Results for the six months to 30 June 2019

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

The Company owns a £2.05 billion portfolio at the 30 June 2019 external valuation (adjusted for the sale of eight hospitals in July 2019) of 164 high quality assets let to financially strong businesses in defensive sectors on leases with a c. 21.5 year weighted average unexpired term. 59% of the Group's rental income is subject to upwards only RPI-linked reviews and 41% to fixed uplifts.

SIR has a highly experienced board, chaired by Martin Moore, and is advised by Prestbury Investments LLP. Prestbury is owned and managed by Nick Leslau, Mike Brown, Tim Evans, Sandy Gumm and Ben Walford, a team with a long-standing and successful track record in real estate investments and asset management and, with an investment worth c. £190 million in the Company, very close alignment with the interests of SIR shareholders.

An investment in SIR offers a secure, growing income stream, strong foundations for sustainable capital growth and the prospect of attractive risk adjusted returns for shareholders over the long term.

Contents

Highlights

	Pro forma 30 June 2019 *	31 December 2018	Change in period
Net assets	**£1,344.6m**	£1,281.6m	↑ 4.9%
EPRA net assets	**£1,357.6m**	£1,292.9m	↑ 5.0%
EPRA net assets per share	**420.5p**	400.5p	↑ 5.0%
Net Loan To Value ratio	**33.0%**	43.0%	↓ 23.3%
Annualised passing rent – like for like	**£111.1m**	£109.1m	↑ 1.9%
Portfolio blended net initial valuation yield	**5.1%**	5.1%	-

* presented on a pro forma basis: 30 June 2019 financial position adjusted for the impact of the hospitals portfolio disposal announced on 22 July 2019, as presented on page 5.

	Six months to 30 June 2019	Six months to 30 June 2018	Change in period
Adjusted EPRA earnings per share	**8.1p**	6.2p	↑ 30.6%
Dividends per share	**7.9p**	6.0p	↑ 30.9%
Latest dividend per share annualised, as a percentage of EPRA NAV	**4.0%**	4.1%	↓ 2.4%

- On 22 July 2019 **eight of the group's 19 private hospitals were sold for gross consideration of £347 million:**
  - price achieved at **16% above 30 June 2019 book value**
  - **increases EPRA NAV per share** by 4.6 pence per share to 420.5 pence on a pro forma basis
  - **reduces net debt by c. £316 million** effective from completion on 16 August 2019 and **increases uncommitted cash to £232 million**
  - **Net Loan To Value ratio reduced to 33.0%**
  - 65% capital return and **over 100% unlevered property return on sold assets since IPO**

- **Results for the period deliver a 3.4% uplift in NAV per share (IFRS basis) and pro forma EPRA NAV per share** (adjusted for the hospitals disposal):
  - **up 5.0% to 420.5p** since 31 December 2018
  - **up 142%** from placing price at IPO in June 2014

- **Total Accounting Return 7.0%; Total Shareholder Return 8.2%**
  - **Total Accounting Return of 20.1% per annum since listing** in June 2014

- **Adjusted EPRA EPS up 30.6%** to 8.1p for the six months to 30 June 2019 compared to first six months of 2018

- Distributions:
  - **currently yielding an annualised 4.0%** on 30 June 2019 pro forma EPRA NAV based on the Q3 2019 dividend
  - **dividends per share up 31% year on year** for the first six months

- Portfolio externally valued at a **blended Net Initial Yield of 5.1%** amounting to £2.05 billion at 30 June 2019 pro forma; **like for like portfolio valuation up 2.0%** over the six months to 30 June 2019

- Portfolio of 164 Key Operating Assets (excluding the eight hospitals sold in July) in defensive sectors producing **£111.1 million per annum** of passing rent at 30 June 2019; like for like passing rents up **1.9%**

- Weighted average unexpired lease term as at 30 June 2019 of **21.5 years with no breaks**, up from 20.9 years at 31 December 2018 including increases of:
  - 0.7 years as a result of the extension of the lease on The Brewery at Chiswell Street for no payment to the tenant
  - 0.3 years as a result of the hospitals portfolio disposal

- **Strong and predictable growth prospects** underpinned by upwards only RPI-linked rent reviews (59% of passing rents) and fixed rental uplifts (41% of passing rents)

- **Management team alignment with shareholders** through a management shareholding of 13.9% worth c. £188 million at 30 June 2019 pro forma EPRA NAV

Highlights continued

Martin Moore, Non-Executive Chairman of the Company, commented:

"With political uncertainty reaching a crescendo in the UK and recession fears spreading across the world, bond yields have plummeted as investors seek safety. Income returns on most safe haven assets are now minimal yet Secure Income REIT's property portfolio continues to offer a net initial yield of 5.1%, secured on leases of over 21 years without break let to strong tenants in defensive sectors, and guaranteed income growth delivered by a 60/40 blend of upwards only RPI-linked reviews and fixed uplifts. The recent sale of £347 million of our non-core hospitals at a price 16% above valuation demonstrates the strong attraction of well-let alternative property and provides the Company with over £230 million to redeploy as and when opportunities arise. With a robust balance sheet and a strongly performing portfolio delivering 5% NAV growth in the first half of the year we continue to view the future with confidence."

BUSINESS REVIEW

Chairman's Statement

Dear shareholder,

Following a very busy 2018, the Board and management team has continued its disciplined and active management of the Company's capital, culminating in the announcement in July 2019 of a £347 million sale of a portfolio of eight private hospitals, achieving a 16% premium of the gross proceeds over the 30 June 2019 book value of the assets sold. While the sale is not reflected in the financial statements as it occurred after the balance sheet date, we present in these business review reports pro forma figures, taking the 30 June 2019 balance sheet and adjusting it to reflect the impact of the sale and related debt repayment. Those adjustments are presented on page 5.

Results and financial position

The Group's NAV per share at 30 June 2019 was 411.9 pence, up 3.4% from 398.5 pence at 31 December 2018. The Group's EPRA NAV per share at 30 June 2019 was 415.9 pence and its pro forma EPRA NAV per share at that date (adjusted for the impact of the hospitals portfolio disposal) was 420.5 pence, an increase of 5.0% since 31 December 2018. Our primary focus remains on overall returns delivered to shareholders including capital and income growth, and performance in this regard was once again satisfactory, with a Total Accounting Return of 7.0% over the six months to 30 June 2019 adjusted on a pro forma basis for the hospitals portfolio disposal, and a Total Shareholder Return of 8.2% over the same period.

	£m	**Pence per share**	**Total Accounting Return**
EPRA NAV at 1 January 2019	1,292.9	400.5	
Investment property revaluation	48.6	15.0	
Other retained earnings	26.6	8.3	
Dividends paid	(25.3)	(7.9)	
EPRA NAV at 30 June 2019	**1,342.8**	**415.9**	**5.8%**
Impact of hospitals portfolio disposal in July 2019	14.8	4.6	
Pro forma EPRA NAV at 30 June 2019	**1,357.6**	**420.5**	**7.0%**

The like for like valuation increase over six months, excluding assets sold in the period and the hospitals portfolio disposal, was 2.0%. Rents increased by 1.9% on a like for like basis following the settlement of rent reviews on 61% of the total portfolio income. Following the rent reviews in the period and excluding the hospitals sold in July 2019, the blended Net Initial Yield was 5.1% at 30 June 2019, which was unchanged from the 31 December 2018 external valuations. As the hospitals portfolio disposal occurred after the balance sheet date, the external valuers have not taken the price achieved into account as valuation evidence as at 30 June 2019.

The Net Loan To Value ratio at 30 June 2019 was 42.2% and fell further to 33.0% on a pro forma basis following the hospitals portfolio disposal. This represents a very material reduction from the 43.0% reported at the end of 2018, in line with the Board's strategy to reduce the Net Loan to Value ratio over time. The uncommitted cash balance held by the group had increased from £66.4 million at 31 December 2018 to £68.0 million at 30 June 2019, and further increased to £232.0 million on a pro forma basis following the sale.

The Group's Adjusted EPRA EPS was 8.1 pence in the six months to 30 June 2019 compared to 6.2 pence for the equivalent period in 2018, an increase of 31% which reflects the positive impact of the two portfolio acquisitions during 2018 and the increase in like for like passing rents. The Group's EPS, measured on an IFRS basis without the industry standard EPRA adjustments, was 23.1 pence in the six months to 30 June 2019 compared to 23.0 pence for the equivalent period in 2018, also reflecting those rental increases and the positive impact of last year's acquisitions as well as the uplifts in property valuations recognised in the period.

With effect from the completion of the hospitals portfolio disposal in mid-August, the Group's Adjusted EPRA EPS will reduce as the £16.0 million per annum passing rent on the sold portfolio, net of a £6.5 million per annum saving in interest cost, is replaced by the return on c. £164 million of surplus cash realised on sale. We expect that the net impact on Adjusted EPRA EPS per share as at the date of completion of the sale is approximately 2.7 pence per annum. As announced at the time of the disposal, we intend to maintain dividends at the level achieved prior to the sale such that investors' income returns remain whole for as long as the Company holds surplus cash.

BUSINESS REVIEW
Chairman's Statement continued

Outlook
Volatility has returned to equity markets as investors' attention has swung back to the twin threats of geo-political risks and slowing global growth. The resultant flight to safety has had a dramatic impact on the pricing of government bonds with 30 year US Treasury yields falling below 2% for the first time in history. In much of the developed world a government bond yield of 2% has become the stuff of dreams with all German and Swiss bonds across the entire maturity spectrum offering negative yields. In Japan and France bond yields only turn positive at durations over 16 years whilst in the UK 10 year gilts offer less than 0.5%. Inflation protection via long-dated index-linked gilts has been expensive for several years but investors now face an even steeper bill as yields have plummeted to minus 2.2%, pushing up their price by as much as 10% over the last month and 20% compared to six months ago. In contrast, the yields offered by well-let property with index-linked uplifts continue to be much more generous.

Political uncertainty is reaching a crescendo in the UK as the probability of a no-deal Brexit has risen significantly. Regrettably, uncertainty is also likely to continue into 2020 and quite possibly beyond. Any of the following: a disorderly Brexit, the prospects of an imminent general election or a far-left Labour government is likely to sustain demand for lower-risk inflation-protected investments. Continued Sterling weakness should also contribute to attracting overseas capital into these assets, especially if global economic concerns continue to suppress government bond yields across the world. The £347 million sale of our non-core hospitals at a 16% premium to valuation to a US healthcare REIT is an illustration of this trend. The fact that these assets delivered an unlevered total return of over 100% during the five years of our ownership as a quoted REIT demonstrates how ostensibly "boring" assets that churn out highly predictable income streams can deliver exciting returns.

The UK REIT market has become bifurcated with the ratings between the best and worst performing sectors at an all-time high. Shopping centre REIT share prices have collapsed as landlords have lost pricing power to their retail tenants whilst CVAs drive vacancy rates inexorably upwards. At the other end of the spectrum those parts of the alternatives and warehouse markets still judged to retain their capacity to deliver sustainably growing income streams are being rewarded with premium ratings.

In a world where it is increasingly difficult to find safe assets that still provide an attractive income return, Secure Income REIT's property portfolio has continued to offer a net initial yield of 5.1%. Its income security is delivered through owning key operating assets with high barriers to entry, let on long leases averaging 21.5 years unexpired term to strong businesses operating in defensive, less cyclical sectors. The Company's income growth is highly visible, generated by a c. 60/40 blend of upward only RPI-linked reviews and fixed uplifts averaging 2.8% per annum. Our manager has an enviable track record built up over many years of anticipating the peaks and troughs of market cycles and successfully navigating between sectors. They remain aligned and motivated to sustain this performance through their substantial holding in the Company which is approaching £200 million and is one of the largest in the quoted sector.

We have sought to prepare for this period of heightened uncertainty by reducing the Group's indebtedness to its lowest ever level at 33% Net Loan To Value, refining our portfolio to a £2.1 billion core of hard to replicate assets that should continue to generate attractive inflation-protected returns. Critically we now have over £230 million of uncommitted cash to redeploy as and when opportunities arise. The surprise referendum result in 2016 resulted in us sourcing the c. £200 million Travelodge package yielding 7%; only time will tell whether similarly attractive opportunities await us, but in the meantime we continue to view our future with confidence.

Martin Moore
Chairman
4 September 2019

BUSINESS REVIEW

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 ended 30 June 2019.

In our report, we focus on financial measures recommended by the European Public Real Estate Association ("EPRA") to facilitate comparison with other real estate investment companies. EPRA measures are reconciled to the main financial statements prepared under IFRS in the supplementary information included from page 45.

Pro forma adjustments for hospitals disposal

The strategic disposal of eight of the Group's 19 hospitals let to Ramsay Health Care Limited exchanged unconditionally on 22 July 2019 and completed on 16 August 2019. The sale, at a 16% premium of gross proceeds over their 30 June 2019 external valuation, had a material impact on the Group's financial position and will have a material impact on future earnings. In order to present a suitably clear picture, the portfolio and financial information in this report includes figures presented on a pro forma basis, which excludes the sold portfolio.

