Results for the six months to 30 June 2020

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

The Company owns a £1.96 billion portfolio at its 30 June 2020 independent external valuation. With net assets of £1.25 billion and some £220 million of Uncommitted Cash held at 30 June 2020, the Company has been well positioned to provide support to its tenants through the Covid-19 pandemic while maintaining its strong financial discipline and balance sheet strength.

SIR has a highly experienced board, chaired by Martin Moore, and is advised by Prestbury Investment Partners Limited. Prestbury is owned and managed by Nick Leslau, Mike Brown, Tim Evans, Sandy Gumm and Ben Walford, a team with a long and successful track record in real estate investment and asset management and, with an investment worth £155 million in the Company (at 30 June 2020 EPRA NTA), very close alignment with the interests of SIR shareholders.

Contents

Business Review

1 Highlights
3 Chairman's Statement
5 Investment Adviser's Report
29 Principal Risks and Uncertainties

Condensed Financial Statements

33 Independent Review Report
35 Group Income Statement
35 Group Statement of Other Comprehensive Income
36 Group Statement of Changes in Equity
37 Group Balance Sheet
38 Group Cash Flow Statement
39 Notes to the Interim Report

Additional Information

60 Supplementary Information
68 Glossary
69 Company Information

We present in this report the Company's unaudited interim results for the six months ended 30 June 2020.

This has been an extraordinary period for the Company and the economy. Almost every one of our tenants was producing record breaking results up to the point of the pandemic, in turn driving our strong performance which met an abrupt but hopefully temporary period of disruption. With the exception of our healthcare portfolio tenants who remained trading throughout the pandemic, two thirds of our tenants had to shut down operations across the world as a result of Covid-19 related lockdowns and restrictions, including assets owned by our Group. This has created unprecedented trading challenges for our leisure and hotel tenants who earned zero revenue for over half our reporting period. Our strong financial position and experienced external management team have, however, enabled us to take a proactive approach to provide support where needed, with the aim that affected businesses will be better placed to resume their growth trajectory once the effects of the pandemic diminish. In turn, we hope that this will also shore up the value of our assets and better position the Company for growth.

Whilst there is still considerable uncertainty resulting from the unknown future impact of Covid-19, the Company has a robust balance sheet with some £220 million of uncommitted and unfettered cash, well structured non-recourse debt, excellent real estate and leases which are very difficult to replicate. Our Investment Adviser remains as committed and aligned as ever to restoring the prospects of our shareholders.

Highlights

	30 June 2020	31 December 2019	Change in period
Investment properties at external valuation	**£1,958.7m**	£2,083.1m	Down 6.0%
Net assets	**£1,244.1m**	£1,384.5m	Down 10.1%
EPRA NTA	**£1,252.0m**	£1,391.3m	Down 10.0%
EPRA NTA per share	**386.4p**	429.4p	Down 10.0%
Net Loan To Value ratio	**35.3%**	31.9%	Up 10.7%
Uncommitted Cash	**£219.6m**	£234.2m	Down 6.2%
Passing rent before Covid-19 rent concessions	**£111.8m**	£110.7m	Up 1.0%
Weighted Average Unexpired Lease Term	**20.8 years**	21.0 years	Down 1.0%

	Six months to 30 June 2020	Six months to 30 June 2019	Change in period
Total Accounting Return	**(8.1)%**	7.0%	
Adjusted EPRA earnings per share	**5.1p**	8.1p	Down 37.0%
Earnings per share	**(35.5)p**	23.1p	
Dividends per share	**8.4p**	7.9p	Up 6.3%
Latest dividend per share of 3.65 pence declared in July 2020 annualised, as a percentage of EPRA NTA	**3.8%**	4.0%	Down 5.0%

- Balance sheet strength and liquidity has enabled the Company to support certain of its tenants through the Covid-19 pandemic without compromising on its resilience and while paying a quarterly cash dividend throughout

- Like for like portfolio valuation was down 6.0% to £1.96 billion in the period:
  - Budget hotel valuations adversely impacted by the Travelodge CVA account for 79% of the net decline in property valuation, with budget hotel values down by 20.3%
  - Leisure asset valuations down 5.5%
  - Healthcare asset valuations up by 2.8%

- Results reflect temporary rent concessions to support our leisure tenants and granted to Travelodge by way of its CVA:
  - Under current arrangements, total rents will revert to their previously contracted levels within 16 months
  - Travelodge rents are reduced by a total of £22.9 million over the period from 1 April 2020 to 31 December 2021, of which £4.8 million relates to cash flows in the period to 30 June 2020; 119 of the 123 hotel leases now include a landlord only break right exercisable at any time up to 20 November 2020
  - Merlin rents of £17.8 million for June and September 2020 have been deferred for collection in September 2021, with rental cash flows returning to their previously contracted levels at the December 2020 collection date
  - Stonegate pubs were granted a £1.1 million six month rent free period from April to September 2020 in exchange for strengthened lease alienation provisions and lease extensions to a 25 year term
  - Healthcare rents (34% of passing rents before concessions) have continued to be received on time, in full, with no concessions

Highlights continued

- Adjusted EPRA EPS of 5.1 pence per share after the full earnings impact of the rent concessions granted, which are reflected in this measure on a cash flow basis
- The Group's 20.8 year Weighted Average Unexpired Lease Term remains one of the longest in the UK public real estate sector
- Total Accounting Return of -8.1% in the period reflects a 43.0 pence per share fall in EPRA NTA net of 8.4 pence per share of dividend payments
- Neither the Company nor the Investment Adviser has requested or received any form of Covid-19 Government support
- The Management Team's alignment with all shareholders remains very strong, with an interest of 12.4% in the Company worth £155 million at 30 June 2020 EPRA NTA

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

"There is no doubt that Covid-19 has created very challenging conditions for the Company. Whilst our Key Operating Assets are in less cyclical sectors with high barriers to entry, the impact of the lockdown and sharply curtailed international travel has hit leisure and hotel businesses particularly hard across the globe. Having taken action in 2019 to further reduce the Company's leverage and maintain a much enhanced liquidity buffer, the Company was able to provide appropriate assistance to those tenants who needed it to protect shareholder value while maintaining the payment of quarterly dividends, without the Company having had any recourse to Government financial support or tax deferrals.

Negative real interest rates continue to pose a challenge for investors to protect their savings against inflation. This environment sets the investment case for long-dated inflation-linked rental income, including for Secure Income REIT, albeit one which has been interrupted by the impact of Covid-19. We retain the balance sheet flexibility to respond to further challenges, and the Board and our Management Team remain energised and fully aligned with our shareholders. Beyond the current disruption lies significant potential for recovery and the resumption of the strong performance seen from flotation in 2014 up to February of this year."

BUSINESS REVIEW

Chairman's Statement

Dear shareholder,

There is no doubt that Covid-19 has created very challenging conditions for the Company. Whilst our Key Operating Assets are in less cyclical sectors with high barriers to entry, the impact of the lockdown and sharply curtailed international travel has hit leisure and hotel businesses particularly hard across the globe. Having taken action in 2019 to further reduce the Company's leverage and maintain a much enhanced liquidity buffer, the Company was able to provide appropriate assistance to those tenants who needed it while maintaining the payment of quarterly dividends, without the Company having had any recourse to Government financial support or tax deferrals.

The impact of the rent concessions and the current investment market conditions on the Group for the six month period to 30 June 2020 has, disappointingly, ended our unbroken record of delivering strong Total Accounting Returns, rising net assets and falling leverage. However, the concessions granted to our tenants are all temporary, with the full rent roll due to return to its original contractual level within the next 16 months. We have the balance sheet resilience to provide further support to our tenants should it become necessary and we remain in close dialogue with all of them while they gradually restore their businesses.

Results and financial position

The Group's net asset value per share at 30 June 2020 reported under IFRS was 383.9 pence, down 10.5% from 428.8 pence at 31 December 2019. Using the industry standard EPRA measures for ease of comparison with other quoted real estate businesses, the Group's EPRA NTA per share at 30 June 2020 was 386.4 pence, down 10.0% since 31 December 2019.

	IFRS Net Assets		EPRA NTA	
	£m	Pence per share	£m	Pence per share
At 1 January 2020	1,384.5	428.8	1,391.3	429.4
Investment property revaluation	(142.0)	(43.9)	(132.1)	(40.8)
Other retained earnings	28.8	8.9	20.0	6.2
Dilution from issue of incentive fee shares	-	(1.5)	-	-
Dividends paid	(27.2)	(8.4)	(27.2)	(8.4)
At 30 June 2020	**1,244.1**	**383.9**	**1,252.0**	**386.4**

The Total Accounting Return for the period was minus 8.1%, with the negative return for the period principally attributable to the effects of the rent concessions and the impact of the pandemic on the investment market at the date of valuation.

As explained in more detail in the Investment Adviser's Report, 79% of the fall in property valuation is attributable to the Travelodge Hotels. The full effect of the rent concessions granted as at 30 June 2020 has been taken into account in these results, and no further concessions have been granted since that date. We note that the 30 June 2020 valuation date falls after the effective date of the Travelodge CVA and after the other rent concessions had been agreed with tenants, but before the UK Government permitted the commencement of the release of the lockdown measures for those businesses.

The impact on the Group's reported earnings of the support provided to our tenants is, unfortunately, rather complicated by the requirements of accounting standards which, broadly, mean that we must spread the impact of rent reductions over the whole remaining term of the leases. As those leases are unusually long, this means that rent reductions that are material over the concession period when cash flow is reduced (1 April 2020 to 31 December 2021) must be spread evenly in the income statement over the full term remaining on those leases, which is over 22 years on average. The impact on the income statement reported under the IFRS rules is therefore relatively modest. We believe that shareholders and other users of these reports are best served by an earnings measure that much more closely reflects the cash flow earnings of the business, so we retain our focus, as we always have done, on Adjusted EPRA Earnings which remove these rent smoothing effects. These adjustments are explained in the Investment Adviser's Report which follows this report.

BUSINESS REVIEW

Chairman's Statement continued

Results and financial position (continued)

The reduction in earnings and our changed income profile over the short term led the Board to carefully reconsider the Company's dividend policy. Historically, since we commenced payment of dividends four years ago, we have paid out all of the Company's Adjusted EPRA EPS in cash each quarter, which has resulted in dividends per share increasing year on year, consistent with our inflation protected rental income stream which has also grown every year. Having regard to the temporary nature of the rent concessions, the significant unfettered cash held by the Company, our headroom on debt covenants and the status of the easing of the lockdowns in the UK and elsewhere, we have continued to pay dividends at the levels that would have been achieved absent the rent concessions, as explained in more detail in the Investment Adviser's report. That decision remains subject to our continuing reassessment of those crucial factors underpinning the appropriateness of maintaining the dividend payments.

The share price on 30 June 2020 was 270.0 pence per share, a discount of 30% to the EPRA NTA at that date. Since we last reported results to shareholders in March 2020, Board members and the Management Team invested a further £556,000 in shares purchased in the market, adding to their already significant holding. Share buy-backs by the Company have been considered, but to date have not been deemed a prudent use of the Company's liquidity buffer given the resulting increase in the Company's leverage, an increase which is currently considered inappropriate at this time of heightened uncertainty.

Outlook

The easing of restrictions has allowed over 90% of our leisure and hotel assets to reopen in the short period since our tenants were permitted to do so, which is expected to rise to 95% by 1 October 2020. Whilst the future path of the pandemic remains uncertain, the UK Government has made it clear that it is keen to avoid the cost and disruption of a second national lockdown, instead imposing travel quarantines and local restrictions. In the meantime, the Bank of England's base rate stands at an historic low of 0.1%, ten year gilts yield little more at just 0.2% and, with widespread dividend cuts across the quoted universe, it has become increasingly difficult for savers to earn a satisfactory income return. At over 100% of GDP, the high level of UK Government debt is likely to usher in an era of financial repression, where interest rates are kept below the rate of inflation for a protracted period in order to reduce the real value of the debt; a policy that worked successfully over some two decades after World War Two.

Negative real interest rates pose a challenge for investors to protect their savings against inflation. This environment underpins the investment case for long-dated inflation-linked rental income, including for Secure Income REIT, albeit one which has been interrupted by the impact of Covid-19. We retain the balance sheet flexibility to respond to further challenges, and the Board and our Management Team remain energised and fully aligned with our shareholders. Beyond the current disruption lies significant potential for recovery and the resumption of the strong performance seen from flotation in 2014 up to February of this year.

Martin Moore
Chairman
10 September 2020

BUSINESS REVIEW

Investment Adviser's Report

Prestbury Investment Partners Limited, the investment adviser to Secure Income REIT Plc, presents its report on the operations of the Group for the six months ended 30 June 2020. Also included with these reports, following the interim financial statements, is Supplementary Information which includes calculations of the various performance measures referred to in this report.

The results presented in these interim financial statements reflect the significant impact of the Covid-19 pandemic, including the effects of the assistance provided by the Group to a number of its tenants operating in the leisure and budget hotel sectors. This support, and the general market uncertainty which has arisen during the pandemic, has continued into the second half of the year. The path of the pandemic and the shape of any recovery in the UK and global economies remain uncertain. With the easing of restrictions we are starting to see business activity return gradually, whilst the Group's robust balance sheet and its strong liquidity position should provide further flexibility in meeting further challenges or indeed opportunities.

