the period of 321,563,353 (31 December 2017 and 30 June 2017: 230,536,874). Diluted NAV per share is adjusted for any shares that will be issued, including those in settlement of incentive fees that may become payable as explained in note 18.

The European Public Real Estate Association ("EPRA") has issued guidelines aimed at providing a measure of net asset value on the basis of long term fair values. The EPRA measure excludes items that are considered to have no impact in the long term, such as the deferred tax on investment properties held for long term benefit. The Group's EPRA NAV is calculated as follows:

	Unaudited 30 June 2018		Audited 31 December 2017		Unaudited 30 June 2017	
	£000	**Pence per share**	£000	Pence per share	£000	Pence per share
Basic NAV	**1,218,901**	**379.1**	860,577	373.3	813,251	352.8
Dilution from settlement of 2017 incentive fee:						
Shares to be issued	**–**	**–**	–	(7.3)	–	–
Estimate of shares to be issued	**–**	**–**	–	–	–	(1.5)
Diluted NAV	**1,218,901**	**379.1**	860,577	366.0	813,251	351.3
EPRA adjustments:						
Deferred tax on investment property revaluations	**10,862**	**3.3**	10,238	4.4	9,733	4.2
EPRA NAV	**1,229,763**	**382.4**	870,815	370.4	822,984	355.5

18. Related party transactions and balances

Interests in shares

The direct and indirect interests of the Directors and their families in the share capital of the Company are as follows:

	Unaudited 30 June 2018		Audited 31 December 2017		Unaudited 30 June 2017	
	Number of shares	**Percentage of issued share capital**	Number of shares	Percentage of issued share capital	Number of shares	Percentage of issued share capital
Nick Leslau*†	**24,016,096**	**7.47%**	23,194,179	10.06%	23,194,179	10.06%
Mike Brown†	**1,183,581**	**0.37%**	909,608	0.39%	909,608	0.39%
Sandy Gumm†	**192,573**	**0.06%**	165,176	0.07%	165,176	0.07%
Martin Moore	**118,357**	**0.04%**	90,960	0.04%	90,960	0.04%
Ian Marcus	**87,002**	**0.03%**	57,471	0.02%	57,471	0.02%
Jonathan Lane	**57,471**	**0.02%**	51,023	0.02%	51,023	0.02%
Leslie Ferrar	**22,739**	**0.01%**	22,739	0.01%	22,739	0.01%

* Comprises 22,466,916 ordinary shares held by PIHL Property LLP, 1,491,709 (31 December 2017 and 30 June 2017: 669,792) shares held by Yoginvest Limited and 57,471 ordinary shares held by the Saper Trust. Nick Leslau has a 71% indirect interest in PIHL Property LLP, owns Yoginvest Limited and is a beneficiary of the Saper Trust.

† In addition to the amounts shown in the table above, as at 30 June 2018 a further 17,771,890 ordinary shares (31 December 2017 and 30 June 2017: 13,183,411 ordinary shares), representing 5.5% (31 December 2017 and 30 June 2017: 5.7%) of the issued share capital, were owned by a subsidiary of Prestbury Investments LLP ("Prestbury"), the Investment Adviser to the Group. Nick Leslau, Mike Brown and Sandy Gumm hold partnership interests in, and are respectively Chairman, Chief Executive and Chief Operating Officer of Prestbury.

Notes to the Interim Report continued

18. Related party transactions and balances continued

Directors' fees

Fees totalling £185,000 per annum up to 31 March 2018 and £200,000 per annum thereafter were payable to the four independent non-executive Directors not connected to Prestbury Investments LLP. The Directors connected to Prestbury (Nick Leslau, Mike Brown and Sandy Gumm) do not receive Directors' fees. Directors' fees of £96,250 were therefore payable in the period (year to 31 December 2017: £185,000; six months to 30 June 2017: £93,000). No fees were outstanding at any balance sheet date.