	30 June 2019 £000	Hospitals portfolio disposal £000	**Pro forma £000**
Investment properties at external valuation	**2,350,574**	(300,355)	**2,050,219**
Cash	**98,338**	163,977	**262,315**
Secured debt:			
Gross debt	**(1,089,995)**	152,000	**(937,995)**
Unamortised finance costs	**11,056**	(835)	**10,221**
Other net liabilities	**(40,119)**	-	**(40,119)**
Net assets	**1,329,854**	14,787	**1,344,641**
EPRA adjustments (note 17)	**12,921**	-	**12,921**
EPRA net assets	**1,342,775**	14,787	**1,357,562**
EPRA NAV per share (pence)	**415.9p**	4.6p	**420.5p**
Net debt (£000)	**991,657**	(315,977)	**675,680**
Net LTV	**42.2%**		**33.0%**

The net EPRA NAV per share adjustment from the hospitals portfolio disposal comprises:

	Pence per share
Surplus of gross proceeds over book value	14.4
Early debt repayment cost	(8.4)
Costs of disposal	(1.0)
Unamortised finance fees written off	(0.4)
Net EPRA NAV per share impact	**4.6**

The disposal has the effect of reducing net earnings for as long as the cash surplus realised on sale is not fully reinvested. As announced at the time of the sale, the Board intends to top up dividend payments to the levels that would have been achieved without the disposal in order that shareholders' income returns remain whole for such time as the surplus funds remain uninvested or until they are returned to shareholders. The annualised reduction in Adjusted EPRA EPS is estimated at 2.7 pence per share. This is principally the impact of the £16.0 million reduction in the current passing rent net of a £6.5 million saving in interest payable, with a small offsetting effect from the estimated income that will be earned on surplus cash for as long as it is not fully redeployed in investment property acquisitions or returned to shareholders.

BUSINESS REVIEW

Investment Adviser's Report continued

The portfolio

The portfolio held at 30 June 2019 comprised 172 properties and reduces to 164 properties when adjusted to exclude the hospitals portfolio disposal. The portfolio offers secure, long term income with contractual rental uplifts offering inflation protection. Annual passing rent was £127.1 million at 30 June 2019. When adjusted to exclude the hospitals portfolio disposal, passing rent is £111.1 million which represents a like for like increase of 1.9% over the period. This reflects completion of reviews on 61% of portfolio rents in the six months to 30 June 2019. A further 7% of rents were reviewed very shortly after the balance sheet date, in July 2019.

	Number of properties	**Valuation £m**	**Passing rent £m**
At the start of the period	175	2,306.7	125.0
Increase in portfolio valuation, net of exchange rate movements	-	48.7	2.5
Disposal of non-core budget hotels	(3)	(4.8)	(0.4)
At 30 June 2019	**172**	**2,350.6**	**127.1**
Hospitals portfolio disposal	(8)	(300.4)	(16.0)
At 30 June 2019, adjusted for the hospitals portfolio disposal	**164**	**2,050.2**	**111.1**

Basis of review

The income arising on the portfolio benefits from RPI-linked rent reviews and from fixed contractual rental uplifts which average 2.8% per annum. The portfolio passing rents as at 30 June 2019, adjusted for the hospitals portfolio disposal, are subject to review on the following bases:

	Pro forma 30 June 2019			31 December 2018
Percentage of passing rents	**Reviewed annually**	**Reviewed three or five yearly**	**Total portfolio**	Total portfolio
Upwards only RPI:				
Uncapped	**25%**	**28%**	**53%**	47%
Collared	**4%**	**2%**	**6%**	5%
Total upwards only RPI-linked reviews	**29%**	**30%**	**59%**	52%
Fixed uplifts:				
Annual reviews	**38%**	**-**	**38%**	45%
Five-yearly reviews	**-**	**3%**	**3%**	3%
Total fixed uplifts	**38%**	**3%**	**41%**	48%
Total portfolio	**67%**	**33%**	**100%**	100%

Lease lengths

During the period, the lease term for The Brewery on Chiswell Street, London, was extended from 12 to 37 years unexpired without break, adding 0.7 years to the Group's weighted average unexpired lease term. The current passing rent at the property is £3.4 million per annum.

The leases on the Group's portfolio are very long: adjusted for the hospitals portfolio disposal in July 2019, the weighted average unexpired lease term is 21.5 years from 30 June 2019 and 97.5% of the portfolio has an unexpired lease term longer than 17.9 years without break.

	Healthcare		Leisure		Budget hotels		**Total**	
	Pro forma 30 June 2019	31 Dec 2018	30 June 2019	31 Dec 2018	30 June 2019	31 Dec 2018	**Pro forma 30 June 2019**	31 Dec 2018
Weighted average unexpired lease term (years)	18.3	18.6	23.1	21.7	22.9	23.4	**21.5**	20.9

BUSINESS REVIEW

Investment Adviser's Report continued

The portfolio (continued)

Portfolio valuation

The portfolio is valued by qualified external valuers as at 30 June and 31 December each year. The change in portfolio rents and valuation over the period, adjusted for the hospitals portfolio disposal in July 2019, is as follows:

	Healthcare		Leisure		Budget hotels		**Total**	
Passing rent	£m	Like for like change	£m	Like for like change	£m	Like for like change	**£m**	**Like for like change**
31 Dec 2018	50.2		45.7		29.1		**125.0**	
Uplifts	1.4	2.8%	1.1	2.4%	-	-	**2.5**	**1.9%**
Disposals	-		-		(0.4)		**(0.4)**	
30 June 2019	51.6		46.8		28.7		**127.1**	
Hospitals disposal	(16.0)		-		-		**(16.0)**	
Pro forma 30 June 2019	35.6		46.8		28.7		**111.1**	

	Healthcare		Leisure		Budget hotels		**Total**	
Valuation	£m	Like for like change	£m	Like for like change	£m	Like for like change	**£m**	**Like for like change**
31 Dec 2018	984.8		826.7		495.2		**2,306.7**	
Revaluation at constant currency	27.3	2.8%	21.6	2.6%	-	-	**48.9**	**2.0%**
Exchange rate movement	-		(0.2)		-		**(0.2)**	
Disposals	-		-		(4.8)		**(4.8)**	
30 June 2019	1,012.1		848.1		490.4		**2,350.6**	
Hospitals disposal	(300.4)		-		-		**(300.4)**	
Pro forma 30 June 2019	711.7		848.1		490.4		**2,050.2**	

In assessing the investment property valuations, the external valuers take into account evidence from comparable transactions in the market for the period up to and including the balance sheet date. As the hospitals portfolio disposal occurred after the balance sheet date, any impact on the external valuation of the remainder of the Healthcare portfolio that may arise from the evidence created by the sale in July will be reflected in the Group's results for the second half of the year.

BUSINESS REVIEW

Investment Adviser's Report continued

The portfolio (continued)

The movement in valuation in the period comprises:

	Six months to 30 June 2019 £m	Six months to 30 June 2018 £m
Investment properties at the start of the period	**2,306.7**	1,770.2
Portfolio held throughout the period:		
Revaluation movement at constant currency	**48.9**	49.4
Currency translation movements on Euro denominated investment properties	**(0.2)**	(0.3)
Like for like portfolio revaluation	**48.7**	49.1
Budget hotel disposals	**(4.8)**	-
Acquisitions	**-**	434.2
Net increase in portfolio valuation	**43.9**	483.3
Investment properties at the end of the period	**2,350.6**	2,253.5
Hospitals portfolio disposal	**(300.4)**	-
Investment properties at the end of the period, adjusted for the hospitals portfolio disposal	**2,050.2**	2,253.5

Yields

	Healthcare		Leisure		Budget hotels		**Total**	
	Pro forma 30 June 2019	31 Dec 2018	30 June 2019	31 Dec 2018	30 June 2019	31 Dec 2018	**Pro forma 30 June 2019**	31 Dec 2018
Net Initial Yield *	4.7%	4.8%	5.1%	5.1%	5.5%	5.5%	**5.1%**	5.1%
Running Yield within 12 months †	4.8%	4.9%	5.3%	5.3%	5.5%	5.5%	**5.2%**	5.2%

* the healthcare yields take no account of any uplift from an outstanding May 2018 open market review on the Ramsay hospitals, which account for 94% of the healthcare rents at 30 June 2019 (adjusted for the hospitals portfolio disposal) and the leisure yields include the fixed uplifts on the German assets every July

† the leisure and budget hotels Running Yields are calculated using the relevant external valuer's assessment of RPI at 2.6% and 2.5% respectively

BUSINESS REVIEW

Investment Adviser's Report continued

The portfolio (continued)

Portfolio total rents

The Group's principal lease counterparties, analysed by passing rent as at 30 June 2019 and adjusted for the hospitals portfolio disposal are as follows:

Tenant/guarantor	Pro forma 30 June 2019 £m	31 December 2018 £m
Merlin Entertainments Plc *	**34.7**	33.9
Ramsay Health Care Limited:		
Hospitals retained	**33.5**	32.6
Hospitals sold in July 2019	**-**	15.6
Travelodge Hotels Limited:		
Budget hotels held throughout the period	**28.7**	28.7
Budget hotels sold during the period	**-**	0.4
SMG Europe Holdings Limited & SMG	**4.0**	3.8
The Brewery on Chiswell Street Limited	**3.4**	3.4
Orpea SA	**2.1**	2.0
Stonegate Pub Company Limited	**2.0**	2.0
Others (each below £1.25 million)	**2.7**	2.6
	111.1	125.0

* £6.6 million (31 December 2018: £6.6 million) of the Merlin rents are Euro denominated

Further information on the principal portfolio tenants and guarantors is given within the portfolio analyses that follow.

Leisure assets (41% of pro forma portfolio value)

Passing rents	30 June 2019 £m	31 December 2018 £m
UK assets	**40.2**	39.1
German assets (at constant Euro exchange rate)	**6.6**	6.6
	46.8	45.7

The leisure properties comprise four well known visitor attractions let to Merlin Entertainments plc together with the Manchester Arena, The Brewery events venue on Chiswell Street in the City of London and a portfolio of 18 freehold high street pubs located in England and Scotland.

The Merlin assets include two of the UK's top three theme parks, Alton Towers and Thorpe Park, together with the Alton Towers hotel and Warwick Castle. The German assets operated by Merlin are Heide Park theme park (the largest in Northern Germany) and its adjacent hotel, located in Soltau, Saxony. These assets are all held freehold and are let to subsidiaries of Merlin Entertainments Plc, the guarantor of the leases. Measured by the number of visitors, Merlin is Europe's largest and the world's second largest operator of leisure attractions. Merlin has recently been the subject of a takeover offer from a consortium of well funded, long term investors to take the business private at a price that values Merlin at approximately £6 billion.

The average term to expiry of the Merlin leases is 23.0 years from 30 June 2019 without break 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 over the year to April) for the UK properties, which in 2019 resulted in a rental increase of 3.0%. 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 £6.6 million to £6.8 million on 29 July 2019 (translated at the 30 June 2019 exchange rate).

BUSINESS REVIEW

Investment Adviser's Report continued

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 as well as 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 and SMG Europe Holdings Limited with 26.0 years unexpired from 30 June 2019 without break. Rent is reviewed annually every June in line with RPI, collared between 2% and 5%, which in 2019 resulted in a rental increase of 3.1%. SMG is the world's largest venue management company which operates c. 200 venues globally, hosting approximately 30,000 events each year. In its latest available results up to December 2017 it reported an unbroken 25 years of annual EBITDA growth. SMG announced in February 2019 that it is to merge with AEG Facilities, subject to certain competition authority clearances, to create a global venue services company with 310 venues in five continents. The offices and ancillary leisure space at Manchester Arena are let to tenants including Serco, Manchester City Council, Unison, JCDecaux and go-karting operator TeamSport. The leases on the Manchester site as a whole have an average term to expiry of 16.9 years from 30 June 2019 and produce net passing rent of £6.1 million per annum as at 30 June 2019.

The Brewery on Chiswell Street is a predominantly freehold investment let to a specialist venue operator on a full repairing and insuring lease. 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. During the period, agreement was reached for a 25 year lease extension with no premium payable to the tenant, following which the term to expiry is now 37.0 years from 30 June 2019. The lease has five-yearly fixed uplifts of 2.5% per annum compounded and passing rent of £3.4 million per annum as at 30 June 2019, with the next uplift to £3.8 million taking effect in in July 2021.

The pubs portfolio produces passing rent of £2.0 million per annum as at 30 June 2019 and the leases have an average term to expiry of 20.6 years without break. Rents are subject to five-yearly RPI-linked increases collared between 1% and 4% per annum compounded, with the next reviews falling due in February 2020. The 18 high street pubs are let on individual leases either to, or guaranteed by, Stonegate Pub Company Limited. Following its proposed acquisition of the Ei group in a deal announced in July 2019 valuing Ei at approximately a £3 billion enterprise value, Stonegate will become the UK's largest pub operator with over 4,700 pubs once the acquisition completes. The acquisition is conditional on the approval of the Competition and Markets Authority, expected by Stonegate to conclude within the next five months.

Healthcare assets (35% of pro forma portfolio value)

Passing rents	**Pro forma 30 June 2019 £m**	31 December 2018 £m
Ramsay hospitals excluding assets sold in July 2019	**33.5**	32.6
Ramsay hospitals sold in July 2019	**-**	15.6
London psychiatric hospital	**2.1**	2.0
	35.6	50.2

Following the sale of eight hospitals in July, the healthcare assets comprise 12 private hospitals: a portfolio of 11 freehold assets 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, held freehold and let to Groupe Sinoué, a French company specialising in mental health.

The Ramsay hospitals are let on full repairing and insuring leases with a term to expiry at 30 June 2019 of 17.9 years without break. The rents increase in May each year by a minimum of a fixed 2.75% per annum throughout the lease term. Following the May 2019 fixed uplifts, the rents on the retained hospitals portfolio increased from £32.6 million to £33.5 million. There is also an upwards only open market review within each lease as at 3 May 2018 and then in May 2022 and every five years thereafter. The May 2018 open market review remains outstanding and these financial statements take no account of any potential increase in rental income that may arise from it.

The leases on the Ramsay hospitals are all guaranteed by Ramsay Health Care Limited, the listed parent company of 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 3 September 2019 of £7.4 billion.