Tenant support provided

The tenants of the Group's healthcare assets, which account for 34% of passing rent before concessions and 39% of investment properties by value at 30 June 2020, remained trading throughout the UK lockdown and beyond. No support from the Company has been requested nor concessions required for those tenants. However, the sudden, forced closure of all of the Group's leisure assets and the majority of its budget hotels created intense operational and liquidity pressures on certain tenants.

No additional support measures have been provided since the Company announced a summary of concessions in place on 24 June 2020:

- Merlin Entertainments Limited took prudent action in April to significantly bolster its liquidity position, and part of the package of measures taken by Merlin was an open and constructive discussion and then agreement with the Company to reschedule certain rental payments. Deferrals of rent were agreed ahead of the rent payment date, deferring amounts due in June 2020 and September 2020 amounting to £17.8 million in total before reverting to the full amounts due from December 2020. Payment of the deferred rent is due in full in September 2021.

- Travelodge Hotels Limited was unable to come to suitable bilateral agreements for rent concessions with its many landlords and launched a Company Voluntary Arrangement ("CVA") which was approved by its creditors on 19 June 2020. As a consequence of the CVA, rent of £14.4 million has been foregone by the Group this year of which £4.8 million relates to the period ended 30 June 2020, and £8.6 million is foregone in 2021, after which rents return to the levels originally contracted. Certain other lease amendments are also now in effect, including landlord only break options which are in place on 119 of the Group's 123 Travelodge leases, allowing a break option exercisable before 20 November 2020 at no cost to the Company on 114 leases (representing 83% of the hotels passing rent) and before 31 December 2021 at no cost on the remaining five leases (5% of the hotels passing rent). Unusually for a CVA, Travelodge did not disclaim any of its leases, preferring to keep its entire trading estate intact – perhaps a reflection of the fact that the business had been performing well ahead of the pandemic, with a strong five year track record of profits growth and sector outperformance in its key metric of revenue per available room.

- A six month rent free period has been agreed in respect of the Stonegate pubs portfolio from 1 April 2020, a total reduction of £1.1 million of which £0.5 million relates to the period ended 30 June 2020, in consideration for extending lease terms from 19.6 to 25.0 years and strengthening the lease alienation clauses.

The accounting policies for rent concessions are explained in the Financial Review section of this Investment Adviser's Report and in note 2 to the interim financial statements.

BUSINESS REVIEW

Investment Adviser's Report continued

Tenant support provided (continued)

The impact of these concessions on the Group's rental cash flows for the 2020 and 2021 financial years is set out below, assuming that there are no changes in the composition of the portfolio or further variations to any of the leases.

Annual cash rents	Actual Six months to 30 June 2020 £m	Contracted Six months to 31 Dec 2020 £m	**Contracted Year to 31 Dec 2020 £m**	Contracted Six months to 30 June 2021 £m	Contracted Six months to 31 Dec 2021 £m	**Contracted Year to 31 Dec 2021 £m**
Leisure attractions deferral	(8.9)	(8.9)	**(17.8)**	-	17.8	**17.8**
Hotels rent reduction	(4.8)	(9.6)	**(14.4)**	(4.3)	(4.3)	**(8.6)**
Rent on pubs reduced in exchange for improved lease terms	(0.5)	(0.6)	**(1.1)**	-	-	**-**
Cash flow impact on rent	(14.2)	(19.1)	**(33.3)**	(4.3)	13.5	**9.2**
Contractual rent at start of period	55.3	55.4	**110.7**	56.0	56.0	**112.0**
Fixed rental uplifts	0.3	0.7	**1.0**	1.0	1.4	**2.4**
Rents after temporary concessions	**41.4**	**37.0**	**78.4**	**52.7**	**70.9**	**123.6**

The impact on Adjusted EPRA EPS has a slightly different profile over 2020, because of the deferral of the rents due from Merlin for June 2020 are rents receivable in advance, therefore only seven days' of that amount due relates to earnings in the first half of the year. The impact on Adjusted EPRA earnings, assuming that there are no changes in the composition of the portfolio or further variations to any of the leases, is:

Adjusted EPRA earnings: rent	Actual Six months to 30 June 2020 £m	Contracted Six months to 31 Dec 2020 £m	**Contracted Year to 31 Dec 2020 £m**	Contracted Six months to 30 June 2021 £m	Contracted Six months to 31 Dec 2021 £m	**Contracted Year to 31 Dec 2021 £m**
Leisure attractions deferral	(0.6)	(17.2)	**(17.8)**	-	17.8	**17.8**
Hotels rent reduction	(4.8)	(9.6)	**(14.4)**	(4.3)	(4.3)	**(8.6)**
Rent on pubs reduced in exchange for improved lease terms	(0.5)	(0.6)	**(1.1)**	-	-	**-**
Adjusted EPRA earnings impact	(5.9)	(27.4)	**(33.3)**	(4.3)	13.5	**9.2**
Adjusted EPRA earnings impact (pence per share)	**(1.9)**	**(8.4)**	**(10.3)**	**(1.3)**	**4.2**	**2.9**

Costs of £0.7 million (0.2 pence per share) have also been charged to the income statement in the six months to 30 June 2020.

These concessions are designed in each case to give the tenants the breathing space needed to assist with the recovery of their businesses and to support the Company's return to its growth trajectory. Under current arrangements, all rents arising from the Group's property portfolio are contracted to revert to their original contractual levels by 1 January 2022 at the latest.

Rent collections

Tenants accounting for 41% of the Group's passing rents before concessions have not entered into any rent concession agreements. All rents due from them have been collected on time and nothing is outstanding from them at 30 June 2020 or at the date of this report. 34% of the pre concession passing rents are currently subject to rent deferral (32%) or a rent free period (2%) so no rent was due from those tenants at 30 June 2020 or currently. The vast majority of the balance relates to Travelodge, which has abided by its revised payment terms since its CVA and no amounts were due from them at 30 June 2020 or have been overdue from them since. One tenant accounting for less than 0.2% of the passing rents before concessions has been able to reopen following the easing of lockdown restrictions but has been unable to reach agreement on revised payment terms. As at 30 June 2020 £30,000 was owing from them and at the date of this report £75,000 is past due.

BUSINESS REVIEW

Investment Adviser's Report continued

The portfolio

The Group held 161 properties at 30 June 2020 (no change since 31 December 2019) with passing rent before temporary concessions of £111.8 million, up from £110.7 million at 31 December 2019.

	Number of properties	Valuation £m	Passing rent before temporary concessions £m
At the start of the period	161	2,083.1	110.7
Change at constant currency	-	(132.0)	0.7
Exchange rate movements	-	7.6	0.4
At the end of the period	**161**	**1,958.7**	**111.8**

Portfolio valuation

The portfolio is valued by qualified independent external valuers every six months and there was a 6.0% net decrease in valuation over the six month period. The most material movement was a 20.3% reduction in the valuation of the budget hotels, reflecting the impact of the CVA rent reductions and an increase in the blended Topped Up Net Initial Yield from 5.5% to 6.9%.

	Leisure		Healthcare		Budget hotels		**Total**	
Passing rent before concessions	£m	Change %	£m	Change %	£m	Change %	**£m**	**Change %**
31 Dec 2019	46.8		35.6		28.3		**110.7**	
Change in rent	(0.3)	(0.8)%	1.0	2.8%	-	-	**0.7**	**0.6%**
Exchange rate movement	0.4	1.0%	-	-	-	-	**0.4**	**0.4%**
30 June 2020	46.9	0.2%	36.6	2.8%	28.3	-	**111.8**	**1.0%**

	Leisure		Healthcare		Budget hotels		**Total**	
Valuation	£m	Change %	£m	Change %	£m	Change %	**£m**	**Change %**
31 Dec 2019	851.9		748.4		482.8		**2,083.1**	
Revaluation	(54.7)	(6.4)%	20.7	2.8%	(98.0)	(20.3)%	**(132.0)**	**(6.4)%**
Exchange rate movement	7.6	0.9%	-	-	-	-	**7.6**	**0.4%**
30 June 2020	804.8	(5.5)%	769.1	2.8%	384.8	(20.3)%	**1,958.7**	**(6.0)%**

The movement in valuation in the period comprises:

	Six months to 30 June 2020 £m	Six months to 30 June 2019 £m
Investment properties at the start of the period	**2,083.1**	2,306.7
Portfolio held throughout the period:		
Revaluation movement at constant currency	**(132.0)**	48.9
Currency translation movements on Euro denominated investment properties	**7.6**	(0.2)
Like for like portfolio revaluation	**(124.4)**	48.7
Budget hotel disposals	**-**	(4.8)
Net change in portfolio valuation	**(124.4)**	43.9
Investment properties at the end of the period	**1,958.7**	2,350.6

BUSINESS REVIEW

Investment Adviser's Report continued

The portfolio (continued)

The leisure and budget hotels valuations as at 30 June 2020 have been reported by the independent external valuers as being subject to material valuation uncertainty in light of Covid-19. Based on the provisions of the Royal Institution of Chartered Surveyors guidelines in force at that time, this was the case for the majority of property valuations in the UK as at that date where properties had been forced to close. The healthcare assets, which account for 39% of assets at independent valuation, are not subject to the material valuation uncertainty proviso. Material valuation uncertainty does not mean that the valuations cannot be relied upon, but that less certainty can be attached to them than would otherwise be the case.

In the case of the budget hotels portfolio, the date of the valuation was after the date of approval of the CVA but prior to the expiry of the CVA challenge period. That challenge period subsequently expired without any successful challenge being mounted, but was a relevant factor at the valuation date.

Further details of valuations are given in note 10 to the interim financial statements.

In reaching their assessment of market values, the independent external valuers had all details of the rent concessions that have been agreed, and no additional concessions have been agreed since the valuation date. The valuations therefore take into account the full effect of the concessions agreed to date and also recognise that under the terms of all of the concessions, rental income returns to its previously contracted levels by, at the latest, 1 January 2022.

Yields

	Leisure		Healthcare		Budget hotels		**Total**	
	30 June 2020	31 Dec 2019	30 June 2020	31 Dec 2019	30 June 2020	31 Dec 2019	**30 June 2020**	31 Dec 2019
Topped Up Net Initial Yield *	5.39%	5.07%	4.46%	4.46%	6.90%	5.50%	**5.32%**	4.95%
Running Yield by 1 January 2022 †	5.71%	5.40%	4.58%	4.71%	7.31%	5.83%	**5.58%**	5.25%

* Topped up Net Initial Yield ignores the temporary rent concessions. The healthcare valuation and yields take no account of any uplift from an outstanding May 2018 open market review on the Ramsay hospitals; the Ramsay rents account for 94% of the healthcare rents at 30 June 2020

† the leisure and budget hotels Running Yields are calculated using the independent external valuers' estimates of RPI averaging 2.5% per annum

The growth in like for like passing rent before concessions was 1.0% over the period and follows the completion of reviews on 65% of portfolio rents in the period and also the expiry of the car park lease at Manchester Arena, where the previous passing rent was £1.3 million per annum and where the new car park operator had been unable to fully reopen the car park in the period as a result of the lockdown restrictions.

BUSINESS REVIEW

Investment Adviser's Report continued

The portfolio (continued)

Basis of rent reviews

While the rents on three of the portfolios have been subject to deferrals or reductions in the short term, on the basis of the concessions granted to date all rental cash flows are contracted to revert to their originally contracted terms by, at latest, 1 January 2022. Considering that medium to longer term trajectory and the expected reversion to originally contracted terms, the income arising on the portfolio benefits from fixed contractual rental uplifts which average 2.8% per annum on 42% of the income and upwards only RPI-linked rent reviews on the remaining 58%. 68% of the rent is subject to annual review.

Temporary rent concessions have been agreed with both Merlin Entertainments Limited and Travelodge Hotels Limited, where in each case the leases include upward only RPI-linked rent review provisions (in the case of Merlin, on the UK assets only). The terms of the concessions are such that the contractual provisions relating to the rent reviews continue throughout the relevant concession period, with any rental increases that arise being payable at the end of that period, which is September 2021 in the case of Merlin and January 2022 for Travelodge. Consequently, the Group retains the potential to capture any RPI-linked rental uplifts.