Advisory fees payable

Nick Leslau, Mike Brown and Sandy Gumm are Directors of the Company and are respectively Chairman, Chief Executive and Chief Operating Officer of Prestbury, in which they also hold partnership interests. Prestbury is Investment Adviser to the Group under the terms of an agreement that became effective on listing in June 2014 (the "Investment Advisory Agreement"). Under the terms of the Investment Advisory Agreement, advisory fees of £5.7 million (year to 31 December 2017: £9.3 million; six months to 30 June 2017: £4.6 million) plus VAT were payable in cash to Prestbury in respect of the period, of which £0.1 million (31 December 2017: £0.1 million; 30 June 2017: £0.2 million) was outstanding at the balance sheet date.

Incentive fee

Under the terms of the Investment Advisory Agreement, a Prestbury group company may become entitled to an incentive fee intended to reward growth in Total Accounting Return ("TAR") above an agreed benchmark and to maintain strong alignment of Prestbury's interests with those of shareholders. TAR is measured as growth in EPRA NAV per share plus dividends paid in the year. The fee entitlement is calculated annually on the basis of the Group's audited financial statements, with any fee payable settled in shares in the Company (subject to certain limited exceptions). Sales of these shares are restricted, with the restriction lifted on a phased basis over a period from 18 to 42 months from the date of issue, subject to a specific release in the event that Prestbury needs to sell shares to settle the tax liability on the fee income it earns.

The incentive fee is calculated in accordance with the Investment Advisory Agreement by reference to growth in TAR: if this growth exceeds a hurdle rate of 10% per annum over a given financial year, an incentive fee equal to 20% of this excess is payable to Prestbury. In the event of an incentive fee being payable at the end of an accounting period, a "high water mark" is established, represented by the closing EPRA NAV per share after the impact of the incentive fee, which is then the starting point for the cumulative hurdle calculations for future periods. The hurdle will therefore be set at the higher of the EPRA NAV at the start of the year plus 10% or the most recent high water mark EPRA NAV plus 10% per annum. Dividends or other distributions paid in any period are treated as payments on account against achievement of the hurdle rate of return.

A high water mark EPRA NAV per share of 370.4 pence per share was established at 31 December 2017 when a fee was last earned. Adjusting for the share issue during the period, TAR will have to exceed 37.0 pence per share for the year ending 31 December 2018 for a fee to be earned; that is, EPRA NAV before distributions for the year will have to exceed 407.4 pence per share (£1,310.2 million) at 31 December 2018 before any incentive fee becomes payable.

18. Related party transactions and balances continued

In order to make a reasonable assessment of whether or not such a fee will be payable, the Board has estimated the EPRA NAV of the Group at 31 December 2018, assuming that:

- the property portfolio valuation yields do not change from those applied as at 30 June 2018;
- there are no acquisitions, disposals or lease variations;
- any additional uplift in rent from the outstanding Ramsay rent review is not included, on the basis that the outcome of the review is not yet known with sufficient certainty;
- there are no currency translation gains or losses:
- RPI uplifts are consistent with the expectations reflected in the June 2018 external investment property valuations; and
- the Group's Adjusted EPRA EPS over the remainder of the year is fully distributed on a quarterly basis.

This estimate does not constitute a forecast but represents an illustrative case considered to provide a reasonable basis for assessing whether an incentive fee will be payable, while recognising the limitations inherent in any estimate of future values. On the basis of these assumptions, no fee will be payable for the 2018 year and as a result no fee is accrued at 30 June 2018 (30 June 2017: £3.5 million).

Irrecoverable VAT arises on any element of the Group's costs, including any incentive fee, that relate to the healthcare portfolio. Since new ordinary shares are issued in satisfaction of an incentive fee, the cost of that fee in the financial statements only impacts the net asset value of the Group to the extent of the irrecoverable VAT but the shares to be issued do reduce the Group's net asset value per share.