The London psychiatric hospital is let on a full repairing and insuring lease with a term to expiry at 30 June 2019 of 25.1 years without break. The rent increases in May each year by a fixed 3.0% per annum throughout the lease term and as a result increased from £2.0 million to £2.1 million on 3 May 2019. The lease is guaranteed by Orpea SA, a leading European operator of nursing homes, post-acute care and psychiatric care, listed on Euronext Paris with a market capitalisation at 3 September 2019 of £6.8 billion.

BUSINESS REVIEW

Investment Adviser's Report continued

The portfolio (continued)

Budget hotel assets (24% of pro forma portfolio value)

Passing rents	**30 June 2019 £m**	31 December 2018 £m
Budget hotels held throughout the period	**28.7**	28.7
Non-core budget hotels sold in the period	**-**	0.4
	28.7	29.1

The budget hotel assets at the balance sheet date comprise 126 Travelodges (31 December 2018: 129 Travelodges) located in England, Wales 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 584 hotels and over 44,500 rooms as at 30 June 2019.

Three budget hotels not considered core to the portfolio were sold in the period for net proceeds of £5.2 million, representing a gain of £0.4 million over 31 December 2018 book value and £1.1 million over their March 2018 purchase price. One further sale has taken place since the balance sheet date for net proceeds of £1.8 million, which was in line with 30 June 2019 book value and a gain of £0.2 million over its September 2016 purchase price. Taken together, these disposals achieved proceeds 7.5% above their 31 December 2018 book values.

The average term to expiry of the Travelodge leases is 22.9 years from 30 June 2019 with no break clauses. The leases are on full repairing and insuring terms and Travelodge is also responsible for the cost of any headlease payments and other amounts owing to the superior landlords of the 54 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. Reviews on four budget hotels with passing rent totalling £1.3 million as at 30 June 2019 (4% of the portfolio) will take effect in the second half 2019. 22% of the portfolio rents are then reviewed in 2020, 24% in 2021, 39% in 2022 and 11% in 2023.

Financing

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 subgroups. Each subgroup is self-contained, with no cross-default provisions between the six of them. In all cases substantial financial covenant headroom has been negotiated into loan terms together with appropriate remedial 'cure' rights where cash can be diverted to a security group in order to maintain covenant compliance if that becomes necessary.

The Group's Net Loan To Value ratio fell from 43.0% to 42.2% over the period and then further, to 33.0% on a pro forma basis, as a result of the hospitals portfolio disposal. Interest cover, measured for these purposes as passing rent divided by annualised interest cost, has remained at 2.4 times throughout the period and remains at approximately that level following the hospitals portfolio sale.

	30 June 2019 £m	Hospitals portfolio disposal £m	**Pro forma 30 June 2019 £m**
Gross debt	**1,090.0**	(152.0)	**938.0**
Secured cash	**(26.8)**	-	**(26.8)**
Free cash in ring-fenced subgroups	**(4.0)**	-	**(4.0)**
Net debt – secured	**1,059.2**	(152.0)	**907.2**
Regulatory capital	**(0.7)**	-	**(0.7)**
Free cash – unsecured	**(66.8)**	(164.0)	**(230.8)**
Net debt	**991.7**	(316.0)	**675.7**
Property valuation	**2,350.6**	(300.4)	**2,050.2**
Net LTV	**42.2%**		**33.0%**
Interest cover (passing rent divided by interest)	**2.4x**		**2.4x**

BUSINESS REVIEW

Investment Adviser's Report continued

Financing (continued)

To reduce uncertainty over the Group's interest cost, rates are fixed or capped for the term of each loan. The actual weighted average cost of debt in the period was 4.8% (year to 31 December 2018: 4.9%). The pro forma maximum weighted average interest rate, adjusted for the hospitals portfolio disposal, is 4.9% per annum.

	30 June 2019		**Pro forma 30 June 2019**		31 December 2018	
	Principal £m	Average interest rate	**Principal £m**	**Average interest rate**	Principal £m	Average interest rate
Fixed rate debt	1,013.8	5.0%	**861.8**	**5.1%**	1,016.0	5.0%
Floating rate debt fixed by interest rate swaps	50.0	3.1%	**50.0**	**3.1%**	50.0	3.1%
Floating rate debt with interest capped *	26.2	3.6%	**26.2**	**3.6%**	26.5	3.6%
	1,090.0	4.8%	**938.0**	**4.9%**	1,092.5	4.8%

* rate shown is maximum rate; actual rate on the facilities in the period was 3.0% (period from debt drawdown to 31 December 2018: 2.7%)

The pro forma weighted average term to maturity of the Group's debt, adjusted for the hospitals portfolio disposal where debt maturing in September 2025 was partly repaid, is 4.6 years at 30 June 2019 compared to 5.3 years at 31 December 2018.

Key terms of the facilities as adjusted for the hospitals portfolio disposal are set out below.

	Pro forma principal £m	**Pro forma number of properties securing loan**	**Maximum annual interest rate**	**Interest rate protection**	**Annual cash amortisation**	**Final repayment date**
Merlin Leisure	381.0*	6	5.7%	Fixed	£3.8m from Oct 2020 †	Oct 2022
Budget hotels loan 2	68.4	72	3.4%	76% fixed 24% capped	None	April 2023
Leisure loan 2	60.0	20	3.2%	83% fixed 17% capped	None	June 2023
Budget hotels loan 1	60.0	54	2.7%	Fixed	None	Oct 2023
Healthcare loan 1	64.3	2	4.3%	Fixed	£0.3m	Sept 2025
Healthcare loan 2	304.3	10	5.3%	Fixed	£3.2m	Oct 2025
Total, adjusted for hospitals sale	**938.0**	**164**	**4.9%**			

* £316.8 million of senior and mezzanine Sterling loans secured on UK assets and €71.8 million of senior and mezzanine Euro denominated loans secured on German assets (translated at the period end exchange rate of €1:£0.8948) with all loan tranches cross-collateralised.

† amortisation in each of the years ending October 2021 and October 2022 comprises £3.2 million on the Sterling facility and €0.7 million on the Euro facility.

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

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review

The Board monitors the following key performance indicators, which are further commented on in this report.

	Six months to 30 June 2019	**Pro forma Six months to 30 June 2019***	Six months to 30 June 2018
Financial measures:			
Total Accounting Return	5.8%	**7.0%**	4.9%
Total Shareholder Return	8.2%	**8.2%**	8.1%
Adjusted EPRA Earnings per share	8.1p	**8.1p**	6.2p
Net Loan To Value ratio	42.2%	**33.0%**	44.4%
Uncommitted cash	£68.0m	**£232.0m**	£59.6m
Other measures:			
Headroom on debt covenants:			
Value fall to trigger tightest LTV default test	32%	**34%**	32%
Rent fall to trigger tightest ICR default test	34%	**35%**	31%

* adjusted where relevant for the hospitals portfolio disposal

Key performance indicator – Total Accounting Return

The principal financial outcome that the Board seeks to achieve is attractive growth in shareholder returns. In assessing the Group's results and financial position, the Board's primary focus is on financial results, principally Net Asset Value per share and Earnings Per Share, adjusted to conform with the industry standard EPRA guidelines which the Board considers provide a better comparison with other real estate companies. We also comment on the financial position and results prepared in accordance with IFRS, without adjustment.

The Board monitors both Total Accounting Return, which is the movement in EPRA NAV per share plus dividends, and Total Shareholder Return, which is the share price movement plus dividends. The principal focus for the Board is on Total Accounting Return as the Total Shareholder Return, while important, is also subject to wider market movements not necessarily related to the Group itself.

The movements in net asset value reported under IFRS and shown in the consolidated balance sheet, adjusted for the hospitals portfolio disposal, are as follows:

	Six months to 30 June 2019		Six months to 30 June 2018	
	£m	**Pence per share**	£m	Pence per share
NAV at start of period	**1,281.6**	**398.5**	860.6	373.3
Investment property revaluation	**43.1**	**13.3**	42.8	13.1
Rental income less administrative expenses and finance costs	**32.3**	**10.1**	22.8	8.3
Dividends paid	**(25.3)**	**(7.9)**	(16.1)	(6.0)
Tax charge	**(0.9)**	**(0.3)**	(1.0)	(0.3)
Derivative revaluation	**(0.9)**	**(0.3)**	-	-
Dilution from shares issued in settlement of previous year's incentive fee	**-**	**(1.5)**	-	(7.3)
March 2018 share issue	**-**	**-**	309.8	(2.0)
NAV at end of period	**1,329.9**	**411.9**	1,218.9	379.1
Hospitals portfolio disposal in July 2019	**14.8**	**4.6**	-	-
Pro forma NAV at end of period	**1,344.7**	**416.5**	1,218.9	379.1

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

EPRA NAV takes the balance sheet measure of net asset value and excludes items that are considered to have no relevance to the assessment of long term performance. Consistent with the EPRA guidance, the Group's reported NAV is adjusted to exclude deferred tax on investment property revaluations (which in this case relate to the German assets) and fair value movements on derivatives.

The Group's EPRA NAV per share at 30 June 2019 was 415.9 pence, up 3.8% since 31 December 2018. The Group's pro forma EPRA NAV per share at that date, adjusted for the hospitals portfolio disposal, was 420.5 pence which represents a 5.0% increase since 31 December 2018. This 20.0 pence per share uplift, together with dividends of 7.9 pence per share, results in a 7.0% Total Accounting Return.

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

	Six months to 30 June 2019		Six months to 30 June 2018	
	£m	**Pence per share**	£m	Pence per share
EPRA NAV at start of period	**1,292.9**	**400.5**	870.8	370.4
Investment property revaluation *	**48.6**	**15.0**	48.1	14.9
Rental income* and other income less administrative expenses, finance costs and current tax	**26.6**	**8.3**	17.3	6.3
Dividends paid	**(25.3)**	**(7.9)**	(16.1)	(6.0)
Currency translation and other movements	**-**	**-**	(0.1)	(0.1)
March 2019 share placing (net of costs)	**-**	**-**	309.8	(3.1)
EPRA NAV at end of period	**1,342.8**	**415.9**	1,229.8	382.4
Hospitals portfolio disposal in July 2019	**14.8**	**4.6**	-	-
Pro forma EPRA NAV at end of period	**1,357.6**	**420.5**	1,229.8	382.4
Growth in NAV	**49.9**	**15.4**	49.2	12.0
Dividends paid	**25.3**	**7.9**	16.1	6.0
Total Accounting Return	**75.2**	**23.3**	65.3	18.0
Hospitals portfolio disposal in July 2019	**14.8**	**4.6**	-	-
Pro forma Total Accounting Return	**90.0**	**27.9**	65.3	18.0
Total Accounting Return – percentage				
Growth in EPRA NAV		**5.8%**		4.9%
Growth in pro forma EPRA NAV		**7.0%**		4.9%

* adjusted by £5.5 million or 1.7 pence per share (2018: £5.2 million or 1.9 pence per share) of Rent Smoothing Adjustments

EPRA NAV is reconciled to the balance sheet net asset value 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 in the section following the interim financial statements.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Rent Smoothing Adjustments

Rent Smoothing Adjustments to investment property revaluations and revenue arise from the Group's accounting policy, as required by IFRS, to spread the impact of any fixed or minimum rental uplifts evenly over the term of each relevant lease. This treatment gives rise to a mismatch between rental cash flows and reported rental revenue in any period. These adjustments relate to rents that are subject to fixed uplifts, which amounted to 49% of passing rent over the six months to 30 June 2019 (reducing to 41% following the hospitals portfolio disposal), together with the 5% of rents (increasing to 6% after the hospitals portfolio disposal) with fixed minimum uplifts on RPI-linked reviews.

The impact of this accounting treatment is to record 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. This 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 by the same amount (and vice versa in the second half of each lease term) it does not change the Group's retained earnings or net assets.

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

	Receivable at 30 June 2019 £m	Maximum receivable at midway point £m	Midway point in lease term
Healthcare – Ramsay hospitals:			
Retained Ramsay hospitals	**104.8**	111.8	May 2022
Hospitals portfolio sold in July 2019	**50.0**	53.4	May 2022
German leisure *	**35.2**	42.0	January 2025
Healthcare – Lisson Grove hospital	**10.5**	20.6	March 2035
Manchester Arena	**1.3**	8.9	December 2031
The Brewery	**0.6**	23.5	June 2041
Pubs	**0.2**	1.3	April 2029
	202.6	261.5	

* at the 30 June 2019 Euro conversion rate of €1:£0.8948

The future impact of this adjustment would only change if there were acquisitions, disposals or lease variations relating to properties with fixed or minimum RPI-linked rental uplifts. Assuming no change in the portfolio beyond the sale of the hospitals announced in July 2019, the adjustment that will be recognised on the portfolio during the year and that is expected for each of the next three financial years (translating the German adjustment at the 30 June 2019 Euro conversion rate of €1:£0.8948) is as follows:

	£m
2019	**10.6**
2020	**8.9**
2021	**7.3**
2022	**5.6**

Key performance indicator – Adjusted EPRA EPS

The Company's policy is to distribute its Adjusted EPRA EPS through payment of a fully covered cash dividend, paid quarterly. In addition to that fully covered distribution, the Board has announced its intention, for as long as the surplus proceeds of the hospitals portfolio disposal which completed in August 2019 are not fully deployed or returned to shareholders, to top up the dividend to the extent that Adjusted EPRA EPS has been reduced by that disposal.