	30 June 2020			31 December 2019
Percentage of contracted rents before temporary concessions	**Reviewed annually**	**Reviewed three or five yearly**	**Total portfolio**	Total portfolio
Upwards only RPI:				
Uncapped	25%	27%	**52%**	53%
Collared	4%	2%	**6%**	6%
Total upwards only RPI-linked reviews	**29%**	**29%**	**58%**	59%
Fixed uplifts:				
Annual reviews	39%	-	**39%**	38%
Five-yearly reviews	-	3%	**3%**	3%
Total fixed uplifts	**39%**	**3%**	**42%**	41%
Total portfolio	**68%**	**32%**	**100%**	100%

BUSINESS REVIEW

Investment Adviser's Report continued

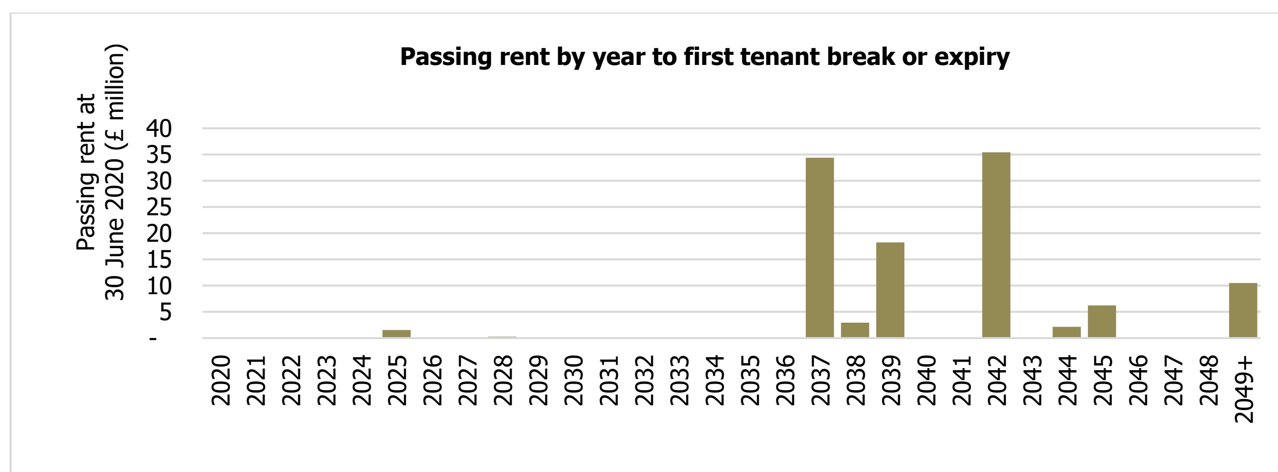
The portfolio (continued)

Lease lengths

The leases on the Group's portfolio are very long, with a Weighted Average Unexpired Lease Term of 20.8 years without tenant break from 30 June 2020. Only 2% of the Group's leases expire within 16.9 years of the balance sheet date.

	Leisure		Healthcare		Budget hotels		**Total**	
	30 June 2020	31 Dec 2019	30 June 2020	31 Dec 2019	30 June 2020	31 Dec 2019	**30 June 2020**	31 Dec 2019
Weighted Average Unexpired Lease Term (years)	22.8	22.5	17.3	17.8	21.9	22.4	**20.8**	21.0

The increase in the Weighted average Unexpired Lease Term of the Leisure assets is attributable to the extensions of the Pubs leases to a term of 25.0 years as at 30 June 2020, which was negotiated in exchange for a six month rent reduction (£1.1 million of cash flow).



No material vacancies or landlord costs

The portfolio is fully let. All occupational leases are on full repairing and insuring ("FRI") terms, meaning that property running costs are low and there is no material capital expenditure requirement. There is one small income stream that arises from an operating agreement rather than an FRI lease, which currently accounts for a negligible percentage of the Group's income.

Portfolio total rents before temporary concessions

The Group's principal lease counterparties, analysed by contracted rent before temporary concessions, are as follows:

Tenant/guarantor	**30 June 2020 £m**	31 December 2019 £m
Merlin Entertainments Limited *	**35.4**	34.5
Ramsay Health Care Limited	**34.4**	33.5
Travelodge Hotels Limited	**28.3**	28.3
SMG Europe Holdings Limited & SMG	**4.0**	4.0
The Brewery on Chiswell Street Limited	**3.4**	3.4
Orpea SA	**2.2**	2.1
Stonegate Pub Company Limited	**2.2**	2.0
Others	**1.9**	2.9
	111.8	110.7

* £6.9 million (31 December 2019: £6.5 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.

BUSINESS REVIEW

Investment Adviser's Report continued

The portfolio (continued)

Leisure assets (41% of portfolio value)

Contracted rents before temporary rent concessions	30 June 2020 £m	31 December 2019 £m
UK assets	**40.0**	40.3
German assets (at constant Euro exchange rate)	**6.9**	6.5
	46.9	46.8

The leisure properties comprise four well known visitor attractions let to subsidiaries of Merlin Entertainments Limited together with 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 in Soltau, Saxony, which is the largest in Northern Germany, and its adjacent hotel. These assets are held freehold and are let to subsidiaries of Merlin Entertainments Limited, which owns all of Merlin's operating businesses and which is the guarantor of all lease obligations for these assets. Measured by the number of visitors, Merlin is Europe's largest operator of leisure attractions and the second largest in the world behind Disney.

The average term to expiry of the Merlin leases is 22.0 years without break from 30 June 2020 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 2020 resulted in a rental increase of 1.5%. 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 £6.9 million to £7.2 million on 29 July 2020 (translated at the 30 June 2020 exchange rate).

By mutual agreement in advance of the June rent due date, rents receivable for the June 2020 and September 2020 quarters have been deferred for payment in September 2021, timed to coincide with the tenant's expectation of their peak liquidity position. Among their other measures to meet the challenges of the pandemic, the Merlin group took action to access the capital markets by way of a €500 million bond issue (upsized from €400 million), which was announced on 24 April 2020, and acted to further strengthen its liquidity position by drawing available debt facilities in full, managing their cash flows and resource allocation, and striking rent deferral deals with certain of its other landlords. The lease guarantor is the owner of the Merlin group's entire international operations, some of which remained open throughout the pandemic but most of which were subject to local lockdowns and restrictions at varying times. Heide Park reopened on 25 May 2020 and Alton Towers, Thorpe Park and Warwick Castle on 4 July 2020.

Manchester Arena is a strategic site of eight acres, held long leasehold and located above Manchester Victoria Railway and Metrolink station. It comprises the UK's largest indoor arena by capacity, some 160,000 sq ft of office and leisure space, a multi-storey car park with approximately 1,000 spaces, and advertising hoardings. The leases on the Manchester site as a whole have an average term to expiry of 19.0 years from 30 June 2020 and produce passing rent, net of head rents, of £5.2 million per annum at that date.

The Arena is let on a full repairing and insuring lease to SMG and SMG Europe Holdings Limited, both wholly owned subsidiaries of ASM Global, the world's largest venue management company. The lease term is 25.0 years unexpired without break from 30 June 2020 and rent is reviewed annually every June in line with RPI collared between 2% and 5%, which in 2020 resulted in a rental increase of 2.0%. While the Arena remains closed given the current restrictions on large gatherings, ASM Global operates over 322 venues in 21 countries with pro forma annualised revenues for 2019 estimated at some $500 million. The offices and ancillary leisure space at Manchester Arena are let to tenants including Serco, Citipark, Unison, JCDecaux and go-karting operator TeamSport, all of which are now open for business and the majority of which remained so throughout the lockdown.

BUSINESS REVIEW

Investment Adviser's Report continued

The portfolio (continued)

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. The lease term to expiry is 36.0 years without break from 30 June 2020. The lease terms include five-yearly fixed uplifts of 2.5% per annum compounded and the passing rent is £3.4 million per annum as at 30 June 2020. The next rental uplift to £3.8 million will take effect in July 2021. The venue has been closed since commencement of the lockdown given the current restrictions on large gatherings but we understand that, under current government guidance, the venue is expected to reopen on 1 October 2020.

The portfolio of 18 high street pubs produces passing rent before temporary concessions of £2.2 million per annum as at 30 June 2020 and the leases have an average term to expiry from that date of 25.0 years without break . Rents are subject to five-yearly RPI-linked increases collared between 1% and 4% per annum compounded. The rent reviews in February 2020 resulted in an increase in passing rent of £0.2 million per annum (13.2% or 2.5% per annum compounded). Prior to 30 June 2020, a six month rent free period was exchanged for improved alienation provisions within the leases and a lease extension which increased the term to expiry without break for these assets by five and a half years. While the pubs owned by the Group closed at commencement of the UK lockdown, all have since reopened.

The pubs are let on individual full repairing and insuring leases either to, or guaranteed by, Stonegate Pub Company Limited. Stonegate acquired Ei Group Plc in a £1.3 billion acquisition which completed in March 2020. The combined group is the largest pub company in the UK, with 4,749 pubs as at 12 April 2020, 88% by value of which are held freehold by Stonegate.

Healthcare assets (39% of portfolio value)

Contracted rents	**30 June 2020 £m**	31 December 2019 £m
Ramsay hospitals	**34.4**	33.5
London psychiatric hospital	**2.2**	2.1
	36.6	35.6

The healthcare assets are 11 freehold private hospitals located throughout England and 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 care.

The Ramsay hospitals are let on full repairing and insuring leases with a term to expiry at 30 June 2020 of 16.9 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 2020 fixed uplifts, the rents on the hospitals portfolio increased from £33.5 million to £34.4 million. In addition, there is 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 as it is subject to a formal arbitration process which is ongoing, but which has been delayed as a result of the practical limitations on the arbitrator's inspection of the hospitals during the Covid-19 pandemic. These interim 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 8 September 2020 (and using the exchange rate on that date) of £8.3 billion.

The London psychiatric hospital is let on a full repairing and insuring lease with a term to expiry at 30 June 2020 of 24.1 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 £2.1 million to £2.2 million in May 2020. 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 8 September 2020 (and using the exchange rate on that date) of £5.8 billion.

BUSINESS REVIEW

Investment Adviser's Report continued

The portfolio (continued)

Budget hotel assets (20% of portfolio value)

At 30 June 2020, the Group owned 123 Travelodge hotels in England, Wales and Scotland with contracted rent before temporary concessions of £28.3 million. The properties are 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 589 hotels and over 45,000 rooms as at 30 June 2020.

Unlike the consensual agreements with our leisure tenants, Travelodge's shareholders adopted a very different approach to resolving the immediate liquidity challenges brought about by the UK lockdown, ultimately resulting in a combative and hard fought CVA which was approved by Travelodge creditors on 19 June 2020.

As a consequence of the CVA, £14.4 million of rent has been foregone this year of which £4.8 million relates to the six months ended 30 June 2020, and £8.6 million has been foregone for 2021, after which rents are due to return to the levels originally contracted for the period from 1 January 2022. The rent owed by Travelodge from 1 July to 31 December 2020 totals £4.6 million, of which £1.6 million is receivable quarterly in advance as has always been the case in the Travelodge leases, and the balance is payable monthly in advance. The total amount receivable in 2021 is £19.7 million, of which £3.3 million is receivable quarterly in advance and £16.4 million monthly in advance. From 1 January 2022 all rents are receivable quarterly in advance.

It is typical for companies undergoing a CVA to hand back leases on properties they no longer wish to operate, but Travelodge has opted to retain the whole of its portfolio, subject to landlord only break options on certain of their hotels. It is uncommon in a CVA to see rents reverting to their originally contracted levels following a rent concession period. We believe that these unusual features reflect Travelodge management's faith in the quality of their business before the pandemic struck, with a strong five year performance track record and a leading position within the UK budget hotels market.

Certain other lease amendments are also now in effect, including landlord only break options which are available on 119 of the Group's 123 Travelodge leases, exercisable at no cost before 20 November 2020 on 114 leases (representing 83% of the hotels by passing rent before concessions) and before 31 December 2021 on the remaining five leases (5% of the hotels by passing rent before concessions). The majority by number of Travelodge's property owners were granted these landlord only break options. Travelodge has since announced that, through a combination of hotels not granted termination rights and those where landlords opted to extend leases and therefore forego their break options, they had by 2 September 2020 secured hotels representing some two thirds of their 2019 UK EBITDA, with nearly three months left of the break option period.

Travelodge is a major brand with very high levels of brand recognition and a management team that has proved its competence with its strong pre-pandemic performance track record. Against the background of a still challenging environment, we continue to conduct extensive analysis as to whether the prospects for the Group are better served by retaining the current lease arrangements, entering into a possible lease restructure with the existing tenant or selling part or all of the hotels portfolio. The Board and Management Team consider that the landlord break rights provide optionality for the Group and continue to evaluate how best to maximise any value arising from them. Any conclusions drawn from that process would be expected to have been reached before the first option expiry date of 20 November 2020.

Travelodge reported on 26 August that all of their hotels had reopened by mid August, following the lifting of restrictions on 4 July 2020.

The average term to expiry of the Travelodge leases is 21.9 years from 30 June 2020 with no tenant break clauses. While the CVA terms introduced a lease extension option, exercisable by 28 August 2020, which could have extended the weighted average term to expiry of the Group's Travelodge portfolio by 2.8 years, had those options been exercised the landlord break options would have been terminated. The Board's assessment was that the small marginal valuation benefit of the lease extension was outweighed by the greater optionality of the landlord lease break option, and therefore the extension options were allowed to lapse.

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 freeholders of the 52 leasehold properties. The CVA did not compromise the FRI basis of the leases. 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. There were no scheduled rent reviews in the six months to 30 June 2020. Reviews on 22% of the rents, at their contracted levels before any temporary concessions, take place in the second half of 2020, with a further 24% in 2021, 39% in 2022, 10% in 2023 and 5% in 2024. Any uplifts arising in the period from 1 April 2020 to 31 December 2021 will become payable following the end of the rent concession period in January 2022.

BUSINESS REVIEW

Investment Adviser's Report continued

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 or cross collateralisation between the six of them. In all cases, substantial financial covenant headroom was negotiated into loan terms at their inception, together with appropriate remedial cure rights where cash can be diverted to a security group in order to maintain covenant compliance if and when necessary.

Where the Company has agreed rent concessions, in each case this has been with the consent of the relevant lenders. In certain cases this has also included covenant waivers during the concession period. Save for the waivers, the terms of the various loan agreements remain unchanged.