19. Events after the balance sheet date

On 2 July 2018 the Group completed the acquisition of the leisure portfolio for which purchase contracts exchanged on 9 March 2018 and which became unconditional on 29 March 2018. A deposit of £21.9 million was paid when contracts became unconditional. £69.5 million of secured debt was drawn on the completion date to part finance the purchase and the balance due of £135.1 million including costs was paid from the Group's cash resources. Passing rent on the portfolio at the date of acquisition was £14.0 million, expected annual net property outgoings (including headlease costs) are £0.7 million and annual financing costs (including amortised finance costs) on the new debt facilities are £2.5 million.

On 31 August 2018, the Company paid a distribution of £12.6 million.

Supplementary Information

Shareholder return – TAR and TSR

Shareholder return is one of the Company's principal measures of performance. Total Shareholder Return ("TSR") is measured by reference to the growth in the Company's share price over a period, plus distributions. When providing illustrations of future performance, the Company measures TSR by reference to illustrative EPRA NAV as a proxy for the share price performance, referred to in these report and accounts as Total Accounting Return ("TAR"). The tables below show the calculations of TAR and TSR for the relevant periods.

TAR – EPRA NAV performance

	Six months to 30 June 2018 Pence per share	Year to 31 December 2017 Pence per share	Six months to 30 June 2017 Pence per share
EPRA NAV:			
at the start of the period	**370.4**	323.6	323.6
at the end of the period	**382.4**	370.4	355.5
Increase in EPRA NAV	**12.0**	46.8	31.9
Dividends	**6.0**	13.6	6.6
Increase in EPRA NAV plus dividends	**18.0**	60.4	38.5
TAR – EPRA NAV basis	**4.9%**	18.7%	11.9%

TSR – share price performance

	Six months to 30 June 2018 Pence per share	Year to 31 December 2017 Pence per share	Six months to 30 June 2017 Pence per share
Mid market closing share price:			
at the start of the period	**360.8**	315.5	315.5
at the end of the period	**384.0**	360.8	345.8
Increase in share price	**23.2**	45.3	30.3
Dividends	**6.0**	13.6	6.6
Increase in share price plus dividends	**29.2**	58.9	36.9
TSR – share price basis	**8.1%**	18.7%	11.7%

EPRA measures

	30 June 2018	31 December 2017	30 June 2017
EPRA NAV per share	**382.4p**	370.4p	355.5p
EPRA Triple NAV Per Share	**370.9p**	349.8p	330.2p
EPRA Net Initial Yield	**5.2%**	5.1%	5.2%
EPRA Topped Up Net Initial Yield	**5.2%**	5.1%	5.2%
EPRA Vacancy Rate	**0%**	0%	0%

	Six months to 30 June 2018	Year to 31 December 2017	Six months to 30 June 2017
EPRA EPS	**8.0p**	10.9p	7.7p
Adjusted EPRA EPS	**6.0p**	13.6p	6.7p
EPRA Capital Expenditure	**£435.5m**	–	–
EPRA Cost Ratio excluding direct vacancy costs	**13.3%**	27.9%	17.6%
EPRA Cost Ratio including direct vacancy costs	**13.3%**	27.9%	17.6%
Adjusted EPRA Cost Ratio excluding non-cash items (including and excluding direct vacancy costs)	**14.7%**	14.3%	12.9%

Supplementary Information continued

EPRA NAV per share

	30 June 2018		31 December 2017		30 June 2017	
	£000	**Pence per share**	£000	Pence per share	£000	Pence per share
Basic NAV	**1,218,901**	**379.1**	860,577	373.3	813,251	352.8
Dilution from shares to be issued for 2017 incentive fee	**–**	**–**	–	(7.3)	–	(1.5)
Diluted NAV	**1,218,901**	**379.1**	860,577	366.0	813,251	351.3
EPRA adjustments:						
Deferred tax on investment property revaluations	**10,862**	**3.3**	10,238	4.4	9,733	4.2
EPRA NAV	**1,229,763**	**382.4**	870,815	370.4	822,984	355.5

Basic NAV, diluted NAV and EPRA NAV are calculated on the number of shares in issue at each balance sheet date.