The Group's basic and diluted EPS calculated in accordance with IFRS not only include property valuation movements and Rent Smoothing Adjustments but are 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 period, when in fact they are issued some three months after the end of the year in which they have been earned. As a result, basic EPS for 2019 is calculated on the basis that the 1.3 million shares issued in settlement of the 2018 incentive fee were in issue for the whole period, although they were not in fact issued until March 2019. This factor has a distorting effect on Dividend Cover and is therefore excluded from the Adjusted EPRA EPS measure.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

	Six months to 30 June 2019		Six months to 30 June 2018	
	£m	**Pence per share**	£m	Pence per share
Rental income net of property outgoings	**68.4**	**21.1**	55.6	19.8
Investment property revaluation	**43.1**	**13.3**	42.8	15.2
Net finance costs	**(28.1)**	**(8.6)**	(25.5)	(9.1)
Administrative expenses	**(8.4)**	**(2.5)**	(7.3)	(2.6)
Tax charge	**(0.9)**	**(0.3)**	(0.9)	(0.3)
Profit on budget hotels disposals	**0.4**	**0.1**	-	-
Basic and Diluted Earnings	**74.5**	**23.1**	64.7	23.0

Any investment property revaluations, profits on the sale of investment properties, fair value movements on derivatives and related deferred tax are excluded from basic EPS in order to calculate EPRA EPS, and so provide a measure of underlying earnings from core operating activities using the industry standard guidance issued by EPRA. Calculations are based on the same share weightings as required for the calculation of basic earnings per share, details of which are included within the supplementary information accompanying this interim report on page 49.

Adjusted EPRA EPS takes EPRA EPS and then adjusts it by:

- removing the effect of Rent Smoothing Adjustments;
- excluding any significant non-recurring costs;
- excluding any incentive fee and the associated irrecoverable VAT, which are considered to be linked to revaluation movements and therefore best treated consistently with revaluations; and
- calculating the weighted average number of shares to reflect the actual date on which shares are issued.

The Board considers this adjusted measure to be appropriate for comparison of the performance of the Group from year to year and with its peer group, and to avoid distortions in the per share figures which in turn can distort the measurement of Dividend Cover.

Adjusted EPRA EPS is reconciled to basic EPS in note 8 to the financial statements. EPRA earnings and Adjusted EPRA earnings are analysed as follows:

	Six months to 30 June 2019		Six months to 30 June 2018	
	£m	**Pence per share**	£m	Pence per share
Rental income net of property outgoings:				
Portfolio owned throughout the period	**54.1**	**16.8**	53.1	19.0
Budget hotels portfolio purchased April 2018	**7.5**	**2.3**	2.4	0.7
Leisure portfolio purchased July 2018	**6.0**	**1.8**	-	-
Net finance costs:				
Facilities drawn throughout the period	**(25.2)**	**(7.9)**	(25.2)	(8.9)
Budget hotels loan drawn down April 2018	**(1.4)**	**(0.4)**	(0.4)	(0.1)
Leisure loan drawn down July 2018	**(0.9)**	**(0.3)**	-	-
Finance income	**0.2**	**0.1**	0.2	0.1
Administrative expenses	**(8.4)**	**(2.5)**	(7.3)	(2.6)
Tax	**(0.2)**	**(0.1)**	(0.3)	(0.2)
EPRA Earnings	**31.7**	**9.8**	22.5	8.0
Rent Smoothing Adjustments	**(5.5)**	**(1.7)**	(5.2)	(1.9)
Adjustment for weighted average of shares	**-**	**-**	-	0.1
Adjusted EPRA earnings	**26.2**	**8.1**	17.3	6.2

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Adjusted EPRA earnings per share – administrative expenses

The Group's administrative expenses for the period are the same under IFRS and the EPRA measure, while Adjusted EPRA EPS excludes any performance linked incentive fees which are payable in shares.

	Six months to 30 June 2019		Six months to 30 June 2018	
	£m	**Pence per share**	£m	Pence per share
Advisory fees	**7.3**	**2.2**	6.2	2.2
Other administrative expenses	**0.8**	**0.2**	0.8	0.3
Corporate costs	**0.3**	**0.1**	0.3	0.1
Total administrative expenses	**8.4**	**2.5**	7.3	2.6

Because VAT cannot be applied to the rents on the Healthcare assets, there is an element of irrecoverable VAT incurred on the Group's running costs which is included within each relevant line item in the table above. The proportion of disallowed VAT on administrative expenses averaged 38% during the period and, following the hospitals portfolio disposal, reduced to 30% with effect from mid-August 2019.

As an externally managed business, the majority of the Group's overheads are covered by the advisory fees paid to the Investment Adviser, which in the period amounted to £6.8 million plus irrecoverable VAT of £0.5 million (30 June 2018: £5.6 million plus irrecoverable VAT of £0.6 million). The Investment Adviser itself meets office running costs, administrative expenses and remuneration for the whole management and support team. The advisory fees are further explained in note 18 to the financial statements.

Until 31 March 2019, advisory fees were calculated on a sliding scale based on the Group's EPRA NAV, payable at:

- 1.25% per annum on EPRA NAV up to £500 million; plus
- 1.0% on EPRA NAV from £500 million to £1 billion; plus
- 0.75% thereafter.

With effect from 1 April 2019 and following an independent benchmarking exercise conducted by the Remuneration Committee and reviewed by the Independent Directors, the tiered fee arrangements noted above remain in place but with a reduction in the level of advisory fees payable on EPRA NAV exceeding £1.5 billion from 0.75% per annum to 0.5%, reflecting the significant growth of the size of the Company since the fee arrangements were last formally reviewed by the Independent Directors.

The management contract between the Company and Prestbury Investments LLP expires in December 2025. There are no renewal rights or payments at the time of expiry. Any payments triggered by a change of control in the Company are limited to four times the most recent quarterly fee at the time any such change occurs.

The other recurring administrative expenses are principally professional fees, including the costs of the external property valuations, external trustee and administration costs, tax compliance fees and audit fees, which are largely billed directly to subsidiary undertakings.

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

- fees payable to the four Independent Directors amounting to £0.1 million in the period (2018: £0.1 million), with the other three Directors being partners in the Investment Adviser who receive no directors' fees from the Company; and
- other costs of being listed, such as the fees of the nominated adviser required under the AIM Rules, registrars' fees and AIM fees, which together total £0.2 million (six months to 30 June 2018: £0.2 million) in the period.

An incentive fee becomes due if total returns to investors over a financial year, as set out in the 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. If the threshold return is exceeded, the Investment Adviser receives 20% of any surplus above that priority return to shareholders, subject to a cap of 5.0% of EPRA NAV. Any such fee is payable in shares which 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 the fee was earned. In order to make a reasonable assessment of whether or not such a fee is likely to be payable in respect of the 2019 financial year, the Board has estimated the EPRA NAV of the Group at 31 December 2019 on the basis of the assumptions set out in note 18 to the financial statements. On the basis of that assessment no fee would be payable for the 2019 financial year and as a result no fee is accrued at 30 June 2019 (30 June 2018: £nil).

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Adjusted EPRA EPS: net finance costs

	Six months to 30 June 2019		Six months to 30 June 2018	
	£m	**Pence per share**	£m	Pence per share
Interest on secured debt held throughout the period:				
Interest on secured debt retained	**20.8**	**6.6**	20.9	7.5
Interest on secured debt repaid in August 2019	**3.3**	**1.0**	3.3	1.2
On facilities drawn throughout the period	**24.1**	**7.6**	24.2	8.7
Interest on secured debt drawn in the prior year:				
On facility drawn in April 2018	**1.1**	**0.3**	0.4	0.1
On facility drawn in July 2018	**1.0**	**0.3**	-	-
Total interest charge on secured debt	**26.2**	**8.2**	24.6	8.8
Amortisation of costs of arranging facilities (non-cash)	**1.2**	**0.4**	1.0	0.4
Interest charge on headlease liabilities	**0.8**	**0.1**	0.1	-
Loan agency fees	**0.1**	**-**	-	-
Interest income	**(0.2)**	**(0.1)**	(0.2)	(0.1)
Net finance costs for the period (IFRS and EPRA basis)	**28.1**	**8.6**	25.5	9.1
Reclassification of interest charge on headlease liabilities against revenue *	**(0.8)**	**(0.1)**	(0.1)	-
Adjustment to weighted average number of shares	**-**	**-**	-	(0.2)
Net finance costs for the period (Adjusted EPRA basis)	**27.3**	**8.5**	25.4	8.9

* headlease interest is reclassified against rental income net of property outgoings in Adjusted EPRA EPS

The nature and principal terms of the Group's loan facilities are explained in the Financing section earlier in this report.

Adjusted EPRA EPS – tax

The Group operates under the UK REIT regime so its 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 charged in the period at an effective rate of 15% (2018: 15%) on realised profits from the Group's German rental operations and the resulting tax charge was £0.2 million (six months to 30 June 2018: £0.2 million). The balance sheet includes a deferred tax liability of £11.8 million (31 December 2018: £11.1 million) relating to unrealised German capital gains tax on investment properties which would only be crystallised on a sale of those assets. There are currently no plans to sell these assets.

On an IFRS basis, the current tax charge and the movement in deferred tax result in a net tax charge of £0.9 million (six months to 30 June 2018: £0.7 million). Deferred tax is excluded from Adjusted EPRA EPS as shown in note 8 to the financial statements.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

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. 3.8% (31 December 2018: 3.9%) of the Group's pro forma EPRA NAV comprises assets and liabilities relating to properties located in Germany, valued in and generating net earnings in Euros. Exposure to currency fluctuations is partially hedged through both assets and liabilities being Euro denominated. The Group remains exposed to currency translation differences on the net results and net assets of these unhedged operations. Foreign currency movements are recognised in the statement of other comprehensive income.

The German properties are valued at €129.7 million as at 30 June 2019, with the Euro denominated secured debt amounting to €71.8 million. There was no material change in the Euro exchange rate against Sterling in the period or the prior year.

Key performance indicator – Net Loan To Value ratio

The Board structures debt facilities with a view to maintaining a capital structure that will enhance shareholder returns while withstanding a range of market conditions. During the period, the Group's Net LTV fell from 43.0% to 42.2% and has further reduced to 33.0% on a pro forma basis adjusted for the hospitals portfolio disposal. This reduction reflects the impact of £152.0 million of debt repayment on the hospitals portfolio, £48.9 million of property valuation uplifts, £2.1 million of scheduled debt amortisation in the six months to 30 June 2019 and the £164.0 million of surplus cash realised on completion of the hospitals portfolio disposal.

Key performance indicator – headroom on debt covenants

The Board's approach to managing the Group's capital structure includes ensuring that the risk of any breach of covenants within secured debt facilities is carefully monitored on a range of scenarios and, to the extent possible, able to be managed. This includes structuring facilities to ring fence the extent to which the Group's assets are at risk, ensuring that levels of headroom over financial covenants are appropriate and maintaining a level of uncommitted cash to apply in curing debt defaults in the event that it is needed.

When evaluating the appropriateness of the level of secured debt, the Board has regard to the unusual nature of the Group's income streams, specifically that all of the occupational leases are significantly longer than conventional leases for UK real estate and that the Group's rental income increases annually as a result of the annual minimum fixed rental uplifts on 38% of portfolio income (following the hospitals portfolio disposal), with a further 3% subject to three or five yearly fixed uplifts and the additional prospect of increases from the upwards only RPI-linked reviews on the rest of the portfolio. Overall two thirds of the portfolio rents are subject to annual review with the remainder subject to three or five yearly reviews. This structure gives rise to a naturally deleveraging debt profile on the assumption of constant valuation yields.

The Board reviews the headroom on all financial covenants at least quarterly. The headroom on key financial covenants at 30 June 2019 (adjusted for the hospitals portfolio disposal) is summarised below. We also disclose here 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. The results shown in the following table do not include the effects of preventative measures that could be taken, including utilising the Group's significant uncommitted cash balance which stands at £232.0 million following the hospitals portfolio disposal and which is further explained in the following section.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

	Actual	Covenant	Net Initial Yield triggering LTV test	Valuation fall before LTV test triggered	Rental fall before ICR test triggered
Merlin leisure facility (£381.0 million loans at 30 June 2019)					
Cash trap LTV test (1% per annum loan amortisation if triggered)	58%	<80%	6.8%	27%	
Cash trap LTV test (full cash sweep if triggered)	58%	<85%	7.2%	31%	
Healthcare facility (£304.3 million loan at 30 June 2019)					
Cash trap LTV test (full cash sweep if triggered)	53%	<74%	6.5%	29%	
LTV test	53%	<80%	7.0%	34%	
Cash trap projected interest cover test (full cash sweep if triggered)	184%	>140%			24%
Projected interest cover test	184%	>120%			35%
Healthcare facility (£216.3 million loan at 30 June 2019 reduced to £64.3 million following completion of the hospitals disposal)					
LTV test	48%	<80%	8.1%	40%	
Cash trap projected debt service cover test (full cash sweep if triggered)	220%	>150%			32%
Projected debt service cover test	220%	>125%			43%
Budget hotels facility (£68.4 million loan at 30 June 2019)					
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	27%	40% - 45%	8.1%	32%	
Cash trap LTV test (full cash sweep if triggered)	27%	45% - 50%	9.1%	39%	
LTV test	27%	<50%	10.1%	46%	
Cash trap projected interest cover test (full cash sweep if triggered)	635%	>300%			53%
Projected interest cover test	635%	>250%			61%
Budget hotels facility (£60.0 million loan at 30 June 2019)					
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	25%	40% - 45%	8.8%	39%	
Cash trap LTV test (full cash sweep if triggered)	25%	45% - 50%	9.9%	45%	
LTV test	25%	<50%	11.0%	51%	
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 at 30 June 2019)					
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	31%	40% - 45%	6.6%	23%	
Cash trap LTV test (full cash sweep if triggered)	31%	45% - 50%	7.5%	31%	
LTV test	31%	<50%	8.3%	38%	
Projected interest cover test	553%	>150%			73%

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Key performance indicator – uncommitted cash

The Board considers that the ability to manage potential debt covenant breaches is an important part of a prudent leverage strategy. The Group has negotiated headroom on financial covenants considered appropriate to the business and has also obtained certain contractual cure rights, including the ability to inject cash (subject to certain limitations as to the frequency and duration of cash cures) into ring-fenced financing structures in the event of actual or prospective breaches of financial covenants. The Board regularly monitors the Group's levels of uncommitted cash which comprises cash balances outside ring-fenced structures secured to lenders, net of any creditors or other cash commitments at the balance sheet date and excluding any capital required to be retained under the AIFMD regulatory capital rules.