The Group's total gross debt increased by £1.0 million in the six month period, being a reduction of £1.7 million by way of scheduled loan repayments and £1.5 million repaid out of the net proceeds of non-core hotels sold in 2019, offset by £4.2 million of foreign currency translation movements on the Group's Euro denominated debt. Net debt has increased by £27.0 million, broadly equivalent to the dividends paid in the period out of the Group's cash resources.

The Group's Net Loan To Value ratio increased from 31.9% to 35.3% over the period.

	Secured amounts £m	Unsecured amounts £m	**Group total £m**
Gross debt	**931.7**	-	**931.7**
Secured cash	**(14.7)**	-	**(14.7)**
Free cash *	**(0.6)**	(225.8)	**(226.4)**
Net debt	**916.4**	(225.8)	**690.6**
Property valuation	**1,958.7**		**1,958.7**
Net LTV	**46.8%**		**35.3%**

* free cash within secured facilities is released to the parent company after each quarterly interest payment date for as long as all loan covenants are complied with, increasing the balance of unfettered cash within the Group.

Key terms of the facilities are as follows:

	Principal £m	**Number of properties securing loan**	**Maximum annual interest rate**	**Interest rate protection**	**Annual cash amortisation**	**Final repayment date**
Merlin Leisure	382.0*	6	5.7%	Fixed	£3.8m from Oct 2020 †	Oct 2022
Budget hotels loan 2	65.4	70	3.3%	80% fixed 20% capped	None	April 2023
Leisure loan 2	60.0	20	3.2%	83% fixed 17% capped	None	June 2023
Budget hotels loan 1	59.0	53	2.7%	Fixed	None	Oct 2023
Healthcare loan 1	64.0	2	4.3%	Fixed	£0.3m	Sept 2025
Healthcare loan 2	301.3	10	5.3%	Fixed	£3.2m	Oct 2025
Total	**931.7**	**161**	**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:£0.91) 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.

BUSINESS REVIEW

Investment Adviser's Report continued

Financing (continued)

The Board ensures that interest rate risk is managed by either fixing or capping rates over the term of each loan. As at 30 June 2020, 92% of the Group's borrowings were fixed rate facilities. The weighted average interest rate payable in the period remained the same as in 2019 at 4.9% per annum.

There have been no 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.

Financial review

In this report, we focus on various financial measures recommended by the European Public Real Estate Association ("EPRA") to facilitate comparison with other real estate investment companies. The calculation of the EPRA measures and their reconciliation to the interim financial statements prepared under IFRS is presented in the Supplementary Information which follows the financial statements.

New EPRA guidelines which became effective on 1 January 2020 have been applied and comparative figures have been provided on a consistent basis. The new EPRA guidelines set out three measures of Net Asset Value, including EPRA Net Tangible Assets ("EPRA NTA"), each of which is disclosed and reconciled to the interim financial statements in note 19 and in the Supplementary Information. In this report we highlight EPRA NTA as the most meaningful measure of long term performance.

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

	Six months to 30 June 2020	Year to 31 Dec 2019	Six months to 30 June 2019
Financial measures:			
Total Accounting Return	**(8.1)%**	11.7%	5.8%
Total Shareholder Return	**(35.9)%**	19.4%	8.2%
Adjusted EPRA EPS	**5.1p**	15.3p	8.1p
Net LTV ratio	**35.3%**	31.9%	42.2%
Uncommitted Cash	**£219.6m**	£234.2m	£68.0m
Other measures:			
Headroom on debt covenants before any preventative cash cure or other remedial action:			
Valuation decline before tightest LTV default test is triggered	**33%**	38%	32%
Rent decline before tightest interest cover default test is triggered	**26%**	33%	34%

Dividend policy

The Company's dividend policy since listing was to distribute Adjusted EPRA earnings by way of a fully covered cash dividend, paid quarterly. This has served the Company well and enabled it to distribute increasing dividends in line with the geared increases in net rental income, driven by the combination of annual fixed and RPI rental uplifts together with largely fixed debt costs and stable and predictable administrative expenses.

Following completion of the sale of a portfolio of eight private hospitals in August 2019, the Board concluded that the significant cash surplus raised at that time would be partially deployed in topping up the dividends to make up for the yield on the sold hospitals for as long as the surplus cash remained undeployed. The surplus was at that time earmarked for:

i) acquisitions, giving the Company the ability to move quickly to take advantage of opportunities; and/or
ii) special dividends or capital returns; and/or
iii) reserves for application to debt to ride out economic shocks arising from external sources.

The pandemic was not known about at that time, but its effects have heightened the importance of the cash reserve for external shocks.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

The support provided to certain of the Group's tenants to alleviate their Covid-19 related business shutdowns has resulted in a temporary reduction in the net cash flows of the Group, in turn reducing the level of covered dividend that would be payable under the terms of the original dividend policy.

The effects of the pandemic on the Group's net income and the heightened uncertainty during this period prompted a review by the Board of the prudent and appropriate dividend policy to apply in the circumstances. The materially higher than usual liquidity buffer held by the Company following the sale of the private hospital portfolio affords significant flexibility, not only in supporting the Group's tenants but also in providing appropriate returns to shareholders without putting at risk the strength of the balance sheet. With the Company's liquidity buffer directed in the main to supporting tenants and ensuring that the balance sheet remains robust during such uncertain times, the Board concluded that the element of the dividend relating to the topping up of income on the sold hospitals should be discontinued. The basis of dividend payment therefore reverts to the 'core' dividend as guided with he 2019 annual results announcement, without the previous top slice of the hospitals net income top-up. This equates to a quarterly dividend of 3.65 pence per share payable in each of the last two quarters of 2020 and the first two quarters of 2021, increasing to 3.95 pence per share in the third quarter of 2021.

The analysis of the core and top-up dividends paid to date is as follows:

£m paid in the period	**Year to 31 Dec 2016**	**Year to 31 Dec 2017**	**Year to 31 Dec 2018**	**Year to 31 Dec 2019**	**Six months to 30 June 2020**	**Quarter 3 dividend paid August 2020**
Core dividend	£12.0m	£16.1m	£41.4m	£49.0m	£22.8m	£11.8m
Hospitals top-up dividend	-	-	-	£3.5m	£4.4m	-
Total dividend paid	£12.0m	£16.1m	£41.4m	£52.5m	£27.2m	£11.8m
Pence per share paid						
Core dividend	5.9p	13.6p	13.9p	15.2p	7.1p	3.65p
Hospitals top-up dividend	-	-	-	1.1p	1.3p	-
Total dividend paid	**5.9p**	**13.6p**	**13.9p**	**16.3p**	**8.4p**	**3.65p**

Ahead of the declaration of the dividend for the third quarter of 2020, the Board concluded that it is appropriate to continue to pay dividends at a level that recognises that the rent concessions granted are temporary, using some of the surplus liquidity to fund the dividend in excess of the Group's Adjusted EPRA Earnings. For as long as uncertainty remains elevated, given the unknown future path of the pandemic, uncertainties about consumer behaviour and the performance of the economy, and the possibility of another national lockdown or widespread local lockdowns, the dividend policy remains under review. The importance of the dividend to many investors is acknowledged and is carefully considered in any evaluation of the appropriateness of declaring a dividend in the context of the conditions prevailing at that time.

Impact of rent concessions on KPIs and IFRS financial statements

Recognising the Group's long term relationships with its tenants, and the very sudden and extensive impact on them of the pandemic and subsequent lockdown imposed in the UK and elsewhere, the Company provided support to certain of its tenants, as summarised at the start of this report where we also highlight the materially altered cash flow profile of the Group's rental income.

In simple terms, the IFRS accounting standards applicable to the Group require that a landlord assesses the rental income to be earned over the whole term of a lease (to the earlier of a reasonably certain tenant break option or expiry), and then spreads the aggregate income evenly over that whole term. The gross income assessed is, broadly, the income that is contractually certain. Consequently, the Group's leases with fixed or fixed minimum uplifts (which equate to 48% of the Group's entire contracted pre-concession passing rent) require a 'smoothing' adjustment to reflect the mismatch between the rents actually receivable and those recognised in the income statement. This effect is explained in more detail in the Supplementary Information which follows the interim financial statements. The remaining 52% of the Group's rental income which is subject to RPI-linked or open market reviews is not subject to a smoothing adjustment. The accounting policies set out in note 2 to the interim financial statements are consistent with these principles.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Applying these accounting policies and principles to the Group's income following the agreement of the rent concessions has affected the Group's IFRS income in each case as follows:

- The rent deferral on the Merlin assets does not change the total lease income over the life of the lease. It merely changes the timing of receipt, therefore there is no change to the IFRS income that would otherwise have been reported in the period. The rents deferred are held as an asset on the balance sheet, separate from and not valued as part of the investment properties. The carrying value of the rent receivable will be reassessed at each balance sheet date and it is held at 30 June 2020 at its face value of £8.9 million as it is considered to be recoverable in full.

- The reductions in rent receivable from Travelodge following their CVA reduce the Group's cash flows over the period 1 April 2020 to 31 December 2021, with the original contractual rents receivable (and any accrued RPI uplifts arising in the concession period) due to be restored from 1 January 2022. While the cash flow impact is temporary, it has the effect of reducing the total rents receivable over the life of the leases and this impact must be spread over the remaining lease term, which on a weighted average basis is 21.9 years. The effect of spreading a total £23 million reduction in rents over an unexpired term of 21.9 years on average results in rental income reported in the income statement being higher than cash rents receivable during the concession period and lower than cash rents receivable thereafter. Rents reported in the IFRS income statement for the six months ended 30 June 2020 are £4.6 million higher than the rents on a cash basis. The mismatch for the whole of 2020 is expected to be £13.7 million, then £7.4 million in 2021. From the start of 2022 it will unwind, with cash rents higher than the reported income by £1.1 million per annum through to the end of the term of each lease.

- The six month rent free period granted to Stonegate on the pubs portfolio in consideration for extending lease terms to 25.0 years and strengthening the lease alienation provisions is treated in a similar way to the Travelodge rent reduction. Rents reported in the income statement for the six months ended 30 June 2020 are £0.6 million higher than the rents on a cash basis, and the mismatch for the whole of 2020 is expected to be £1.1 million. From the start of 2021 it will unwind, with cash rents higher than the income reported in the income statement by £47,000 per annum through to the end of the term of the leases.

The Group has, from the time of its listing six years ago, had a high proportion of income with fixed rental increases over very long lease terms. The requirements to spread rents over the whole of any lease has always created a mismatch between cash rents receivable and rental income reported under IFRS. That mismatch was a major contributing factor to the adoption by the company of its Adjusted EPRA earnings measure. This measure is further explained under the "Adjusted EPRA earnings per share" heading later in this report and in the Supplementary Information which follows the interim financial statements. In order to calculate Adjusted EPRA earnings on a basis consistent with the Group's definition of the measure and prior reporting periods, the cash and income mismatches arising as a result of the rent concessions are taken into account in Adjusted EPRA earnings in order to give a clearer calculation of dividend cover on a basis that more closely reflects the Group's actual cash flows.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Key performance indicator – Total Accounting Return

In measuring progress towards the Board's objective to deliver attractive and sustainable shareholder returns, both Total Accounting Return (the movement in EPRA NTA per share plus dividends) and Total Shareholder Return (the share price movement plus dividends) are monitored. The principal focus for the Board is on Total Accounting Return as the Total Shareholder Return, while important, is also subject to wider market fluctuations not necessarily related to the Group itself.

	Six months to 30 June 2020		Six months to 30 June 2019	
Movements in Net Asset Value	**£m**	**Pence per share**	£m	Pence per share
NAV at the start of the period	**1,384.5**	**428.8**	1,281.6	398.5
Investment property revaluation*	**(142.0)**	**(43.9)**	43.1	13.3
Rental income less administrative expenses and finance costs	**27.1**	**8.4**	32.3	10.1
Dividends paid	**(27.2)**	**(8.4)**	(25.3)	(7.9)
Currency translation differences	**2.6**	**0.8**	-	-
Derivative revaluation	**(0.9)**	**(0.3)**	(0.9)	(0.3)
Tax charge	**-**	**-**	(0.9)	(0.3)
Dilution from shares issued in settlement of previous year's incentive fee	**-**	**(1.5)**	-	(1.5)
NAV at the end of the period	**1,244.1**	**383.9**	1,329.9	411.9
(Reduction)/growth in NAV	**(140.4)**	**(44.9)**	48.3	13.4
Dividends paid	**27.2**	**8.4**	25.3	7.9
IFRS Total Accounting Return	**(113.2)**	**(36.5)**	73.6	21.3
IFRS Total Accounting Return – percentage		**(8.5)%**		5.3%

* including £9.8 million or 3.0 pence (2019: £5.5 million or 1.7 pence) of Rent Smoothing Adjustments

The industry standard EPRA NTA measure takes IFRS 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, which requires an assessment of the likelihood of investment properties being sold, the Group's reported IFRS NAV is adjusted to exclude 50% of the deferred tax on investment property revaluations (in this case relating to the German assets) and all of the fair value movements on derivatives. EPRA NTA and EPRA NTA per share is reconciled to net asset value measured in accordance with IFRS in note 19 to the interim financial statements.