	30 June 2018 Number	31 December 2017 Number	30 June 2017 Number
Basic NAV	**321,563,353**	230,536,874	230,536,874
Shares to be issued in satisfaction of incentive fee (note 18)	**–**	4,588,479	–
Estimate of shares to be issued in settlement of accrued 2017 incentive fee	**–**	–	958,532
Diluted and EPRA NAV	**321,563,353**	235,125,353	231,495,406

EPRA Triple Net Asset Value Per Share

The EPRA Triple NAV is adjusted to reflect the fair values of any debt and hedging instruments, and any inherent tax liabilities not provided for in the financial statements. This is calculated as follows:

	30 June 2018		31 December 2017		30 June 2017	
	£000	**Pence per share**	£000	Pence per share	£000	Pence per share
EPRA NAV	**1,229,763**	**382.4**	870,815	370.4	822,984	355.5
Adjustment to reflect fair value of fixed rate debt	**(26,172)**	**(8.2)**	(38,024)	(16.2)	(48,747)	(21.1)
Deferred tax on investment property revaluations	**(10,862)**	**(3.3)**	(10,238)	(4.4)	(9,733)	(4.2)
EPRA Triple NAV	**1,192,729**	**370.9**	822,553	349.8	764,504	330.2

The fair value of the fixed rate debt is defined by EPRA as a mark-to-market adjustment measured in accordance with IFRS 9 in respect of all debt not held on the balance sheet at its fair value. It should be noted that the fair value of debt is not the same as a liquidation valuation, so the fair value adjustment above does not reflect the liability that would crystallise if the debt was repaid on the balance sheet date, which would be materially higher.

EPRA Net Initial Yield and EPRA Topped Up Net Initial Yield

	30 June 2018 £000	31 December 2017 £000	30 June 2017 £000
Investment property at external valuation (note 9) all of which is wholly owned	**2,253,503**	1,770,163	1,720,180
Allowance for estimated purchasers' costs	**152,031**	119,480	116,125
Grossed up completed property portfolio valuation	**2,405,535**	1,889,643	1,836,305
Annualised cash passing rental income	**124,514**	95,682	95,169
Annualised non-recoverable property outgoings	**(682)**	(26)	(26)
Annualised net rents	**123,832**	95,656	95,143
Notional rent increase on expiry of rent free periods and other lease incentives	**187**	–	–
Topped-up annualised net rents	**124,019**	95,656	95,143
EPRA Net Initial Yield	**5.2%**	5.1%	5.2%
EPRA Topped Up Net Initial Yield	**5.2%**	5.1%	5.2%
Purchasers' costs calculated using:			
English assets	**£2,085.8m**	£1,618.7m	£1,576.0m
Rate on English assets	**6.75%**	6.75%	6.75%
Scottish assets	**£56.7m**	£43.7m	£39.5m
Rate on Scottish assets	**6.12%**	6.12%	6.12%
German assets	**£111.0m**	£107.8m	£104.7m
Rate on German assets	**7.0%**	7.0%	7.0%

EPRA Vacancy Rate

	30 June 2018	31 December 2017	30 June 2017
EPRA Vacancy Rate	**0%**	0%	0%

EPRA Capital Expenditure

	Six months to 30 June 2018 £000	Year to 31 December 2017 £000	Six months to 30 June 2017 £000
Acquisitions completed and committed	**435,515**	–	–
Development	**–**	–	–
Expenditure on like for like portfolio	**–**	–	–
Other	**–**	–	–
EPRA Capital Expenditure	**435,515**	–	–

The expenditure on acquisitions in the period represents the purchase of two portfolios including costs. The Group does not capitalise any overheads or interest into its property portfolio and it does not develop properties.