The Group's uncommitted cash was £68.0 million at 30 June 2019 and £232.0 million at that date on a pro forma basis following the hospitals disposal, up from £66.4 million as at 31 December 2018.

Cash flow

The movement in cash over the period and as adjusted for the hospitals portfolio disposal in July 2019 comprises:

	Six months to30 June 2019		Six months to30 June 2018	
	£m	**Pence per share**	£m	Pence per share
Cash from operating activities	**47.1**	**14.8**	46.2	16.4
Net interest and finance costs paid	**(27.1)**	**(8.4)**	(24.3)	(8.6)
Tax paid	**(0.1)**	**-**	(0.1)	-
	19.9	**6.4**	21.8	7.8
Dividends paid	**(25.3)**	**(7.9)**	(16.1)	(6.0)
	(5.4)	**(1.5)**	5.7	1.8
Disposals of non-core budget hotel properties net of debt repayment	**4.0**	**1.2**	-	-
Scheduled debt amortisation of secured debt	**(2.1)**	**(0.7)**	(2.1)	(0.7)
Issue of ordinary shares, net of costs	**-**	**-**	309.8	96.3
Loans drawn down, net of costs	**-**	**-**	57.9	18.0
Acquisition of investment properties	**-**	**-**	(233.5)	(72.6)
	-	**-**	134.2	41.7
Cash flow in the period	**(3.5)**	**(1.0)**	137.8	42.8
Cash at the start of the period	**101.8**	**31.6**	88.8	38.5
Dilution from incentive fee share issues	**-**	**(0.1)**	-	(0.8)
Dilution from March 2019 share issue	**-**	**-**	-	(10.0)
Cash at the end of the period	**98.3**	**30.5**	226.6	70.5
Hospitals portfolio disposal in July 2019	**164.0**	**50.7**	-	-
Pro forma cash at the end of the period	**262.3**	**81.2**	226.6	70.5

Comprising:	**£m**	**Pence per share**	£m	Pence per share
Cash and deposits:				
Held at the balance sheet date	**70.8**	**22.0**	66.1	20.6
Pro forma disposal adjustment	**164.0**	**50.7**	-	-
Cash held for completion of leisure portfolio acquisition	**-**	**-**	132.8	41.3
Free cash	**234.8**	**72.7**	198.9	61.9
Cash reserved for regulatory capital	**0.7**	**0.2**	0.6	0.2
Cash held in secured subgroups	**26.8**	**8.3**	27.1	8.4
Pro forma cash at the end of the period	**262.3**	**81.2**	226.6	70.5

Cash secured under credit facilities is represented by rent held in charged accounts between the date of receipt, which is typically in the week before each calendar quarter end, and the date of payment of interest and any debt amortisation, which is typically three to four weeks after the quarter end. Following the debt service payments those surpluses are then available to be released to free cash.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

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 material unrecovered 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.

Following the hospitals portfolio disposal after the balance sheet date, the Board has committed to topping up the dividends payable to keep investors' income returns whole for the period during which the net proceeds realised on the sale are not fully deployed through either acquisitions or returns to shareholders. This top-up amount is currently estimated at 2.7 pence per share or approximately £8.7 million per annum. Other than the reduction in cash as a result of the top-up amount, in the absence of acquisitions or further disposals, cash balances are expected to remain relatively stable over time.

Nick Leslau
Chairman, Prestbury Investments LLP
4 September 2019

FINANCIAL STATEMENTS
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 2019 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.

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 2019 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.

Use of our report
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.

BDO LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

4 September 2019

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

FINANCIAL STATEMENTS

Group Income Statement

	Notes	**Unaudited Six months to 30 June 2019 £000**	Audited Year to 31 December 2018 £000	Unaudited Six months to 30 June 2018 £000
Revenue	3,4	**69,040**	125,874	56,109
Property outgoings		**(668)**	(548)	(569)
Gross profit		**68,372**	125,326	55,540
Administrative expenses	5	**(8,353)**	(20,575)	(7,257)
Profit on disposal of investment properties		**421**	183	-
Investment property revaluation	9	**43,089**	98,167	42,835
Operating profit		**103,529**	203,101	91,118
Finance income		**193**	371	214
Finance costs	6	**(28,354)**	(54,878)	(25,720)
Profit before tax		**75,368**	148,594	65,612
Tax charge	7	**(857)**	(1,081)	(955)
Profit for the period	8	**74,511**	147,513	64,657

		Pence per share	Pence per share	Pence per share
Earnings per share				
Basic	8	**23.1**	48.9	23.0
Diluted	8	**23.1**	48.7	23.0

All amounts relate to continuing activities.

Group Statement of Other Comprehensive Income

	Notes	**Unaudited Six months to 30 June 2019 £000**	Audited Year to 31 December 2018 £000	Unaudited Six months to 30 June 2018 £000
Profit for the period		**74,511**	147,513	64,657
Items that may subsequently be reclassified to profit or loss:				
Fair value movements in interest rate derivatives	6	**(929)**	(200)	-
Currency translation movements		**26**	468	(31)
Other comprehensive (loss)/income		**(903)**	268	(31)
Total comprehensive income for the period, net of tax		**73,608**	147,781	64,626

The notes on pages 28 to 44 form part of this interim report.

FINANCIAL STATEMENTS

Group Statement of Changes in Equity

	Share capital £000	Share premium reserve £000	Other reserves £000	Retained earnings £000	**Total equity £000**
Six months to 30 June 2019 (unaudited)					
At 1 January 2019	32,156	513,675	9,977	725,780	**1,281,588**
Profit for the period	-	-	-	74,511	**74,511**
Other comprehensive loss	-	-	(903)	-	**(903)**
Total comprehensive income	-	-	(903)	74,511	**73,608**
Issue of shares	129	4,743	(4,872)	-	**-**
Interim dividends of 7.9 pence per share	-	-	-	(25,342)	**(25,342)**
At 30 June 2019	32,285	518,418	4,202	774,949	**1,329,854**
Year to 31 December 2018 (audited)					
At 1 January 2018	23,054	196,975	20,852	619,696	**860,577**
Profit for the year	-	-	-	147,513	**147,513**
Other comprehensive income	-	-	268	-	**268**
Total comprehensive income	-	-	268	147,513	**147,781**
Issue of shares	9,102	316,700	(16,015)	-	**309,787**
Shares to be issued	-	-	4,872	-	**4,872**
Interim dividends of 13.9 pence per share	-	-	-	(41,429)	**(41,429)**
At 31 December 2018	32,156	513,675	9,977	725,780	**1,281,588**
Six months 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 loss	-	-	(31)	-	**(31)**
Total comprehensive income	-	-	(31)	64,657	**64,626**
Issue of shares	9,102	316,749	(16,015)	-	**309,836**
Interim dividends of 6.0 pence per share	-	-	-	(16,138)	**(16,138)**
At 30 June 2018	32,156	513,724	4,806	668,215	**1,218,901**

The notes on pages 28 to 44 form part of this interim report.

FINANCIAL STATEMENTS

Group Balance Sheet

	Notes	**Unaudited 30 June 2019 £000**	Audited 31 December 2018 £000	Unaudited 30 June 2018 £000
Non-current assets				
Investment properties	3,9	**2,378,998**	2,335,220	2,282,028
Headlease rent deposits		**2,775**	2,766	2,766
Interest rate derivatives		**82**	306	-
		2,381,855	2,338,292	2,284,794
Current assets				
Cash and cash equivalents	10	**98,338**	101,745	226,629
Trade and other receivables	11	**4,539**	3,436	909
Current tax asset		**-**	40	-
		102,877	105,221	227,538
Total assets		**2,484,732**	2,443,513	2,512,332
Current liabilities				
Trade and other payables	12	**(34,604)**	(41,727)	(243,546)
Secured debt	13	**(1,715)**	(1,771)	(1,674)
Interest rate derivatives		**(229)**	-	-
Current tax liability		**(66)**	-	(48)
		(36,614)	(43,498)	(245,268)
Non-current liabilities				
Secured debt	13	**(1,077,224)**	(1,078,495)	(1,008,777)
Head rent obligations under finance leases	9	**(28,424)**	(28,511)	(28,524)
Deferred tax liability	14	**(11,768)**	(11,110)	(10,862)
Interest rate derivatives		**(848)**	(311)	-
		(1,118,264)	(1,118,427)	(1,048,163)
Total liabilities		**(1,154,878)**	(1,161,925)	(1,293,431)
Net assets		**1,329,854**	1,281,588	1,218,901
Share capital	15	**32,285**	32,156	32,156
Share premium reserve	16	**518,418**	513,675	513,724
Other reserves	16	**4,202**	9,977	4,806
Retained earnings	16	**774,949**	725,780	668,215
Total equity		**1,329,854**	1,281,588	1,218,901

		Pence per share	Pence per share	Pence per share
Basic NAV per share	17	**411.9**	398.5	379.1
Diluted NAV per share	17	**411.9**	397.0	379.1
EPRA NAV per share	17	**415.9**	400.5	382.4

The notes on pages 28 to 44 form part of this interim report.

FINANCIAL STATEMENTS
Group Cash Flow Statement

	Notes	**Unaudited Six months to 30 June 2019 £000**	Audited Year to 31 December 2018 £000	Unaudited Six months to 30 June 2018 £000
Operating activities				
Profit before tax		**75,368**	148,594	65,612
Adjustments for non-cash items:				
Investment property revaluation	9	**(48,851)**	(102,466)	(48,117)
Administrative expenses payable in shares		**-**	4,872	-
Profit on disposal of investment properties		**(421)**	(183)	-
Finance income		**(193)**	(371)	(214)
Finance costs	6	**28,354**	54,878	25,720
Cash flows from operating activities before changes in working capital		**54,257**	105,324	43,001
Changes in working capital:				
Trade and other receivables		**(139)**	(507)	(515)
Trade and other payables		**(7,014)**	6,111	3,791
Headlease rent deposits		**(9)**	-	-
Cash generated from operations		**47,095**	110,928	46,277
Tax paid		**(67)**	(234)	(142)
Cash flows from operating activities		**47,028**	110,694	46,135
Investing activities				
Disposal of investment properties		**4,351**	443	-
Interest received		**193**	371	214
Acquisition of investment properties		**-**	(435,536)	(232,240)
Headlease rent deposits acquired		**-**	(1,225)	(1,225)
Cash flows from investing activities		**4,544**	(435,947)	(233,251)
Financing activities				
Interest and finance costs paid		**(27,247)**	(51,998)	(24,555)
Dividends paid		**(25,342)**	(41,429)	(16,138)
Scheduled amortisation of secured debt		**(2,078)**	(4,156)	(2,078)
Repayment of secured debt from proceeds of disposal of investment properties		**(307)**	-	-
Proceeds of share issue		**-**	315,500	315,500
Costs of share issue		**-**	(5,713)	(5,664)
Drawdown of new secured debt		**-**	128,700	59,193
Loan costs paid on new facilities		**-**	(2,462)	(1,261)
Purchase of interest rate derivatives		**-**	(220)	-
Cash flows from financing activities		**(54,974)**	338,222	324,997
(Decrease)/increase in cash and cash equivalents		**(3,402)**	12,969	137,881
Cash and cash equivalents at the beginning of the period		**101,745**	88,755	88,755
Effect of currency translation movements		**(5)**	21	(7)
Cash and cash equivalents at the end of the period	10	**98,338**	101,745	226,629

The notes on pages 28 to 44 form part of this interim report.

FINANCIAL STATEMENTS

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 2019, with comparative amounts shown for the year to 31 December 2018 and the six months to 30 June 2018, 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 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 2018, apart from the adoption of IFRS 16 "Leases" which has not had a material impact on the Group's financial statements. The accounting policies are expected to be consistently applied in the financial statements for the year to 31 December 2019.

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.

Euro denominated results for the Group's German operations have been converted to Sterling at an average exchange rate for the period of €1:£0.8732 (year to 31 December 2018: €1:£0.8846; six months to 30 June 2018: €1:£0.8795) and period end balances converted to Sterling at the 30 June 2019 exchange rate of €1:£0.8948 (31 December 2018: €1:£0.8969; 30 June 2018: €1:£0.8843).

The condensed financial statements for the period are unaudited and the financial information for the year ended 31 December 2018 contained therein does not constitute statutory accounts for the purposes of the Companies Act 2006. The annual report and financial statements for 2018 have been filed at Companies House. The independent auditor's report on the annual report and financial statements for 2018 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.

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.

FINANCIAL STATEMENTS

Notes to the Interim Report continued

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 the Board.