The Group's EPRA NTA per share at 30 June 2020 was 386.4 pence, down 10.0% since 31 December 2019. The 43.0 pence per share reduction, together with dividends of 8.4 pence per share, results in a Total Accounting Return over the period of minus 8.1%.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

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

	Six months to 30 June 2020		Six months to 30 June 2019	
	£m	**Pence per share**	£m	Pence per share
EPRA NTA at the start of the period	**1,391.3**	**429.4**	1,292.9	400.5
Investment property revaluation*	**(132.1)**	**(40.8)**	48.6	15.0
Rental income* and other income less administrative expenses, finance costs and current tax	**17.1**	**5.3**	26.6	8.3
Dividends paid	**(27.2)**	**(8.4)**	(25.3)	(7.9)
Currency translation movements	**2.9**	**0.9**	-	-
EPRA NTA at the end of the period	**1,252.0**	**386.4**	1,342.8	415.9
(Reduction)/growth in EPRA NTA	**(139.3)**	**(43.0)**	49.9	15.4
Dividends paid	**27.2**	**8.4**	25.3	7.9
Total Accounting Return	**(112.1)**	**(34.6)**	75.2	23.3
Total Accounting Return – percentage		**(8.1)%**		5.8%

* adjusted by £9.8 million or 3.0 pence per share (2019: £5.5 million or 1.7 pence per share) of Rent Smoothing Adjustments

The analysis of the investment property revaluation in the period is presented in the Portfolio section of this report.

The Total Shareholder Return is calculated as:

	Six months to 30 June 2020	Six months to 30 June 2019
	Pence per share	Pence per share
Share price at the end of the period	**270.0**	400.0
Share price at the start of the period	**(434.0)**	(377.0)
(Decrease)/increase in the period	**(164.0)**	23.0
Dividends paid	**8.4**	7.9
Total Shareholder Return	**(155.6)**	30.9
Total Shareholder Return – percentage	**(35.9)%**	8.2%

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Key performance indicator – Adjusted EPRA earnings per share

The calculation of basic EPS under IFRS, as reported in the interim financial statements, is shown below.

	Six months to 30 June 2020		Six months to 30 June 2019	
	£m	**Pence per share**	£m	Pence per share
Rental income net of property outgoings	**59.8**	**18.5**	68.4	21.1
Net finance costs	**(24.7)**	**(7.6)**	(28.1)	(8.6)
Administrative expenses	**(8.1)**	**(2.5)**	(8.4)	(2.5)
Tax charge	**-**	**-**	(0.9)	(0.3)
Earnings before revaluations and profits on sale	**27.0**	**8.4**	31.0	9.7
Investment property revaluation	**(142.0)**	**(43.9)**	43.1	13.3
Profit on disposal of non-core budget hotels	**-**	**-**	0.4	0.1
Basic and diluted earnings	**(115.0)**	**(35.5)**	74.5	23.1

The reduction in IFRS earnings before revaluations and profits on sale in the first half of 2020 compared with the same period in 2019 is attributable to the Covid-19 rent reductions for the period, together with the impact of the disposal of eight private hospitals which were owned throughout the period to 30 June 2019 but sold in the second half of that year, and which contributed 1.4 pence per share of rental income net of financing costs in the six months ended 30 June 2019.

The IFRS earnings measure includes unrealised property revaluations, gains and losses on property disposals and certain other factors which are considered to distort an assessment of underlying long term performance and which are therefore excluded from the EPRA measure of earnings. EPRA earnings and EPRA earnings per share are presented in this report and the calculation of these measures is presented in note 9 to the interim financial statements.

The EPRA measures are presented in a way that is consistent with other public European real estate companies applying the EPRA Guidance. However, the Board has considered how best to show the underlying performance of the business taking account of some unusual features that are specific to the Group and material to its results. These are the Rent Smoothing Adjustments, arising from the required smoothing of fixed uplifts over the Group's very long leases, and the impact of non-cash incentive fee payments in periods where those are earned, including the impact of the timing of the share issues relating to those payments. The Group's basic and diluted EPS, calculated in accordance with IFRS, must be calculated on the assumption that any shares issued in settlement of an incentive fee are treated as having been issued on the first day of the year, regardless of when they are actually issued.

A further measure, Adjusted EPRA Earnings, is therefore presented, both for comparison of the performance of the Group from year to year and with its peer group, and to avoid distortions which would result in unreliable measures of Dividend Cover.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Adjusted EPRA EPS is derived from EPRA EPS by:

- removing from rental income the Rent Smoothing Adjustments and any deferred rents;
- excluding any significant non-recurring costs;
- excluding the charge for any incentive fee, on the basis that it is a non-cash payment and 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 dates on which shares are issued.

	Six months to 30 June 2020		Six months to 30 June 2019	
	£m	**Pence per share**	£m	Pence per share
Rental income net of property outgoings	**59.0**	**18.2**	67.6	20.9
Net finance costs	**(23.9)**	**(7.4)**	(27.3)	(8.5)
Administrative expenses	**(8.1)**	**(2.5)**	(8.4)	(2.5)
Tax charge	**(0.1)**	**-**	(0.2)	(0.1)
EPRA earnings	**26.9**	**8.3**	31.7	9.8
Rent Smoothing Adjustments	**(9.8)**	**(3.0)**	(5.5)	(1.7)
Theme parks rent deferral	**(0.6)**	**(0.2)**	-	-
Adjusted EPRA earnings	**16.5**	**5.1**	26.2	8.1

Adjusted EPRA EPS is reconciled to basic EPS in note 9 to the interim financial statements. The table below shows the analysis of the Adjusted EPRA earnings in the period in order to demonstrate where the adjusting items take effect.

	Six months to 30 June 2020		Six months to 30 June 2019	
	£m	**Pence per share**	£m	Pence per share
Rental income net of property outgoings:				
Portfolio with no rent concessions, owned throughout the period	**22.5**	**6.9**	22.0	6.8
Portfolio where temporary rent concessions have been granted, owned throughout the period	**26.1**	**8.1**	32.3	10.0
Hospitals sold August 2019	**-**	**-**	7.8	2.4
	48.6	**15.0**	62.1	19.2
Net finance costs:				
Facilities drawn throughout the period	**(24.3)**	**(7.5)**	(24.1)	(7.5)
Healthcare loan prepaid August 2019	**-**	**-**	(3.4)	(1.0)
Finance income	**0.4**	**0.1**	0.2	0.1
Administrative expenses	**(8.1)**	**(2.5)**	(8.4)	(2.6)
Tax charge	**(0.1)**	**-**	(0.2)	(0.1)
Adjusted EPRA earnings	**16.5**	**5.1**	26.2	8.1

An analysis of the Group's rental income is included in the portfolio review earlier in this report and the other components of earnings are analysed below.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Adjusted EPRA earnings per share – property outgoings

The Group's property outgoings comprise:

	Six months to 30 June 2020		Six months to 30 June 2019	
	£m	**Pence per share**	£m	Pence per share
Head rent net of recoveries from tenants	**0.3**	**0.1**	0.2	0.1
Rent concession costs	**0.5**	**0.2**	-	-
Cost of prospective capital projects	**0.1**	**-**	0.2	0.1
Other net property outgoings	**0.2**	**-**	0.1	-
Rent review costs	**-**	**-**	0.2	-
Property outgoings (IFRS basis)	**1.1**	**0.3**	0.7	0.2
Head rent recovered from tenants included in IFRS rental income	**(0.9)**	**(0.3)**	(0.8)	(0.3)
Head rent included in IFRS finance costs and investment property revaluations	**0.9**	**0.3**	0.9	0.3
Property outgoings (Adjusted EPRA EPS basis)	**1.1**	**0.3**	0.8	0.2

On an IFRS basis, the interest charge and leasehold property revaluation elements of the head rents are classified as finance costs and property revaluation movements respectively, while head rents recovered from tenants are classified as revenue.

The costs of capital projects are expensed if they relate to feasibility studies for projects that have not commenced and are not certain to commence, or where the expenditure is not reflected in the independent valuation of the underlying property.

Adjusted EPRA earnings per share – administrative expenses

The Group's administrative expenses for the period are the same under IFRS and the EPRA measure.

	Six months to 30 June 2020		Six months to 30 June 2019	
	£m	**Pence per share**	£m	Pence per share
Advisory fees	**7.1**	**2.2**	7.3	2.3
Other administrative expenses	**0.7**	**0.2**	0.8	0.2
Corporate costs	**0.3**	**0.1**	0.3	0.1
Total administrative expenses	**8.1**	**2.5**	8.4	2.6

As an externally managed business, the majority of the Group's overheads are covered by the advisory fees paid to the Investment Adviser, which meets office running costs, administrative expenses and remuneration for the whole management and support team out of those fees. The basis of calculating the advisory fees is explained in note 20 to the interim financial statements. The advisory fee for the period amounted to £6.7 million plus irrecoverable VAT of £0.4 million (six months to 30 June 2019: £6.8 million plus irrecoverable VAT of £0.5 million).

The fees are calculated on a reducing scale based on the Group's EPRA NAV. The Remuneration Committee concluded in March 2020 that, in order for the calculation of the fees to remain consistent with the way that those fees have been calculated since the Company's listing, the fees would continue to be calculated on the basis of EPRA NAV originally in place. As that basis is set out in the EPRA Guidance previously issued in 2016, we refer to that measure in these statements as "2016 basis EPRA NAV" and this differs from the calculation of EPRA net assets in the rest of this report which is based on the latest guidance. The calculation of 2016 basis EPRA NAV is set out in note 20 to the interim financial statements.

- 1.25% per annum on 2016 basis EPRA NAV up to £500 million; plus
- 1.0% on 2016 basis EPRA NAV from £500 million to £1 billion; plus
- 0.75% on 2016 basis EPRA NAV from £1 billion to £1.5 billion: plus
- 0.5% thereafter.

Had the fees been calculated on the basis of EPRA NTA the results would not have been materially different.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

In February 2020 the Independent Directors approved a proposal made by the Investment Adviser to exclude the surplus cash on the hospitals portfolio disposal in August 2019 from the advisory fee calculation to the extent that it has not been:

- deployed in topping up dividends (£9.0 million cumulatively to 30 June 2020);
- invested in acquisitions (none invested to 30 June 2020);
- used for liability management (none used to 30 June 2020); or
- returned to shareholders other than by way of dividend top-up (none to 30 June 2020).

The current annualised saving as a result of this change is estimated at £1.1 million excluding irrecoverable VAT and £0.3 million of saving is reflected in the income statement for the six months ended 30 June 2020. The balance of the surplus cash at 30 June 2020 was £149.4 million.

The management contract between the Company and the Investment Adviser has a term through to December 2025 and will be subject to its next review in the ordinary course by the Remuneration Committee in December 2022. There are no renewal rights or payments at the time of expiry. Any payments triggered by a change of control of the Company are limited to four times the most recent quarterly fee at the time any such change occurs which is the maximum amount payable on any form of termination of the contract.

The other recurring administrative expenses are principally professional fees which include the costs of independent external property valuations, external trustee and administration costs, tax compliance fees and audit fees.

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 (2019: £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 2019: £0.2 million) in the period.

If the Total Accounting Return to investors over a financial year as set out in the audited accounts exceeds a compound growth rate of 10% per annum above the 2016 basis EPRA NAV per share the last time any incentive fee was paid, the Investment Adviser earns an incentive fee amounting to 20% of any surplus above that priority return to shareholders, subject to a cap of 5% of 2016 basis EPRA NAV (other than in the event of a sale of the business, where an incentive fee would not be capped). 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 they were earned.

In order to make a reasonable assessment of whether or not such a fee is likely to be payable in respect of the 2020 financial year, the Board has estimated the 2016 basis EPRA NAV of the Group at 31 December 2020 on the basis of the assumptions set out in note 20 to the interim financial statements. On the basis of that assessment no fee would be payable for the 2020 financial year and as a result no fee is accrued at 30 June 2020 (30 June 2019: £nil). In order for an incentive fee to be earned in respect of the 2020 financial year, the 2016 basis EPRA NAV at 31 December 2020 plus dividends paid during the year would need to total 477.5 pence per share.

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 21% during the period and was 40% as at 30 June 2020, with the increase attributable to the higher current weighting of healthcare income following the agreement of rent concessions in the leisure and hotels portfolios.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Adjusted EPRA EPS: net finance costs

	Six months to 30 June 2020		Six months to 30 June 2019	
	£m	**Pence per share**	£m	Pence per share
Interest on secured debt facilities:				
Outstanding throughout the period	**22.9**	**7.0**	22.9	7.2
Repaid in August 2019	**-**	**-**	3.3	1.0
	22.9	**7.0**	26.2	8.2
Amortisation of costs of arranging facilities (non-cash)	**1.2**	**0.4**	1.2	0.4
Interest charge on headlease liabilities	**0.8**	**0.2**	0.8	0.1
Loan agency fees and other lender costs	**0.2**	**0.1**	0.2	-
Interest income	**(0.4)**	**(0.1)**	(0.2)	(0.1)
Net finance costs for the period (IFRS and EPRA basis)	**24.7**	**7.6**	28.1	8.6
Reclassification of interest charge on headlease liabilities against revenue *	**(0.8)**	**(0.2)**	(0.8)	(0.1)
Net finance costs for the period (Adjusted EPRA basis)	**23.9**	**7.4**	27.3	8.5

* headlease interest is reclassified against property outgoings in Adjusted EPRA EPS to better reflect the nature of these costs.

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 is a UK Group REIT, 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 on any net income not arising from its rental operations.