The Group's properties are let on full repairing and insuring leases, so the Group incurs no routine ongoing capital expenditure on its investment portfolio. There is only negligible vacant space at 30 June 2018 and there was no vacant space in prior periods.

Supplementary Information continued

EPRA EPS

	Six months to 30 June 2018 £000	Year to 31 December 2017 £000	Six months to 30 June 2017 £000
Basic earnings attributable to shareholders	**64,657**	137,239	87,006
EPRA adjustments:			
Investment property revaluation	**(42,835)**	(113,428)	(70,120)
Other income	**–**	(171)	(131)
German deferred tax on investment property revaluations	**655**	1,437	1,022
EPRA earnings	**22,477**	25,077	17,777
Other adjustments:			
Rent Smoothing Adjustments	**(5,223)**	(11,443)	(5,962)
Incentive fee	**–**	17,575	3,539
Adjusted EPRA earnings	**17,254**	31,209	15,354

Weighted average number of shares in issue	**Six months to 30 June 2018 Number**	Year to 31 December 2017 Number	Six months to 30 June 2017 Number
Adjusted EPRA EPS	**279,179,372**	229,685,165	230,072,185
Adjustment for weighting of shares issued during the year*	**1,911,866**	851,709	464,689
EPRA EPS	**281,091,238**	230,536,874	230,536,874
Shares to be issued in satisfaction of incentive fee	**–**	4,588,479	–
Estimate of shares to be issued in satisfaction of accrued incentive fee	**–**	–	958,532
Diluted EPS	**281,091,238**	235,125,353	231,495,406

* Adjusted EPRA EPS is calculated using the weighted average number of shares reflecting the actual date on which shares are issued in settlement of any incentive fee. EPRA EPS and Diluted EPRA EPS are calculated on the assumption that those shares were in issue throughout the year.

	Six months to 30 June 2018 Pence per share	Year to 31 December 2017 Pence per share	Six months to 30 June 2017 Pence per share
EPRA EPS	**8.0**	10.9	7.7
Diluted EPRA EPS	**8.0**	10.7	7.7
Adjusted EPRA EPS	**6.2**	13.6	6.7

EPRA Cost Ratios

	Six months to 30 June 2018 £000	Year to 31 December 2017 £000	Six months to 30 June 2017 £000
Revenue (note 4)	**56,109**	106,930	52,984
Tenant contributions to property outgoings	**(594)**	(1,112)	(550)
EPRA gross rental income	**55,515**	105,818	52,434
Non-recoverable property operating expenses*	**129**	26	7
Administrative expenses	**6,993**	28,985	8,965
Corporate costs	**264**	502	236
Direct vacancy costs	**–**	–	–
EPRA costs	**7,386**	29,513	9,208
EPRA Cost Ratio including and excluding direct vacancy costs	**13.3%**	27.9%	17.6%

* included within the £569,000 (31 December 2017: £256,000; 30 June 2017 £341,000) of property costs charged to the income statement are £440,000 (31 December 2017: £230,000; 30 June 2017 £334,000) of costs that are recoverable from the tenant.

The Group had no vacant property in any period, therefore the EPRA cost ratio is the same inclusive and exclusive of vacant property costs.

The Group has no capitalised overheads or operating expenses.

Adjusted EPRA Cost Ratios excluding non-cash items

	Six months to 30 June 2018 £000	Year to 31 December 2017 £000	Six months to 30 June 2017 £000
EPRA gross rental income	**55,515**	105,818	52,434
Rent Smoothing Adjustments	**(5,223)**	(11,443)	(5,962)
Adjusted EPRA gross rental income excluding non-cash items	**50,292**	94,375	46,472
EPRA costs	**7,386**	29,513	9,208
Incentive fee settled in shares	**–**	(16,015)	(3,224)
Adjusted EPRA costs excluding non-cash items	**7,386**	13,498	5,984
EPRA Cost Ratio including and excluding direct vacancy costs	**14.7%**	14.3%	12.9%