The Group owned 172 properties at 30 June 2019, originally acquired in five 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 Budget 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 the Group's Total Accounting Return. The Board has therefore concluded that the Group has operated in, and was managed as, one reportable 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 2019 £000	Audited Year to 31 December 2018 £000	Unaudited Six months to 30 June 2018 £000
Revenue			
UK	**64,902**	117,470	51,939
Germany	**4,138**	8,404	4,170
	69,040	125,874	56,109

	Unaudited 30 June 2019 £000	Audited 31 December 2018 £000	Unaudited 30 June 2018 £000
Investment properties			
UK	**2,262,948**	2,222,670	2,171,048
Germany	**116,050**	112,550	110,980
	2,378,998	2,335,220	2,282,028

Revenue by tenant comprises:

Revenue including Rent Smoothing Adjustments	**Unaudited Six months to 30 June 2019 £000**	Audited Year to 31 December 2018 £000	Unaudited Six months to 30 June 2018 £000
Ramsay Healthcare UK Operations Limited	**27,320**	55,045	27,116
Travelodge Hotels Limited	**15,318**	25,398	10,031
Merlin Attractions Operations Limited	**13,592**	26,804	13,151
Other tenants (each less than 10% of revenue)	**12,810**	18,627	5,811
Reported revenue	**69,040**	125,874	56,109
Revenue excluding Rent Smoothing Adjustments			
Ramsay Healthcare UK Operations Limited	**24,425**	48,385	23,571
Travelodge Hotels Limited	**15,318**	25,398	10,031
Merlin Attractions Operations Limited	**13,592**	26,804	13,151
Other tenants (each less than 10% of revenue)	**10,212**	14,337	4,133
Revenue on Adjusted EPRA Earnings basis	**63,547**	114,924	50,886

FINANCIAL STATEMENTS

Notes to the Interim Report continued

4. Revenue

	Unaudited Six months to 30 June 2019 £000	Audited Year to 31 December 2018 £000	Unaudited Six months to 30 June 2018 £000
Rental income	**62,742**	113,540	50,292
Rent Smoothing Adjustments (note 9)	**5,493**	10,950	5,223
Recovery of head rent and service charge costs from occupational tenants	**805**	1,384	594
	69,040	125,874	56,109

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 49% of passing rent as at 30 June 2019 (31 December 2018: 48%; 30 June 2018: 45%) that increases by a fixed percentage each year and the 5% of passing rent as at 30 June 2019 (31 December 2018: 5%; 30 June 2018: 0%) that is subject to minimum fixed uplifts on RPI-linked reviews. At this stage in the lease terms, which is before the midway point of 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 2019 £000	Audited Year to 31 December 2018 £000	Unaudited Six months to 30 June 2018 £000
Advisory fee (note 18)	**7,306**	13,295	6,214
Other administrative expenses	**774**	1,485	779
Corporate costs	**273**	517	264
Incentive fee (note 18)	**-**	5,278	-
	8,353	20,575	7,257

Amounts shown above include any irrecoverable VAT.

6. Finance costs

	Unaudited Six months to 30 June 2019 £000	Audited Year to 31 December 2018 £000	Unaudited Six months to 30 June 2018 £000
Interest on secured debt	**26,019**	51,075	24,552
Amortisation of loan costs (non-cash)	**1,211**	2,225	1,009
Interest charge on headlease liabilities	**822**	1,191	95
Loan agency fees	**124**	213	64
Amortisation of interest rate derivatives, transferred from other reserves	**117**	149	-
Fair value adjustment of interest rate derivatives	**61**	25	-
Finance costs recognised in the income statement	**28,354**	54,878	25,720
Fair value adjustment of interest rate derivatives	**1,046**	349	-
Amortisation of interest rate derivatives, transferred to the income statement	**(117)**	(149)	-
Finance costs recognised in other comprehensive (loss) / income	**929**	200	-

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7. Tax

Analysis of tax charge in the period	**Unaudited Six months to 30 June 2019 £000**	Audited Year to 31 December 2018 £000	Unaudited Six months to 30 June 2018 £000
Current tax - Germany			
Corporation tax charge	**167**	282	175
Adjustments in respect of prior periods	**22**	52	125
Deferred tax - Germany			
Deferred tax charge	**668**	747	655
	857	1,081	955

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 2019 £000	Audited Year to 31 December 2018 £000	Unaudited Six months to 30 June 2018 £000
Profit before tax	**75,368**	148,594	65,612
Tax charge at the standard rate of corporation tax in the UK of 19%	**14,320**	28,233	12,466
Effects of:			
Investment property revaluation not taxable	**(8,579)**	(20,001)	(8,476)
Qualifying property rental business not taxable under UK REIT rules	**(5,597)**	(8,585)	(3,547)
Recognition of tax losses	**384**	733	211
Finance costs disallowed under corporate interest restriction rules	**220**	401	-
German current tax charge	**167**	282	175
Profit on disposal of investment properties not taxable	**(80)**	(35)	-
Adjustments in respect of prior periods	**22**	52	125
Amounts not deductible for tax	**-**	1	1
Tax charge for the period	**857**	1,081	955

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. None of the Group's properties were developed in the last three years.

To remain a UK REIT, there are a number of conditions to 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 complied with all applicable conditions.

The Group is subject to German corporation tax on its German property rental business at an effective rate of 15%, resulting in a tax charge of £0.2 million (year to 31 December 2018: £0.3 million; six months to 30 June 2018: £0.2 million). A deferred tax liability of £11.8 million (31 December 2018: £11.1 million; 30 June 2018: £10.9 million) is recognised for the German capital gains tax that would potentially be payable on the sale of the relevant investment properties.

Certain non-resident unit trust Group entities intend to enter into transparency elections under schedule 5AAA to the Taxation of Chargeable Gains Act 1992, such that any disposals of properties by those entities will be deemed to arise in their parent companies and can therefore benefit from the REIT exemption.

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8. Earnings per share

Basic EPS

Earnings per share ("EPS") is calculated as the 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. In calculating the weighted average number of shares in issue:

- where shares have been issued during the period in settlement of an incentive fee relating to the results of the prior year, they are treated as having been issued on the first day of the period rather than their actual date of issue, which is typically in March; and
- shares to be issued at the balance sheet date in settlement of an incentive fee relating to the results of that period are not taken into account.

Diluted EPS

The weighted average number of shares used in the calculation of diluted EPS is required to include any shares to be issued in respect of an incentive fee, as if those shares had been in issue throughout the whole of the period over which the fee was earned, although in fact they will not have been issued until the following period.

	Unaudited Six months to 30 June 2019 £000	Audited Year to 31 December 2018 £000	Unaudited Six months to 30 June 2018 £000
Profit for the period	**74,511**	147,513	64,657
Weighted average number of shares in issue	**Number**	Number	Number
Basic EPS calculation	**322,850,595**	301,549,670	281,091,238
Shares to be issued in satisfaction of incentive fee	**-**	1,287,242	-
Diluted EPS calculation	**322,850,595**	302,836,912	281,091,238
	Pence per share	Pence per Share	Pence per share
Basic EPS	**23.1**	48.9	23.0
Diluted EPS	**23.1**	48.7	23.0

EPRA EPS

EPRA, the European Public Real Estate Association, publishes guidelines for calculating adjusted earnings designed to represent core operational activities. These guidelines have been applied and the calculation of EPRA EPS set out below.

An Adjusted EPRA earnings calculation has also been presented. This removes the effect of the Rent Smoothing Adjustments (in order not to artificially flatter Dividend Cover calculations) and any non-recurring costs such as those for share placings. The adjusted measure also excludes any incentive fees which are paid in shares, as they are considered to be linked to revaluation movements and are therefore best treated consistently with revaluations.

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8. Earnings per share (continued)

In calculating Adjusted EPRA EPS, the weighted average number of shares is 322,224,754 (31 December 2018: 299,730,384; 30 June 2018: 277,535,542), calculated using the actual date on which any shares are issued during the period so as not to create a mismatch between the basis of calculation of Adjusted EPRA EPS and the dividends per share paid in the period. In this way the Group's measure of Dividend Cover is considered to be more precisely calculated.

The weighted average number of shares applied in calculating Adjusted EPRA EPS has been derived as follows:

	Unaudited Six months to 30 June 2019 Number	Audited Year to 31 December 2018 Number	Unaudited Six months to 30 June 2018 Number
Shares in issue throughout the period	**321,563,353**	230,536,874	230,536,874
Pro rata adjustment for:			
Shares issued in March 2019 in settlement of 2018 incentive fee	**661,401**	-	-
Shares issued in March 2018 in settlement of 2017 incentive fee	**-**	3,595,356	2,585,773
Shares issued in March 2018 share placing	**-**	65,598,153	44,412,895
	322,224,754	299,730,383	277,535,542

EPRA and Adjusted EPRA earnings are calculated as:

	Unaudited Six months to 30 June 2019 £000	Audited Year to 31 December 2018 £000	Unaudited Six months to 30 June 2018 £000
Profit for the period	**74,511**	147,513	64,657
EPRA adjustments:			
Investment property revaluation (note 9)	**(43,089)**	(98,167)	(42,835)
Profit on disposal of investment properties	**(421)**	(183)	-
German deferred tax on investment property revaluations (note 7)	**668**	747	655
Fair value adjustment of interest rate derivatives	**27**	25	-
EPRA earnings	**31,696**	49,935	22,477
Other adjustments:			
Rent Smoothing Adjustments (note 9)	**(5,493)**	(10,950)	(5,223)
Incentive fee	**-**	5,278	-
Adjusted EPRA earnings	**26,203**	44,263	17,254

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

	Unaudited Six months to 30 June 2019 Pence per share	Audited Year to 31 December 2018 Pence per share	Unaudited Six months to 30 June 2018 Pence per share
EPRA EPS	**9.8**	16.6	8.0
Diluted EPRA EPS	**9.8**	16.5	8.0
Adjusted EPRA EPS	**8.1**	14.7	6.2

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9. Investment properties

Freehold investment properties	**Unaudited Six months to 30 June 2019 £000**	Audited Year to 31 December 2018 £000	Unaudited Six months to 30 June 2018 £000
At the start of the period	**2,018,115**	1,693,956	1,693,956
Revaluation movement	**48,851**	97,015	47,720
Disposals	**(3,480)**	(2,731)	-
Currency translation movement	**(171)**	1,233	(330)
Additions	**-**	228,642	228,574
At the end of the period	**2,063,315**	2,018,115	1,969,920
Leasehold investment properties			
At the start of the period	**317,105**	87,928	87,928
Revaluation movement	**-**	5,451	397
Disposals	**(1,335)**	-	-
Movement in headlease liabilities	**(87)**	(72)	(59)
Additions	**-**	206,936	206,980
Recognition of headlease liabilities acquired	**-**	16,862	16,862
At the end of the period	**315,683**	317,105	312,108
Total investment properties			
At the start of the period	**2,335,220**	1,781,884	1,781,884
Revaluation movement	**48,851**	102,466	48,117
Disposals	**(4,815)**	(2,731)	-
Currency translation movement	**(171)**	1,233	(330)
Movement in headlease liabilities	**(87)**	(72)	(59)
Additions	**-**	435,578	435,554
Recognition of headlease liabilities acquired	**-**	16,862	16,862
At the end of the period	**2,378,998**	2,335,220	2,282,028

As at 30 June 2019 the properties were valued at £2,350.6 million by CBRE Limited or Christie & Co in their capacity as external valuers (31 December 2018: £2,306.7 million by CBRE Limited or Christie & Co; 30 June 2018: £2,253.5 million by CBRE Limited, Christie & Co or another qualified valuer). 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.

The hospitals sold on 22 July 2019 are included in the figures above at a valuation of £300.4 million as at 30 June 2019 (31 December 2018 and 30 June 2018: £292.3 million).

The historic cost of the Group's investment properties as at 30 June 2019 was £1,686.8 million (31 December 2018: £1,690.9 million; 30 June 2018: £1,693.5 million).

Other than headlease payments, the majority of which are recoverable from tenants, the Group did not have any material contractual investment property obligations at either balance sheet date. All responsibility for property liabilities on the Group's portfolio, including repairs and maintenance, resides directly with the tenants, except at Manchester Arena where such costs relating to the structure and common areas are liabilities of the Group but are generally recoverable from tenants via service charges.

Of the total fair value, £116.1 million (31 December 2018: £112.6 million; 30 June 2018: £111.0 million) relates to the Group's German investment properties, the valuations of which are translated into Sterling at the prevailing exchange rate at each balance sheet date.

All of the investment properties are held within six (31 December 2018 and 30 June 2018: six) ring-fenced security pools as security under fixed charges in respect of separate secured debt facilities.

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9. Investment properties (continued)

Under the Group's accounting policy for leasehold properties, the book values of those 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 book values of the investment properties and their external valuations is as follows:

	Unaudited 30 June 2019 £000	Audited 31 December 2018 £000	Unaudited 30 June 2018 £000
Book value	**2,378,998**	2,335,220	2,282,028
Gross-up of headlease liabilities	**(28,424)**	(28,511)	(28,524)
External valuation	**2,350,574**	2,306,709	2,253,504

Included within the book value of investment properties at 30 June 2019 is £202.6 million (31 December 2018: £197.1 million; 30 June 2018: £190.9 million) in respect of Rent Smoothing Adjustments as described in note 4, representing the amount of rent included in the income statement ahead of actual cash receipts. This receivable increases over the first half of each lease term and then unwinds, reducing to zero over the second half of each lease term, and comprises:

	Unaudited 30 June 2019 £000	Audited 31 December 2018 £000	Unaudited 30 June 2018 £000
Healthcare – Ramsay hospitals (maximum receivable £165.2 million in May 2022)	**154,757**	151,863	148,749
Leisure – German theme park/hotel (maximum receivable £42.0 million in Jan 2025)	**35,210**	34,345	32,911
Healthcare – Lisson Grove hospital (maximum receivable £20.6 million in March 2035)	**10,516**	9,902	9,277
Leisure - Manchester Arena (maximum receivable £8.9 million in Dec 2031)	**1,243**	640	-
Leisure – The Brewery (maximum receivable £23.5 million in June 2041)	**606**	269	-
Leisure – Stonegate pubs (maximum receivable £1.3 million in April 2029)	**244**	122	-
	202,576	197,141	190,937

The difference between rents on a straight line basis and rents actually receivable is included within the book value of investment properties, but does not increase the book value over fair value. The effect of this Rent Smoothing Adjustment on the revaluation movement, together with the impact of back rent received during the prior year from a May 2017 rent review on the healthcare portfolio but not yet fully recognised in revenue, and movements on the headlease liabilities is as follows:

	Unaudited Six months to 30 June 2019 £000	Audited Year to 31 December 2018 £000	Unaudited Six months to 30 June 2018 £000
Revaluation movement	**48,851**	102,466	48,117
Rent Smoothing Adjustments (note 4)	**(5,493)**	(10,950)	(5,223)
Adjustment for 2017 back rent received	**(182)**	6,723	-
Movement in gross-up of headlease liabilities	**(87)**	(72)	(59)
Revaluation movement in the income statement	**43,089**	98,167	42,835

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9. Investment properties (continued)

The Board determines the Group's valuation policies and procedures, and is responsible for overseeing the valuations. Valuations are based on information extracted 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 external valuers (based on market observation and their professional judgement) in their valuation models.