German corporation tax is payable on the Group's German rental operations at an effective tax rate in the period of 8% (six months to 30 June 2019: 15%), resulting in a current tax charge of £0.2 million (six months to 30 June 2019: £0.2 million). The balance sheet includes a deferred tax liability of £11.9 million (31 December 2019: £11.8 million) relating to unrealised German capital gains tax on the German properties, which would only be crystallised on a sale of those assets. There are no plans at present to sell these assets, so the deferred tax is not currently expected to be crystallised.

On an IFRS basis, there is a current tax charge of £0.1 million (six months to 30 June 2019: £0.2 million) and a £0.1 million deferred tax credit (six months to 30 June 2019: £0.7 million charge), which results in a net tax charge of £nil (six months to 30 June 2019: £0.9 million). Deferred tax is excluded from Adjusted EPRA EPS as shown in note 9 to the interim financial statements.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Adjusted EPRA EPS – currency translation

84% by value of the Group's property assets are located in the UK and the interim financial statements are therefore presented in Sterling. 3.6% (31 December 2019: 3.1%) of the Group's EPRA NTA 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 assets, liabilities, rental income and interest costs 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 €128.2 million as at 30 June 2020 (31 December 2019: €129.7 million), with the Euro denominated secured debt amounting to €71.8 million (31 December 2019: €71.8 million). The Euro strengthened against Sterling over the period by c. 7% and as a result there was a net currency translation gain of £2.6 million (six months to 30 June 2019: £nil) on an IFRS basis. Half of the deferred tax liability is excluded from EPRA NTA and as a result a further currency translation gain of £0.3 million arises in the movement in EPRA NTA in relation to the German operations (six months to 30 June 2019: loss of £0.3 million).

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 increased from 31.9% to 35.3% which reflects the fall in property valuations in the period. While the Net LTV ratio is one indicator of borrowing risk it is not the complete picture and the Board always considers it in conjunction with a wider assessment of headroom and financial covenants within debt facilities and the security of portfolio rental income. Those factors are addressed in the following sections.

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 managed. This includes monitoring and stress testing the covenant tests for current and future periods on the basis of a realistic range of scenarios and potential outcomes. The options available to the Board to manage any risk of covenant breach are then considered. The Board's approach to prudent capital management starts with 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 set at appropriate levels and then 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 UK real estate leases and that the Group's contracted rental income streams feature fixed or RPI-linked uplifts with just over two thirds of the contracted portfolio rents subject to annual review and the remainder subject to three or five yearly reviews. This structure gives rise, under more normal conditions, to predictable improvements in interest cover over time and a naturally deleveraging debt profile on the assumption of constant valuation yields. It has also provided the flexibility and the relatively good visibility over future cash inflows to allow for the various rent concessions granted to tenants needing support following the impact of the pandemic.

The Board reviews the headroom on all financial covenants at least quarterly and more often as required, including stress tested scenarios. The headroom on key financial covenants at 30 June 2020 is summarised below, including the Topped Up Net Initial 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, before any preventative or remedial actions were taken. Defensive actions could include deploying the Group's significant Uncommitted Cash of £219.6 million as at 30 June 2020 and which is further explained in the following section.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

	Actual	Covenant	Scenarios before any remedial action Topped Up Net Initial Yield triggering LTV test	Valuation fall before LTV test triggered	Rental fall before ICR test triggered
Merlin leisure facility (£382.0 million loans at 30 June 2020)					
Cash trap LTV test (1% per annum loan amortisation if triggered)	62%	<80%	7.0%	23%	
Cash trap LTV test (full cash sweep if triggered)	62%	<85%	7.4%	27%	
Rental fall (after waiver period) before interest is covered by rent 1:1 (for information: not strictly a covenant test)					28%
Healthcare facility (£301.3 million loan at 30 June 2020)					
Cash trap LTV test (full cash sweep if triggered)	48%	<74%	6.8%	35%	
LTV test	48%	<80%	7.4%	40%	
Cash trap projected interest cover test (full cash sweep if triggered)	189%	>140%			26%
Projected interest cover test	189%	>120%			37%
Budget hotels facility (£65.4 million loan at 30 June 2020)					
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	33%	40% - 45%	8.2%	16%	
Cash trap LTV test (full cash sweep if triggered)	33%	45% - 50%	9.3%	26%	
LTV test	33%	<50%	10.3%	33%	
Cash trap projected interest cover test (full cash sweep if triggered)	340%	>300%			12%
Projected interest cover test	340%	>250%			26%
Healthcare facility (£64.0 million loan at 30 June 2020)					
LTV test	44%	<80%	8.2%	45%	
Cash trap projected debt service cover test (full cash sweep if triggered)	221%	>150%			32%
Projected debt service cover test	221%	>125%			44%
Leisure facility (£60.0 million loan at 30 June 2020)					
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	32%	40% - 45%	6.8%	20%	
Cash trap LTV test (full cash sweep if triggered)	32%	45% - 50%	7.6%	29%	
LTV test	32%	<50%	8.5%	36%	
Projected interest cover test	492%	>150%			70%
Budget hotels facility (£59.0 million loan at 30 June 2020)					
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	31%	40% - 45%	8.9%	22%	
Cash trap LTV test (full cash sweep if triggered)	31%	45% - 50%	10.0%	31%	
LTV test	31%	<50%	11.1%	38%	
Cash trap projected interest cover test (full cash sweep if triggered)	492%	>300%			39%
Projected interest cover test	492%	>250%			49%

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

It is a feature of the Company's debt financing structure that significant headroom was built in at the outset, to act as a "shock absorber" in cases where tenant difficulty or property investment market disruption puts pressure on those covenants. In the cases of leisure and hotels facilities where the effects of the pandemic have manifested themselves, the headroom over covenant levels has reduced since those reported for 31 December 2019, however in all cases headroom has still been preserved. While the credit facilities include various cash cure rights in the event needed to avoid covenants being breached, no cash cures have been implemented to date.

In each case where concessions have been granted, lender consent was required and was granted by the lenders without penalty or cost, other than the modest costs of their legal fees. Temporary covenant waivers or adjustments were requested and granted on two facilities; on those and one further facility, where the rental income arising on assets subject to rent concessions was or will be insufficient to cover the finance costs payable during the rent concession period, the Company will finance those costs from its centrally held, unsecured free cash surplus. That amounted to £0.9 million in the six months to 30 June 2020 and a further £10.8 million is expected to be funded in the remainder of 2020, with nothing expected to be required for 2021. On the basis of concessions currently operational, no additional funding of uncovered interest costs is expected to be required.

Key performance indicator – Uncommitted Cash

The ability to prevent or mitigate debt covenant breaches is an important part of the Board's leverage strategy. Headroom considered appropriate to the business and to each underlying portfolio individually has been negotiated on all financial covenants together with certain contractual cure rights, including the ability to inject cash (subject to some 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 level of Uncommitted Cash, which is cash freely available to the Group, net of any creditors or other commitments.

The Group's Uncommitted Cash as at 30 June 2020 was £219.6 million (31 December 2019: £234.2 million). The level of Uncommitted Cash retained is assessed regularly in the light of property market and wider economic conditions and outlook. At present, the Board's assessment is that at a time of heightened uncertainty, largely but not solely related to the pandemic, the retention of a significant liquidity buffer remains appropriate.

Cash flow

The business is structured to provide an efficient flow through of net income to the payment of dividends. Rents are in the ordinary course predictable, financing costs are in the main fixed and the majority of operating costs are represented by the advisory fees which are transparently calculated relative to the Group's net assets.

The rent concessions granted in the period have reduced the cash flow from operating activities by £5.3 million in rent reductions, and £8.9 million in deferral of rents due from Merlin which should reverse in September 2021. Costs of £0.5 million relating to the rent concessions have been paid in the period.

	Six months to 30 June 2020		Six months to 30 June 2019	
	£m	**Pence per share**	£m	Pence per share
Cash from operating activities	**25.8**	**8.0**	47.1	14.8
Net interest and finance costs paid	**(23.6)**	**(7.3)**	(27.1)	(8.4)
Tax paid	**(0.3)**	**(0.1)**	(0.1)	-
	1.9	**0.6**	19.9	6.4
Dividends paid	**(27.2)**	**(8.4)**	(25.3)	(7.9)
	(25.3)	**(7.8)**	(5.4)	(1.5)
Scheduled repayments of secured debt	**(1.7)**	**(0.5)**	(2.1)	(0.7)
Disposals of non-core budget hotels net of debt repayment	**1.2**	**0.4**	4.0	1.2
Acquisition of fixed assets	**(0.2)**	**(0.1)**	-	-
Cash flow in the period	**(26.0)**	**(8.0)**	(3.5)	(1.0)
Cash at the start of the period	**267.1**	**82.7**	101.8	31.6
Dilution from incentive fee share issues	**-**	**(0.3)**	-	(0.1)
Cash at the end of the period	**241.1**	**74.4**	98.3	30.5

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

The cash balance comprises:

	Six months to 30 June 2020		Six months to 30 June 2019	
	£m	**Pence per share**	£m	Pence per share
Free cash	**226.4**	**69.9**	234.8	72.7
Cash held in secured subgroups	**14.7**	**4.5**	26.8	8.3
Cash reserved for regulatory capital	**-**	**-**	0.7	0.2
Cash at the end of the period	**241.1**	**74.4**	262.3	81.2

The Group's investment properties are in the vast majority of cases 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 currently expected that material costs of that nature will be incurred on the portfolio as it stands at 30 June 2020.

Nick Leslau
Chairman, Prestbury Investment Partners Limited
10 September 2020

BUSINESS REVIEW

Principal Risks and Uncertainties

The Board's responsibilities for risk management include assessing the principal risks facing the Group and how they may be mitigated, including the consideration of matters that may threaten the performance of the Group, its business model or its viability. These responsibilities are summarised on page 47 of the 2019 annual report. Following the approval of the annual report on 12 March 2020, the impact of the Covid-19 pandemic has become significantly more far reaching, including the adverse economic impact of lockdowns and other restrictions in the UK and elsewhere. This is not to diminish the very distressing impact of the loss of lives and other social burdens of the pandemic.

From the start of the lockdown period, Board updates attended by all Directors and by all Management Team members were held weekly to ensure that there was regular, thorough and timely engagement with the issues arising. Weekly meetings continued through to the end of June, since when they have been held monthly in addition to the scheduled quarterly Board meetings. The safety and wellbeing of the Board and of the Investment Adviser's staff and suppliers was given very early attention, with the Investment Adviser moving to remote working on 17 March 2020, ahead of the national lockdown which commenced the following week. Following a detailed risk assessment, the Investment Adviser's office reopened on 3 August 2020 and a phased return of staff to office based working commenced at that time.

The Group's risk register is reviewed at least annually and more often as circumstances require. Given the current elevated risks following the pandemic, the risk register, which was most recently reviewed in connection with the publication of the annual report in March 2020, has been updated. The Board considers that the impact of the pandemic and potential future globally disruptive events on this scale are overarching risks which heighten certain of the specific risks facing the business. We have previously identified Brexit and climate risks within that category of overarching risk. We have added pandemic disruption to our overarching risks and have increased the risk rating of each of our principal risks, as all are impacted by the consequences of the virus and the response of governments and public health bodies to it.

The Board considers that the principal risks and uncertainties facing the Group over the medium to long term are as follows:

Risk and change in assessment since prior year	Impact on the Group	Mitigation
Tenant risk		
During the period the Group derived its income from ten (2019 year: ten) tenant groups, two (2019 year: two) of which have the benefit of guarantees from or joint tenancies with substantial listed parent companies. The three largest tenant groups account for 88% of passing rent before concessions as at the balance sheet date (31 December 2019: 87%). Although the Board considers the tenant and guarantor groups to be financially strong in ordinary circumstances, there can be no guarantee that they will remain able to comply with their obligations throughout the term of the relevant leases. The severe impact of Covid-19 on the Group's leisure and hotels tenants, which suffered an abrupt and almost complete closure of their operations as a result of the pandemic, creates heightened tenant risk in the current circumstances. The reopening of their businesses in the UK since 4 July 2020 has brought some easing of risk but pressures on tenants remain elevated.	A default of lease obligations by a material tenant and its guarantor (if any) would have an impact on the Group's revenue, earnings and cash flows and could have an impact on debt covenant compliance. The specialised use of the properties may mean that, in the event of an unexpected vacancy, re-letting takes time. Investment property valuations reflect an independent external valuer's assessment of the future security of income. A loss of income would therefore impact net asset value as well as earnings. It could also lead to a breach of interest cover or debt service cover covenants, resulting in increased interest rate margins payable to lenders, restricted cash flows out of secured debt groups or ultimately default under secured debt agreements. The availability of distributable reserves could also be restricted.	34% (31 December 2019: 32%) of passing rent before concessions at the balance sheet date is contractually backed by large listed companies and a further 32% (31 December 2019: 31%) by global businesses with multi billion pound valuations, all with capital structures considered by the Board to have been strong and with impressive long term earnings growth and (where relevant) share price track records up until the start of the pandemic. The balance of the income is payable by substantial businesses also considered by the Board to be sufficiently financially strong in the context of their lease obligations. The properties themselves are Key Operating Assets, which should have the effect of enhancing rental income security. The Board reviews the financial position of the tenants and guarantors at least every quarter and more often when relevant, based on publicly available financial information and any other trading information which may be obtained either under the terms of the leases or informally. The Board reserves unsecured and Uncommitted Cash outside ring-fenced debt structures which would be available to be used to cure certain covenant defaults to the extent of the cash available.