Glossary

Adjusted EPRA EPS	**EPRA EPS** adjusted to exclude non-cash and non-recurring costs, calculated on the basis of the time-weighted number of shares in issue
AIFMD	Alternative Investment Fund Managers Directive
EPRA	European Public Real Estate Association
EPRA EPS	A measure of **EPS** designed by **EPRA** to present underlying earnings from core operating activities
EPRA Guidance	The **EPRA** Best Practices Recommendations Guidelines November 2016
EPRA NAV	A measure of **NAV** designed by **EPRA** to present the fair value of a company on a long term basis, by excluding items such as interest rate derivatives that are held for long term benefit, net of deferred tax
EPS	Earnings per share, calculated as the profit for the period after tax attributable to members of the parent company divided by the weighted average number of shares in issue in the period
IFRS	International Financial Reporting Standards adopted for use in the European Union
Investment Advisory Agreement	The agreement between the Company (and its subsidiaries) and the Investment Adviser, key terms of which are set out on pages 204 to 221 of the **Secondary Placing Disclosure Document**
Key Operating Asset	An asset where the operations conducted from the property are integral to the tenant's business
Loan To Cost or LTC	The outstanding amount of a loan as a percentage of the cost of the property on which it is secured
Loan To Value or LTV	The outstanding amount of a loan as a percentage of the value of the property on which it is secured
NAV	Net asset value
Net Initial Yield	Annualised net rents on investment properties as a percentage of the investment property valuation, less purchaser's costs
Net Loan To Value or Net LTV	**LTV** where the loan amount is stated net of cash balances
REIT	Real Estate Investment Trust
Rent Smoothing Adjustments	Adjustments arising from the requirements of the accounting standards to spread the impact of fixed rental uplifts evenly over the term of relevant leases. The adjustments reflected in these financial statements increase rental income and reduce property valuation gains but have no impact on retained earnings or Net Asset Value.
Running Yield	The anticipated **Net Initial Yield** at a future date, taking account of any rent reviews in the intervening period
Secondary Placing Disclosure Document	The Secondary Placing Disclosure Document dated 14 March 2016 which is available in the Investor Centre of the Company's website under "Circulars to Shareholders/2016"
Total Accounting Return	The movement in **EPRA NAV** over a period plus dividends paid in the period, expressed as a percentage of the **EPRA NAV** at the start of the period
Total Shareholder Return	The movement in share price over a period plus dividends paid in the period, expressed as a percentage of the share price at the start of the period

Company Information

Registered office	Cavendish House, 18 Cavendish Square, London W1G 0PJ
Directors	Martin Moore, Non–Executive Chairman Mike Brown Leslie Ferrar, Chairman of the Audit Committee Sandy Gumm Jonathan Lane, Chairman of the Nominations Committee Nick Leslau Ian Marcus, Senior Independent Director and Chairman of the Remuneration Committee
Company Secretary	Sandy Gumm
Investment Adviser	Prestbury Investments LLP Cavendish House, 18 Cavendish Square, London W1G 0PJ
Nominated Adviser and Broker	Stifel Nicolaus Europe Limited 150 Cheapside, London EC2V 6ET
Auditor	BDO LLP 55 Baker Street, London W1U 7EU
Principal property valuers	CBRE Limited Henrietta House, Henrietta Place, London W1G 0NB Christie & Co Whitefriars House, 6 Carmelite Street, London EC4Y 0BS
Financial PR advisers	Newgate Communications Limited Sky Light City Tower, 50 Basinghall Street, London EC2V 5DE Email: SIR@newgatecomms.com
Registrar	Link Asset Services The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU Helpline: 0871 664 0300 Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open 9.00am to 5.30pm, Monday to Friday excluding public holidays in England and Wales. Email: enquiries@linkgroup.co.uk
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