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

The fair value of the investment properties 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.

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9. Investment properties (continued)

The key inputs for the level 3 valuations were as follows:

Portfolio	Fair value £000	Key unobservable input	Inputs: Range	Inputs: Blended yield
At 30 June 2019:				
Healthcare	1,012,050	Net Initial Yield	3.9% - 5.5%	4.8%
		Running Yield by June 2020	4.0% - 5.7%	4.9%
Leisure - UK	741,478	Net Initial Yield	4.8% - 6.3%	5.1%
		Running Yield by June 2020	4.8% - 6.9%	5.2%
		Future RPI assumption per annum	2.6%	
Leisure - Germany	116,050	Net Initial Yield	5.3%	5.3%
		Running Yield by July 2020	5.5%	5.5%
Budget hotels	509,420	Net Initial Yield	4.5% - 10.1%	5.5%
		Running Yield by June 2020	4.5% - 10.1%	5.5%
		Future RPI assumption per annum	2.5%	
Total at 30 June 2019	**2,378,998**			**5.1%**
At 31 December 2018:				
Healthcare	984,845	Net Initial Yield	3.9% - 5.5%	4.8%
		Running Yield by June 2019	4.0% - 5.6%	4.9%
Leisure - UK	723,503	Net Initial Yield	4.7% - 5.9%	5.1%
		Running Yield by June 2019	4.2% - 6.3%	5.2%
		Future RPI assumption per annum	2.6%	
Leisure - Germany	112,550	Net Initial Yield	5.5%	5.5%
		Running Yield by July 2019	5.7%	5.7%
Budget hotels	514,322	Net Initial Yield	4.5% - 10.1%	5.5%
		Running Yield by June 2019	4.5% - 10.1%	5.5%
		Future RPI assumption per annum	2.5%	
Total at 31 December 2018	**2,335,220**			**5.1%**
At 30 June 2018:				
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%
Budget 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%**

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).

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10. Cash and cash equivalents

	Unaudited 30 June 2019 £000	Audited 31 December 2018 £000	Unaudited 30 June 2018 £000
Cash and deposit accounts	**70,853**	71,133	66,144
Cash held for portfolio acquisition	**-**	-	132,782
Free cash	**70,853**	71,133	198,926
Secured cash	**26,828**	29,972	27,070
Regulatory capital	**657**	640	633
	98,338	101,745	226,629

Secured cash is held in accounts over which the providers of secured debt have fixed security. The Group is unable to access this cash until it is released to free cash each quarter, which takes place once quarterly interest and loan repayments have been made as long as there is no default or cash trap in operation.

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 in liquid funds, which is maintained in cash.

11. Trade and other receivables

	Unaudited 30 June 2019 £000	Audited 31 December 2018 £000	Unaudited 30 June 2018 £000
Trade receivables	**51**	267	115
Amounts receivable from investment property disposals	**3,467**	2,503	-
Prepayments and accrued income	**1,021**	666	793
Other receivables	**-**	-	1
	4,539	3,436	909

12. Trade and other payables

	Unaudited 30 June 2019 £000	Audited 31 December 2018 £000	Unaudited 30 June 2018 £000
Trade payables	**400**	135	878
Rent received in advance and other deferred income	**22,732**	27,696	25,448
Interest payable on secured debt	**9,082**	9,248	8,765
Tax and social security	**1,221**	3,526	2,743
Accruals and deferred income	**1,090**	1,061	1,079
Accrued property sale costs	**79**	61	-
Property acquisition completion liability	**-**	-	198,508
Accrued property acquisition costs	**-**	-	4,646
Accrued loan costs	**-**	-	1,479
	34,604	41,727	243,546

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13. Secured debt

Amounts falling due within one year	**Unaudited 30 June 2019 £000**	Audited 31 December 2018 £000	Unaudited 30 June 2018 £000
Secured debt at fixed interest rates	**4,156**	4,156	4,156
Unamortised finance costs	**(2,441)**	(2,385)	(2,482)
	1,715	1,771	1,674

Amounts falling due in more than one year			
Secured debt at fixed interest rates	**1,009,619**	1,011,846	1,020,041
Secured debt at floating interest rates	**76,220**	76,528	-
Unamortised finance costs	**(8,615)**	(9,879)	(11,264)
	1,077,224	1,078,495	1,008,777

Secured debt, which comprises fixed and floating rate loans, is measured at amortised cost. As at 30 June 2019 its fair value was £1,129.9 million (31 December 2018: £1,117.7 million; 30 June 2018: £1,050.4 million), which includes £160.0 million attributable to debt repaid after the balance sheet date following the hospitals portfolio disposal. The secured debt was valued in accordance with IFRS 13 by reference to interbank bid market rates at the close of business on the relevant 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, or the amount required to prepay the loans at the balance sheet date, and therefore does not represent an estimate of the cost to the Group of repaying the debt before the scheduled maturity 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.

The Group had no undrawn, committed borrowing facilities at any of the balance sheet dates shown above.

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 2019 £000	Audited Year to 31 December 2018 £000	Unaudited Six months to 30 June 2018 £000
At the start of the period	**11,110**	10,238	10,238
Charge to the income statement (note 7)	**668**	747	609
(Credit)/charge to other comprehensive income	**(10)**	125	15
At the end of the period	**11,768**	11,110	10,862

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15. Share capital

Share capital represents the aggregate nominal value of shares issued. The movement over the period in the number of shares in issue, all of which were fully paid ordinary shares of £0.10 each, was as follows:

	Unaudited Six months to 30 June 2019 Number	Audited Year to 31 December 2018 Number	Unaudited Six months to 30 June 2018 Number
Shares in issue at the start of the period	**321,563,353**	230,536,874	230,536,874
Issue of ordinary shares:			
in settlement of prior year's incentive fee	**1,287,242**	4,588,479	4,588,479
in respect of March 2018 placing	**-**	86,438,000	86,438,000
Actual shares in issue at the end of the period	**322,850,595**	321,563,353	321,563,353
Dilution from settlement of shares to be issued for 2018 incentive fee	**-**	1,287,242	-
Diluted shares in issue at the end of the period	**322,850,595**	322,850,595	321,563,353

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 those equity issues.

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

Other reserves represent:

- the cumulative exchange gains and losses on foreign currency translation;
- the cumulative gains or losses, net of tax, on effective cash flow hedging instruments; and
- 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.

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17. Net asset value per share

Net asset value (NAV) per share is calculated as the net assets of the Group attributable to shareholders divided by the number of shares in issue at the end of each period.

Diluted NAV per share is adjusted for any shares that will be issued in future at the balance sheet date, including those in settlement of any incentive fee that may become payable as explained in note 18.

EPRA, the European Public Real Estate Association, publishes 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 calculation of EPRA NAV per share uses as its denominator the same number of shares in issue as is used in calculating Diluted NAV per share.

The Group's basic NAV, diluted NAV and EPRA NAV is as follows:

	Unaudited 30 June 2019		Audited 31 December 2018		Unaudited 30 June 2018	
	£000	**Pence per share**	£000	Pence per share	£000	Pence per share
Basic NAV	**1,329,854**	**411.9**	1,281,588	398.5	1,218,901	379.1
Dilution from shares to be issued in settlement of 2018 incentive fee	**-**	**-**	-	(1.5)	-	-
Diluted NAV	**1,329,854**	**411.9**	1,281,588	397.0	1,218,901	379.1
EPRA adjustments:						
Deferred tax on investment property revaluations	**11,768**	**3.6**	11,110	3.4	10,862	3.3
Fair value of interest rate derivatives	**1,153**	**0.4**	197	0.1	-	-
EPRA NAV	**1,342,775**	**415.9**	1,292,895	400.5	1,229,763	382.4

The number of shares used in the NAV per share calculations are as follows

	Unaudited 30 June 2019 Number	Audited 31 December 2018 Number	Unaudited 30 June 2018 Number
Basic NAV	**322,850,595**	321,563,353	321,563,353
EPRA NAV	**322,850,595**	322,850,595	321,563,353

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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 2019		Audited 31 December 2018		Unaudited 30 June 2018	
	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**	**7.44%**	24,016,096	7.47%	24,016,096	7.47%
Mike Brown †	**1,183,580**	**0.37%**	1,183,580	0.37%	1,183,580	0.37%
Sandy Gumm †	**192,573**	**0.06%**	192,573	0.06%	192,573	0.06%
Martin Moore	**118,357**	**0.04%**	118,357	0.04%	118,357	0.04%
Ian Marcus	**87,002**	**0.03%**	87,002	0.03%	87,002	0.03%
Jonathan Lane	**57,471**	**0.02%**	57,471	0.02%	57,471	0.02%
Leslie Ferrar	**22,739**	**0.01%**	22,739	0.01%	22,739	0.01%

* comprising 22,466,916 ordinary shares held by PIHL Property LLP, 1,491,709 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 2019 a further 19,059,132 ordinary shares (31 December 2018 and 30 June 2018: 17,771,890 ordinary shares), representing 5.9% (31 December 2018 and 30 June 2018: 5.5%) 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.

During the period, the Company paid dividends totalling £2.0 million (year to 31 December 2018: £3.5 million; six months to 30 June 2018: £1.5 million) in aggregate to Directors on their shareholdings. A further £1.4 million (year to 31 December 2018: £2.3 million; six months to 30 June 2018: £0.9 million) was paid to the Prestbury group on its shareholding.

Directors' fees

Fees totalling £200,000 per annum (year to 31 December 2018 and six months to 30 June 2018: £185,000 per annum up to 31 March 2018 and £200,000 per annum thereafter) were payable to the four independent non-executive Directors. The Directors connected to Prestbury (Nick Leslau, Mike Brown and Sandy Gumm) do not receive Directors' fees. Total Directors' fees of £100,000 were therefore payable in the period (year to 31 December 2018: £196,000; six months to 30 June 2018: £96,000). 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 £6.7 million (year to 31 December 2018: £12.3 million; six months to 30 June 2018: £5.7 million) plus VAT were payable in cash to Prestbury in respect of the period, of which £0.1 million (31 December 2018: £0.1 million; 30 June 2018: £0.1 million) was outstanding at the balance sheet date and is included in trade and other payables.

Advisory fees are calculated at 1.25% per annum on EPRA NAV up to £500 million, 1.0% per annum on EPRA NAV between £500 million and £1 billion, 0.75% per annum on EPRA NAV between £1 billion and £1.5 billion, and 0.5% on EPRA NAV over £1.5 billion.

The Investment Advisory Agreement expires in December 2025. There are no renewal rights or termination payments at the time of expiry. Any payments triggered by a change of control in the Company are limited to four times the most recent quarterly fee at the time any change occurs.

FINANCIAL STATEMENTS

Notes to the Interim Report continued

18. Related party transactions and balances (continued)

Incentive fee payable

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 period. 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 payable in any year is subject to a cap of 5% of EPRA NAV.

The incentive fee is calculated in accordance with the Investment Advisory Agreement by reference to growth in TAR. If TAR growth exceeds a hurdle rate of 10% over a given financial year, an incentive fee equal to 20% of the surplus is payable to Prestbury. The first 10% return is therefore always a priority return to shareholders.

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 – that is, the published EPRA NAV per share), which is then the starting point for the cumulative hurdle calculations for future periods. The hurdle will therefore be set at the higher of (a) the EPRA NAV at the start of the year plus 10%; and (b) the 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 400.5 pence per share was established at 31 December 2018 when a fee was last earned, therefore TAR will have to exceed 40.0 pence per share for the year ending 31 December 2019 for a fee to be earned; that is, EPRA NAV before distributions for the year will therefore have to exceed 440.5 pence per share (£1,422.2 million) at 31 December 2019 before any incentive fee becomes payable.

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 2019, assuming that:

- there are no acquisitions, disposals or lease variations in the second half of 2019 other than those disclosed in note 19;
- the property portfolio valuation yields do not change from those applied as at 30 June 2019;
- no additional uplift in rent from the outstanding Ramsay rent review is 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 2019 external investment property valuations; and
- the Group's Adjusted EPRA EPS over the remainder of the year is fully distributed on a quarterly basis, together with top-up dividends from the proceeds of the hospitals portfolio disposal to bring distributions back to the levels anticipated prior to that disposal.

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 2019 year and as a result no fee is accrued at 30 June 2019 (30 June 2018: £nil).

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.

FINANCIAL STATEMENTS

Notes to the Interim Report continued

19. Events after the balance sheet date

On 22 July 2019, the Group sold eight of its nineteen freehold healthcare investment properties let to Ramsay Health Care Limited for gross cash consideration of £347.0 million (£343.7 million after disposal costs), realising a profit of £43.3 million over book value as at 30 June 2019. At completion of the sale on 16 August 2019, secured fixed interest rate debt of £152.0 million was repaid with the proceeds of sale, incurring debt break costs of £27.1 million and other loan costs of £0.6 million. The surplus proceeds of £164.0 million added to the Group's free cash balance.