BUSINESS REVIEW

Principal Risks and Uncertainties continued

Risk and change in assessment since prior year	Impact on the Group	Mitigation
Property valuation movements The Group invests in commercial property which is held on the balance sheet at its fair value at each balance sheet date. The Company is therefore exposed to movements in property valuations, which are subjective and may vary as a result of a number of factors, many of which are outside the control of the Board. As a result of the pandemic, this risk has increased as a result of the relative lack of liquidity in certain sectors in which the Company invests, namely the leisure and budget hotel sectors. The risk relating to valuations of the healthcare assets is not considered to be similarly affected by the pandemic.	Investment properties make up the majority of the Group's assets, so material changes in their value will have a significant impact on measures of net asset value including EPRA NTA, with any effect of the valuation changes on net assets magnified by the impact of borrowings. Falls in the value of investment properties could lead to a breach of financial covenants in secured debt facilities, resulting in increased interest margins payable to lenders, restricted cash flows out of secured debt groups, restrictions of distributable reserves available for dividend payments or default under secured debt agreements. The Board notes the relative resilience in value demonstrated by long lease properties through the dramatic property market decline in 2008-11.	The Group uses experienced independent external valuers whose work is reviewed by suitably qualified members of the Investment Adviser and, separately, the Audit Committee before being considered by the Board in the context of the interim financial statements as a whole. The Board seeks to structure the Group's capital such that the level of borrowing and the protections available to cure a covenant default are appropriate having regard to market conditions and financial covenant levels. The Board reserves unsecured and Uncommitted Cash outside ring-fenced debt structures which would be available to cure certain covenant breaches.
Borrowing Certain Group companies have granted security to lenders in the form of mortgages over each of the Group's investment properties and fixed and floating charges over other assets. Following the sale of eight hospitals in August 2019, the Group holds an Uncommitted Cash balance that is substantially higher than the level of c. £60 million it has held historically. For such time as significant surplus cash is retained on the balance sheet, the borrowing risk can be considered to be lower than in prior periods as the ability to cure breaches of financial covenants, should they occur, is significantly greater. While to date the Group has had the support of its lenders in agreeing any consents or waivers required to accommodate the support provided to its tenants throughout the pandemic, for as long as Tenant risk is elevated, Borrowing risk is also considered to be elevated.	In the event of a breach of a debt covenant, the Group may be required to pay higher interest costs or increase debt amortisation out of cash flows arising on a particular portfolio, affecting Group cash flows and earnings. If a financial covenant breach is the result of financial weakness of a tenant or a guarantor, the property valuations and therefore net asset value may also be adversely affected. In certain circumstances the Company's ability to make cash distributions to shareholders may be reduced. Where a Group company is unable to make loan repayments out of existing cash resources, it may be forced to sell assets to repay part or all of the Group's debt. It may be necessary to sell assets at below book value, which would adversely impact net assets and future earnings. Early debt repayments would in most cases crystallise penalties, which would also adversely impact cash balances and net assets and reduce distributable reserves.	The Group's borrowing arrangements comprise six ring-fenced subgroups with no cross-guarantees between them and no recourse to other assets outside the secured subgroups. A financial covenant issue in one portfolio should therefore be limited to that portfolio, save for tenant related events (such as a tenant insolvency) where the two healthcare subgroups would both be affected by any issue relating to Ramsay and the two budget hotel facilities would be affected by any issue relating to Travelodge. Five of the facilities have LTV default covenants (the Merlin Leisure facility has no LTV default covenant) and all facilities have interest cover or debt service cover covenants. The Board reviews compliance with all financial covenants at least every quarter, including forward-looking tests for at least twelve months, and considers whether there is sufficient headroom on relevant loan covenants to withstand stress test scenarios. The Board seeks to structure the Group's capital such that gearing is appropriate having regard to market conditions and financial covenant levels, with appropriate cure rights within debt facilities. The Board reserves unsecured and Uncommitted Cash outside ring-fenced debt structures which would be available to cure certain covenant defaults to the extent of the Uncommitted Cash available.

BUSINESS REVIEW

Principal Risks and Uncertainties continued

Risk and change in assessment since prior year	Impact on the Group	Mitigation
Tax risk The Group is subject to the UK REIT regime. A failure to comply with certain UK REIT conditions resulting in the loss of this status could result in property income being subject to UK corporation tax. This risk has increased as a result of the pandemic. The pressures on the UK Treasury of providing financial support throughout the pandemic is considered to have increased the risk of changes in the tax regime.	If subject to UK corporation tax, the Group's current tax charge would increase, impacting cash flows, net asset value and earnings, and reducing cash and reserves available for distributions. Further, any asset sales would be subject to corporation tax, reducing the net amounts receivable on sale and requiring deferred tax to be provided on inherent capital gains.	The Board reviews compliance with the UK REIT rules at least every quarter. The REIT conditions which, if breached, could result in automatic expulsion from the REIT regime are those relating to the Company's share and loan capital, and are therefore (with the exception of a successful hostile takeover of the Company by a non-REIT) within the control of the Group.
Liquidity risk Working capital must be managed to ensure that both the Group as a whole and all individual entities are able to meet their liabilities as they fall due, though with highly predictable income and costs there is limited scope for unexpected liquidity pressures outside those risks described under Tenant risk. The Group holds a material Uncommitted Cash balance providing the benefit of a very substantial liquidity buffer. For as long as the risks of further economic disruption arising from the pandemic remain elevated, the potential for the liquidity buffer to be called on to provide support to tenants and/or to deploy in debt management is also elevated.	A breach of a lending covenant, or the insolvency of either the Group as a whole or an individual entity within a secured subgroup could result in a loss of net assets, impacting net asset value and earnings, and reducing cash and reserves available for distributions As a result, there could be insufficient cash and/or distributable reserves to meet the Property Income Distribution ("PID") requirement under the UK REIT rules, which could result in UK corporation tax becoming payable on the Group's property rental business. This would in turn reduce free cash flows.	Unless there is a tenant default (the risk of which is explained under Tenant risk) the Group's cash flows are generally highly predictable. The cash position is reported to the Board at least quarterly, projections at least two years ahead are included in the Group budget and are updated for review when the interim and annual reports are approved, and projections for a five year period are reviewed for the viability statement in the annual report. The Group has Uncommitted Cash reserves out of which any tax liabilities or increases in required PIDs above the cash flow generated from operations could be met in the short to medium term. A scrip dividend alternative could also be offered to meet the PID requirement.

There are certain overarching risks where the direct impact on the Group's operations is limited, but which the Board considers to be relevant to most of the major risk areas identified. These are:

- the risks of extensive economic and social disruption, including from a pandemic;
- disruption from the terms of the departure of the UK from the European Union following the end of the current transition period (generally referred to as Brexit risk); and
- climate risk including the risks and costs of decarbonisation.

These are not classified as direct risks in their own right, but as general risks affecting many of the specific risk factors faced by the Group and which are also kept under review.

BUSINESS REVIEW

Principal Risks and Uncertainties continued

Global economic and social disruption: Pandemic risk

The Board and Management Team of the Company and those of the Group's major tenants have operated through various cycles of economic boom and bust, through varying degrees of political stability and have dealt with deep recessions and periods of great disruption. However, the global reach, sudden onset and extensive impact of the spread of Covid-19 is in a class of its own in its scale and unpredictability. While the full force of the lockdowns has been felt by our tenants in the leisure and hotels sectors, this has been mitigated, from the Company's perspective, through its significant weighting in healthcare assets which account for just over one third of the Group's annualised rents before Covid-related concessions. The Company's Uncommitted Cash balance, which is significantly larger than the level held historically, remains available to deal with further threats arising. While the path of the virus, of consumer behaviour in the face of it and of the related recession cannot be known, the experience of the Board and Management Team members is being brought to bear on every aspect of the Company's risk profile.

Brexit risk

The Board does not consider that Brexit presents a risk to the Group in and of itself, largely as the Group is not dependent on access to European markets and is not expected to be directly impacted by changes in regulations or tariffs. The tax treatment of the German assets (the only non-UK assets held which represent 5.2% of the Group's gross assets at the balance sheet date) is considered unlikely to change as a result of Brexit, although the terms of access to non-UK financial markets may be of relevance in any future equity and debt issues.

Nevertheless, the Board considers that Brexit does potentially weigh on all of the risks described above, principally through the heightened risk of market uncertainty or disruption and in particular on how the Group's tenants are affected. In this respect we take some comfort from the fact that a large majority of passing rents are underpinned by businesses with globally diverse sources of income, not solely dependent on the UK and its trade relations with the rest of the world.

There have been periods of significant political, economic and market uncertainty since the referendum to leave the EU in 2016 and this has at times affected equity, debt, property and foreign exchange markets. Delivery of the Group's growth aspirations depends on access to capital markets and external factors, including market volatility, can have an impact on the ability to implement the growth strategy. Given the Group's long term income profile and the characteristics of its debt, where the finance costs are ultimately fixed or capped, such conditions are currently considered unlikely to have a material impact on the status quo for the Group, but are considered to be relevant to the Group's growth aspirations in so far as there is an impact on the availability of debt and equity capital.

Climate risk

As the Company has very limited direct impact on the environment, this risk is not one where the Company can take steps to make a material impact. However, in assessing the strength of the credit quality of our tenants and of potential tenants, we take climate risk into account. This forms an integral part of the way that we consider how any assets that we are considering for acquisition meet the criteria for 'defensive business sectors' set out in the Company's business model.

CONDENSED 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 2020 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.

Emphasis of matter: property valuations

We draw your attention to the disclosures made in note 10 to the condensed financial statements. As described in the note, as a result of the impact of the outbreak of the Novel Coronavirus on the market, the Group's independent external property valuers have advised that less certainty, and a higher degree of caution, should be attached to their valuations of the leisure and budget hotel properties, which comprise 61% of the total investment property portfolio by value, than would normally be the case. Our review report is not modified in respect of this matter.

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 2020 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.

CONDENSED FINANCIAL STATEMENTS

Independent Review Report continued

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

10 September 2020

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

CONDENSED FINANCIAL STATEMENTS

Group Income Statement

	Notes	**Unaudited Six months to 30 June 2020 £000**	Audited Year to 31 December 2019 £000	Unaudited Six months to 30 June 2019 £000
Revenue	3,4	**60,887**	132,677	69,040
Property outgoings	5	**(1,052)**	(1,327)	(668)
Gross profit		**59,835**	131,350	68,372
Administrative expenses	6	**(8,096)**	(22,128)	(8,353)
Profit on disposal of investment properties		**30**	53,074	421
Investment property revaluation	10	**(142,026)**	75,708	43,089
Operating (loss)/profit		**(90,257)**	238,004	103,529
Finance income		**385**	730	193
Finance costs	7	**(25,072)**	(84,234)	(28,354)
(Loss)/profit before tax		**(114,944)**	154,500	75,368
Tax charge	8	**(26)**	(1,141)	(857)
(Loss)/profit for the period	9	**(114,970)**	153,359	74,511

		Pence per share	Pence per share	Pence per share
Earnings per share				
Basic	9	**(35.5)**	47.5	23.1
Diluted	9	**(35.5)**	47.3	23.1

All amounts relate to continuing activities.

Group Statement of Other Comprehensive Income

	Notes	**Unaudited Six months to 30 June 2020 £000**	Audited Year to 31 December 2019 £000	Unaudited Six months to 30 June 2019 £000
(Loss)/profit for the period		**(114,970)**	153,359	74,511
Items that may subsequently be reclassified to profit or loss:				
Currency translation movements		**2,541**	(2,000)	26
Fair value movements in interest rate derivatives	7	**(852)**	(851)	(929)
Other comprehensive income/(loss)		**1,689**	(2,851)	(903)
Total comprehensive (loss)/income for the period		**(113,281)**	150,508	73,608

The notes on pages 39 to 59 form part of this interim report.

CONDENSED 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 2020 (unaudited)					
At 1 January 2020	32,285	518,415	7,164	826,678	**1,384,542**
Loss for the period	-	-	-	(114,970)	**(114,970)**
Other comprehensive income	-	-	1,689	-	**1,689**
Total comprehensive loss	-	-	1,689	(114,970)	**(113,281)**
Issue of shares	119	4,791	(4,910)	-	**-**
Interim dividends of 8.4 pence per share	-	-	-	(27,169)	**(27,169)**
At 30 June 2020	32,404	523,206	3,943	684,539	**1,244,092**
Year to 31 December 2019 (audited)					
At 1 January 2019	32,156	513,675	9,977	725,780	**1,281,588**
Profit for the year	-	-	-	153,359	**153,359**
Other comprehensive loss	-	-	(2,851)	-	**(2,851)**
Total comprehensive income	-	-	(2,851)	153,359	**150,508**
Issue of shares	129	4,740	(4,869)	-	**-**
Shares to be issued	-	-	4,907	-	**4,907**
Interim dividends of 16.3 pence per share	-	-	-	(52,461)	**(52,461)**
At 31 December 2019	32,285	518,415	7,164	826,678	**1,384,542**
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**

The notes on pages 39 to 59 form part of this interim report.