On 26 July 2019, the Group simultaneously exchanged and completed on the sale of one of its budget hotels for net proceeds of £1.8 million, which was broadly in line with its book value. Secured debt of £0.6 million was repaid with the proceeds of sale and the remaining proceeds of £1.2 million have increased the Group's free cash balance.

On 30 August 2019, the Company paid a distribution of £13.6 million as an interim dividend of 4.2 pence per share.

ADDITIONAL INFORMATION

Supplementary information

Shareholder Return – TAR and TSR

Shareholder return is one of the Group's principal measures of performance. Total Shareholder Return is measured as the movement in the Company's share price over a period, plus dividends. Total Accounting Return is a shareholder return measure calculated as the movement in EPRA NAV per share plus dividends per share over the period.

When providing illustrations of future performance, the Company measures shareholder return by reference to illustrative EPRA NAV as a proxy for the share price performance.

The Group sold eight of the nineteen hospitals let to Ramsay Health Care after the balance sheet date. The disposal had a material impact on the Group's balance sheet and will have an impact on future earnings. In order to present a suitably clear picture, the relevant supplementary information as at 30 June 2019 in the following pages is presented on a pro forma basis to exclude the sold portfolio. The pro forma adjustments are presented on page 5 of this report.

TAR – EPRA NAV performance

	Pro forma Six months to 30 June 2019 Pence	Year to 31 December 2018 Pence	Six months to 30 June 2018 Pence
EPRA NAV per share:			
at the start of the period	**400.5**	370.4	370.4
at the end of the period	**420.5**	400.5	382.4
Increase in EPRA NAV per share	**20.0**	30.1	12.0
Dividends per share	**7.9**	13.9	6.0
Increase in EPRA NAV plus dividends per share	**27.9**	44.0	18.0
TAR	**7.0%**	11.9%	4.9%

TSR – share price performance

	Six months to 30 June 2019 Pence	Year to 31 December 2018 Pence	Six months to 30 June 2018 Pence
Mid-market closing share price:			
at the start of the period	**377.0**	360.8	360.8
at the end of the period	**400.0**	377.0	384.0
Increase in share price	**23.0**	16.2	23.2
Dividends per share	**7.9**	13.9	6.0
Increase in share price plus dividends per share	**30.9**	30.1	29.2
TSR	**8.2%**	8.3%	8.1%

ADDITIONAL INFORMATION

Supplementary information continued

EPRA measures

	Pro forma 30 June 2019	31 December 2018	30 June 2018
EPRA NAV per share	**420.5p**	400.5p	382.4p
EPRA Triple Net Asset Value Per Share	**406.6p**	389.2p	370.9p
EPRA Net Initial Yield	**5.0%**	5.0%	5.2%
EPRA Topped Up Net Initial Yield	**5.0%**	5.1%	5.2%
EPRA Vacancy Rate	**-**	-	-

	Six months to 30 June 2019	Year to 31 December 2018	Six months to 30 June 2018
EPRA EPS	**9.8p**	16.6p	8.0p
Adjusted EPRA EPS	**8.1p**	14.7p	6.0p
EPRA Capital Expenditure	**-**	£435.5m	£435.5m
EPRA Cost Ratio excluding direct vacancy costs	**12.8%**	16.8%	13.3%
EPRA Cost Ratio including direct vacancy costs	**12.9%**	16.9%	13.3%
Adjusted EPRA Cost Ratio excluding direct vacancy costs	**13.9%**	14.1%	14.7%
Adjusted EPRA Cost Ratio including direct vacancy costs	**14.0%**	14.2%	14.7%

ADDITIONAL INFORMATION

Supplementary information continued

EPRA NAV per share

	30 June 2019		31 December 2018		30 June 2018	
	£000	**Pence per share**	£000	Pence per share	£000	Pence per share
Basic NAV	**1,329,854**	**411.9**	1,281,588	398.5	1,218,901	379.1
Dilution from shares to be issued for 2018 incentive fee	**-**	**-**	-	(1.5)	-	-
Diluted NAV	**1,329,854**	**411.9**	1,281,588	397.0	1,218,901	379.1
EPRA adjustments:						
Deferred tax on investment property revaluations	**11,768**	**3.6**	11,110	3.4	10,862	3.3
Fair value of derivatives	**1,153**	**0.4**	197	0.1		
EPRA NAV	**1,342,775**	**415.9**	1,292,895	400.5	1,229,763	382.4
Hospitals portfolio disposal in July 2019	**14,787**	**4.6**	-	-	-	-
Pro forma EPRA NAV	**1,357,562**	**420.5**	1,292,895	400.5	1,229,763	382.4

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

	30 June 2019 Number	31 December 2018 Number	30 June 2018 Number
Basic NAV	**322,850,595**	321,563,353	321,563,353
Shares to be issued in satisfaction of incentive fee (note 18)	**-**	1,287,242	-
Diluted EPRA and EPRA NAV	**322,850,595**	322,850,595	321,563,353

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 2019		31 December 2018		30 June 2018	
	£000	**Pence per share**	£000	Pence per share	£000	Pence per share
EPRA NAV	**1,342,775**	**415.9**	1,292,895	400.5	1,229,763	382.4
Revaluation of fixed rate debt to fair value	**(39,950)**	**(12.4)**	(25,176)	(7.8)	(26,172)	(8.2)
Deferred tax on investment property revaluations	**(11,768)**	**(3.6)**	(11,110)	(3.4)	(10,862)	(3.3)
Fair value of interest rate derivatives	**(1,153)**	**(0.4)**	(197)	(0.1)	-	-
EPRA Triple NAV	**1,289,904**	**399.5**	1,256,412	389.2	1,192,729	370.9
Hospitals portfolio disposal in July 2019	**14,787**	**4.6**	-	-	-	-
Revaluation to fair value of fixed rate debt repaid on hospitals portfolio disposal	**8,044**	**2.5**	-	-	-	-
Pro forma EPRA Triple NAV	**1,312,735**	**406.6**	1,256,412	389.2	1,192,729	370.9

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 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.

ADDITIONAL INFORMATION

Supplementary information continued

EPRA Net Initial Yield and EPRA Topped Up Net Initial Yield

	Pro forma 30 June 2019 £000	31 December 2018 £000	30 June 2018 £000
Investment property, all of which is completed and wholly owned, at external valuation	**2,050,219**	2,306,709	2,253,503
Allowance for estimated purchasers' costs	**138,340**	155,628	152,032
Grossed up completed property portfolio valuation	**2,188,559**	2,462,337	2,405,535
Annualised cash passing rental income	**111,080**	124,989	124,514
Annualised non-recoverable property outgoings	**(813)**	(815)	(682)
Annualised net rents	**110,267**	124,174	123,832
Notional rent increase on expiry of rent free periods and other lease incentives	**97**	187	187
Topped-up annualised net rents	**110,364**	124,361	124,019
EPRA Net Initial Yield	**5.0%**	5.0%	5.2%
EPRA Topped Up Net Initial Yield	**5.0%**	5.1%	5.2%

EPRA Vacancy Rate

	30 June 2019	31 December 2018	30 June 2018
EPRA Vacancy Rate	**0%**	0%	0%

ADDITIONAL INFORMATION

Supplementary information continued

EPRA EPS

	Six months to 30 June 2019 £000	Year to 31 December 2018 £000	Six months to 30 June 2018 £000
Profit for the period	**74,511**	147,513	64,657
EPRA adjustments:			
Investment property revaluation	**(43,089)**	(98,167)	(42,835)
German deferred tax on investment property revaluation	**668**	747	655
Profit on disposal of investment properties	**(421)**	(183)	-
Fair value adjustment of interest rate derivatives	**27**	25	
EPRA earnings	**31,696**	49,935	22,477
Other adjustments:			
Rent Smoothing Adjustments	**(5,493)**	(10,950)	(5,223)
Incentive fee	**-**	5,278	-
Adjusted EPRA earnings	**26,203**	44,263	17,254

Weighted average number of shares in issue	**Six months to 30 June 2019 Number**	Year to 31 December 2018 Number	Six months to 30 June 2018 Number
Adjusted EPRA EPS	**322,224,754**	299,730,383	277,535,542
Adjustment for weighting of shares issued during the period *	**625,841**	1,819,287	3,555,696
EPRA EPS	**322,850,595**	301,549,670	281,091,238
Shares to be issued in satisfaction of 2018 incentive fee	**-**	1,287,242	-
Diluted EPRA EPS	**322,850,595**	302,836,912	281,091,238

* 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 period.

	Six months to 30 June 2019 Pence per share	Year to 31 December 2018 Pence per share	Six months to 30 June 2018 Pence per share
EPRA EPS	**9.8**	16.6	8.0
Diluted EPRA EPS	**9.8**	16.5	8.0
Adjusted EPRA EPS	**8.1**	14.7	6.2

ADDITIONAL INFORMATION

Supplementary information continued

EPRA Capital Expenditure

	Six months to 30 June 2019 £000	Year to 31 December 2018 £000	Six months to 30 June 2018 £000
Acquisitions completed and committed	**-**	435,515	435,515
Development	**-**	-	-
Expenditure on like for like portfolio	**-**	-	-
Other	**-**	-	-
EPRA Capital Expenditure	**-**	435,515	435,515

The expenditure on acquisitions in the prior year represents the purchase of two investment property 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 property portfolio except at Manchester Arena where such costs relating to the structure and common areas are liabilities of the Group but are generally recoverable from tenants via service charges.

There was only negligible vacant space at each balance sheet date.

EPRA Cost Ratios

	Six months to 30 June 2019 £000	Year to 31 December 2018 £000	Six months to 30 June 2018 £000
Revenue (note 4)	**69,040**	125,874	56,109
Tenant contributions to property outgoings	**(805)**	(1,384)	(594)
EPRA gross rental income	**68,235**	124,490	55,515
Non-recoverable property operating expenses *	**423**	427	129
Administrative expenses	**8,353**	20,575	7,257
EPRA costs including direct vacancy costs	**8,776**	21,002	7,386
Direct vacancy costs	**(46)**	(90)	-
EPRA costs	**8,730**	20,912	7,386
EPRA Cost Ratio including direct vacancy costs	**12.9%**	16.9%	13.3%
EPRA Cost Ratio excluding direct vacancy costs	**12.8%**	16.8%	13.3%

* included within the £0.7 million (31 December 2018: £0.5 million; 30 June 2018 £0.6 million) of property costs charged to the income statement are £0.3 million (31 December 2018: £0.1 million; 30 June 2018 £0.5 million) of headlease costs and costs that are recoverable from the tenant.

The Group capitalises the incremental costs of negotiating and arranging leases, which are then released to the income statement over the term of the relevant lease. Costs of £nil (year to 31 December 2018: £0.4 million; six months to 30 June 2018 £nil) were capitalised during the period, of which £11,000 (year to 31 December 2018: £36,000; six months to 30 June 2018: £nil) was subsequently released to the income statement in the period. The Group otherwise has no capitalised overheads or operating expenses.

ADDITIONAL INFORMATION

Supplementary information continued

Adjusted EPRA Cost Ratios excluding non-cash items

The Group also calculates an Adjusted EPRA Cost Ratio excluding the following non-cash items to present what the Board considers to be a measure of cost efficiency more directly relevant to its business model. The Adjusted EPRA Cost Ratio excludes:

- revenue recognised ahead of cash receipt as a result of Rent Smoothing Adjustments (note 4); and
- any incentive fee, included in administrative expenses, which is settled in shares (note 18).

	Six months to 30 June 2019 £000	Year to 31 December 2018 £000	Six months to 30 June 2018 £000
EPRA gross rental income	**68,235**	124,490	55,515
Rent Smoothing Adjustments	**(5,493)**	(10,950)	(5,223)
Adjusted EPRA gross rental income excluding non-cash items	**62,742**	113,540	50,292
EPRA costs	**8,776**	21,002	7,386
Incentive fee settled in shares	**-**	(4,872)	-
Adjusted EPRA costs including direct vacancy costs	**8,776**	16,130	7,386
Direct vacancy costs	**(46)**	(90)	-
Adjusted EPRA costs excluding direct vacancy costs	**8,730**	16,040	7,386
EPRA Cost Ratio including direct vacancy costs	**14.0%**	14.2%	14.7%
EPRA Cost Ratio excluding direct vacancy costs	**13.9%**	14.1%	14.7%

ADDITIONAL INFORMATION

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
Dividend Cover	**Adjusted EPRA EPS** divided by dividends per share
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
LTV	Loan to value: the outstanding amount of a loan as a percentage of the property value
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** calculated on the gross loan amount less cash balances
REIT	Real Estate Investment Trust
Rent Smoothing Adjustments	The adjustment required to recognise rent received in the income statement ahead of cash received, as a result of the requirement to spread rental income evenly over the lease term
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

ADDITIONAL INFORMATION

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
Auditors	BDO LLP 55 Baker Street, London W1U 7EU
Property valuers	CBRE Limited Henrietta House, Henrietta Place, London W1G 0NB Christie & Co Whitefriars House, 6 Carmelite Street, London EC4Y 0BS
Derivatives valuers	JCRA Limited 12 St James's Square, London SW1Y 4LB
Financial PR adviser	FTI Consulting LLP 200 Aldersgate, Aldersgate Street, London EC1A 4HD
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 - 5.30pm, Monday to Friday excluding public holidays in England and Wales Registrar's email: shareholderenquiries@linkgroup.co.uk
Company website	www.SecureIncomeREIT.co.uk
Company email	enquiries@SecureIncomeREIT.co.uk