CONDENSED FINANCIAL STATEMENTS

Group Balance Sheet

	Notes	**Unaudited 30 June 2020 £000**	Audited 31 December 2019 £000	Unaudited 30 June 2019 £000
Non-current assets				
Investment properties	3,10	**1,986,790**	2,111,297	2,378,998
Headlease rent deposits		**2,740**	2,742	2,775
Tangible fixed assets		**233**	-	-
Interest rate derivatives	15	**14**	43	82
		1,989,777	2,114,082	2,381,855
Current assets				
Cash and cash equivalents	11	**241,120**	267,119	98,338
Trade and other receivables	12	**9,948**	3,798	4,539
		251,068	270,917	102,877
Total assets		**2,240,845**	2,384,999	2,484,732
Current liabilities				
Trade and other payables	13	**(31,086)**	(38,290)	(34,604)
Secured debt	14	**(4,090)**	(1,170)	(1,715)
Interest rate derivatives	15	**(484)**	(246)	(229)
Current tax liability		**(31)**	(129)	(66)
		(35,691)	(39,835)	(36,614)
Non-current liabilities				
Secured debt	14	**(919,641)**	(920,408)	(1,077,224)
Head rent obligations under finance leases	10	**(28,098)**	(28,190)	(28,424)
Deferred tax liability	16	**(11,931)**	(11,267)	(11,768)
Interest rate derivatives	15	**(1,392)**	(757)	(848)
		(961,062)	(960,622)	(1,118,264)
Total liabilities		**(996,753)**	(1,000,457)	(1,154,878)
Net assets		**1,244,092**	1,384,542	1,329,854
Share capital	17	**32,404**	32,285	32,285
Share premium reserve	18	**523,206**	518,415	518,418
Other reserves	18	**3,943**	7,164	4,202
Retained earnings	18	**684,539**	826,678	774,949
Total equity		**1,244,092**	1,384,542	1,329,854

		Pence per share	Pence per share	Pence per share
Basic NAV per share	19	**383.9**	428.8	411.9
Diluted NAV per share	19	**383.9**	427.3	411.9
EPRA NTA per share	19	**386.4**	429.4	414.1

The notes on pages 39 to 59 form part of this interim report.

CONDENSED FINANCIAL STATEMENTS

Group Cash Flow Statement

	Notes	**Unaudited Six months to 30 June 2020 £000**	Audited Year to 31 December 2019 £000	Unaudited Six months to 30 June 2019 £000
Operating activities				
(Loss)/profit before tax		**(114,944)**	154,500	75,368
Adjustments for non-cash items:				
Investment property revaluation	10	**131,978**	(86,727)	(48,851)
Depreciation		**6**	-	-
Administrative expenses payable in shares		**-**	4,907	-
Profit on disposal of investment properties		**(30)**	(53,074)	(421)
Finance income		**(385)**	(730)	(193)
Finance costs	7	**25,072**	84,234	28,354
Cash flows from operating activities before changes in working capital		**41,697**	103,110	54,257
Changes in working capital:				
Trade and other receivables		**(8,722)**	(265)	(139)
Trade and other payables		**(7,209)**	(2,144)	(7,014)
Headlease rent deposits		**2**	24	(9)
Cash generated from operations		**25,768**	100,725	47,095
Tax paid		**(248)**	(233)	(67)
Cash flows from operating activities		**25,520**	100,492	47,028
Investing activities				
Disposal of investment properties		**2,595**	357,744	4,351
Interest received		**385**	695	193
Acquisition of tangible fixed assets		**(239)**	-	-
Acquisition of investment properties		**-**	(307)	-
Cash flows from investing activities		**2,741**	358,132	4,544
Financing activities				
Dividends paid		**(27,169)**	(52,461)	(25,342)
Interest and finance costs paid		**(23,991)**	(53,638)	(27,247)
Scheduled repayments of secured debt		**(1,742)**	(3,988)	(2,078)
Repayment of secured debt from proceeds of disposal of investment properties		**(1,494)**	(154,519)	(307)
Fees on accelerated prepayment of secured debt		**-**	(27,868)	-
Loan arrangement costs paid		**-**	(670)	-
Cash flows from financing activities		**(54,396)**	(293,144)	(54,974)
(Decrease)/increase in cash and cash equivalents		**(26,135)**	165,480	(3,402)
Cash and cash equivalents at the beginning of the period		**267,119**	101,745	101,745
Currency translation movements		**136**	(106)	(5)
Cash and cash equivalents at the end of the period	11	**241,120**	267,119	98,338

The notes on pages 39 to 59 form part of this interim report.

CONDENSED 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 2020, with comparative amounts shown for the year to 31 December 2019 and the six months to 30 June 2019, 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 condensed financial statements. In conducting their review of the appropriateness of the going concern basis, the Board had regard to the principal risks and uncertainties identified in their review of the Group's risk register.

The accounting policies adopted in this report are consistent with those applied in the Group's statutory accounts for the year to 31 December 2019 and are expected to be consistently applied in the financial statements for the year to 31 December 2020. The Group's accounting policy for revenue is stated below in full, given the importance in this period of the treatment of revenue recognition and specifically in the circumstances of the rent concessions granted to various tenants as a result of Covid-19. This expands the existing policy for clarity and is not a change of accounting policy.

Revenue comprises rental income exclusive of VAT, recognised in the income statement on an accruals basis.

Future anticipated rental income is spread over the term of a lease on a straight line basis, giving rise to a Rent Smoothing Adjustment in cases where future rental uplifts can be determined with sufficient certainty. Where income is recognised in advance of the contractual right to receive that income, such as from leases with fixed rent uplifts, an adjustment is made to ensure that the carrying value of the relevant investment property including accrued rent does not exceed the fair value of the property as assessed by the independent expert valuers. Income arising from contractual rights that are subject to external factors, such as RPI-linked or open market rent reviews, is recognised in the income statement in the period in which it is determinable and reasonably certain.

Where there has been a change in the scope of a lease or the consideration for a lease that was not part of the original terms and conditions of the lease, this is accounted for as a lease modification. This treatment applies to cases where rent reductions have been agreed. Such modifications are accounted for as new leases from the effective date of the modification, being the date at which both parties agree to the terms of the modification. Any prepaid or accrued lease payments relating to the original lease at the date of modification are treated as part of the lease payments for the new lease. Future anticipated rental income is spread over the term of the lease on a straight line basis, giving rise to a Rent Smoothing Adjustment in the event that rent is reduced for a period.

No new or revised standard is expected to be relevant to the Group for the year ending 31 December 2020 or to 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:£0.87 (year to 31 December 2019: €1:£0.88; six months to 30 June 2019: €1:£0.87) and period end balances converted to Sterling at the 30 June 2020 exchange rate of €1:£0.91 (31 December 2019: €1:£0.85; 30 June 2019: €1:£0.89).

The condensed financial statements for the period are unaudited and the financial information for the year ended 31 December 2019 contained therein does not constitute statutory accounts for the purposes of the Companies Act 2006. The annual report and financial statements for 2019 have been filed at Companies House. The Independent Auditor's report on the annual report and financial statements for 2019 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.

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

2. Basis of preparation and accounting policies (continued)

The principal area of estimation uncertainty is the investment property valuation where, as described in note 10, the opinion of independent external valuers has been obtained. The principal areas of judgement are:

- the recognition of any additional revenue in the period as a result of an outstanding May 2018 open market rent review on the Ramsay hospitals, where no uplift has been recognised on the basis that the Directors consider that it is not possible at present to make a reasonably certain estimate of any uplift that might result. This position has not changed from that disclosed in the annual report and financial statements for 2019; and
- assessing 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 their assessment that no such provision is required in the period, the Directors estimate the net assets per share of the Group at the end of the financial year on a basis consistent with that applied in prior periods. As described in note 20, this does not constitute a forecast but represents an estimated illustrative case only, and is 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.

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 of the Company.

The Group owned 161 properties at 30 June 2020, 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 and budgets 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:

Revenue	**Unaudited Six months to 30 June 2020 £000**	Audited Year to 31 December 2019 £000	Unaudited Six months to 30 June 2019 £000
UK	**56,742**	124,348	64,902
Germany	**4,145**	8,329	4,138
	60,887	132,677	69,040

Investment properties	**Unaudited 30 June 2020 £000**	Audited 31 December 2019 £000	Unaudited 30 June 2019 £000
UK	**1,870,265**	2,001,047	2,262,948
Germany	**116,525**	110,250	116,050
	1,986,790	2,111,297	2,378,998

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

3. Operating segments (continued)

Revenue by tenant comprises:

Revenue including Rent Smoothing Adjustments	**Unaudited Six months to 30 June 2020 £000**	Audited Year to 31 December 2019 £000	Unaudited Six months to 30 June 2019 £000
Ramsay Healthcare UK Operations Limited	**18,543**	48,072	27,320
Travelodge Hotels Limited	**14,885**	30,400	15,318
Merlin Attractions Operations Limited	**14,003**	27,654	13,592
Other tenants (each less than 10% of revenue)	**13,456**	26,551	12,810
Reported revenue	**60,887**	132,677	69,040
Revenue excluding Rent Smoothing Adjustments			
Ramsay Healthcare UK Operations Limited	**17,037**	43,317	24,425
Merlin Attractions Operations Limited	**14,003**	27,654	13,592
Travelodge Hotels Limited	**10,329**	30,400	15,318
Other tenants (each less than 10% of revenue)	**9,732**	20,742	10,212
Revenue on Adjusted EPRA Earnings basis	**51,101**	122,113	63,547

4. Revenue

	Unaudited Six months to 30 June 2020 £000	Audited Year to 31 December 2019 £000	Unaudited Six months to 30 June 2019 £000
Rental income	**50,202**	120,533	62,742
Rent Smoothing Adjustments (note 10)	**9,786**	10,564	5,493
Recovery of head rent and service charge costs from occupational tenants	**899**	1,580	805
	60,887	132,677	69,040

The Rent Smoothing Adjustments arise through the Group's accounting policy in respect of revenue recognition which requires the recognition of rental income on a straight line basis over the lease term, including rental uplifts throughout the term in certain circumstances. Uplifts that must be smoothed over the lease term are those for the 42% of passing rent as at 30 June 2020 (31 December 2019 and 30 June 2019: 41%) that increases by a fixed percentage at each review date and the 6% of passing rent as at 30 June 2020 (31 December 2019 and 30 June 2019: 5%) that is subject to minimum fixed uplifts on RPI-linked reviews. A new feature of this calculation in the current reporting period is the impact of the temporary rent reductions agreed to assist tenants as a result of the Covid-19 pandemic which in the short term result in rental income being recognised in the income statement ahead of cash flows but which, after the end of each relevant concession period, reverse so that rental income recognised in the income statement will be lower than cash rents received on those leases.

Further detail on the Rent Smoothing Adjustments is provided in note 10 and the Supplementary Information which follows the condensed financial statements.

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

5. Property outgoings

	Unaudited Six months to 30 June 2020 £000	Audited Year to 31 December 2019 £000	Unaudited Six months to 30 June 2019 £000
Property outgoings in the income statement	**1,052**	1,327	668
Finance element of head rent included in finance costs (note 7)	**811**	1,702	822
Movement in headlease liabilities included in property revaluations (note 10)	**94**	100	87
Total property outgoings	**1,957**	3,129	1,577
Recovery of head rents and other costs from occupational tenants, included in revenue (note 4)	**(899)**	(1,580)	(805)
Net property outgoings	**1,058**	1,549	772

Property outgoings in the income statement comprise:

	Unaudited Six months to 30 June 2020 £000	Audited Year to 31 December 2019 £000	Unaudited Six months to 30 June 2019 £000
Cost of documenting rent concessions	**534**	-	-
Head rents	**296**	441	244
Costs of prospective capital projects	**105**	215	178
Irrecoverable property costs	**69**	121	65
Managing agent costs and other net property outgoings	**41**	134	13
Rent review costs	**7**	416	168
	1,052	1,327	668

Amounts shown above include any irrecoverable VAT. The costs of prospective capital projects relate largely to feasibility studies and may subsequently be capitalised if those projects proceed.

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

6. Administrative expenses

	Unaudited Six months to 30 June 2020 £000	Audited Year to 31 December 2019 £000	Unaudited Six months to 30 June 2019 £000
Advisory fee (note 20)	**7,065**	14,732	7,306
Other administrative expenses	**743**	1,546	774
Corporate costs	**288**	594	273
Incentive fee (note 20)	**-**	5,256	-
	8,096	22,128	8,353

Amounts shown above include any irrecoverable VAT.

7. Finance costs

	Unaudited Six months to 30 June 2020 £000	Audited Year to 31 December 2019 £000	Unaudited Six months to 30 June 2019 £000
Interest on secured debt	**22,670**	49,920	26,019
Amortisation of loan arrangement costs (non-cash)	**1,151**	2,382	1,211
Interest charge on headlease liabilities	**811**	1,702	822
Amortisation of interest rate derivatives, transferred from other reserves	**186**	269	117
Cost of documenting rent concessions, including lenders' legal costs	**108**	-	-
Loan agency fees and other lender costs	**80**	546	124
Fair value adjustment of interest rate derivatives	**50**	104	61
Amortisation of loan arrangement costs on accelerated loan repayments (non-cash)	**16**	1,443	-
Fees on accelerated loan repayments on property disposals	**-**	27,868	-
Finance costs recognised in the income statement	**25,072**	84,234	28,354
Fair value adjustment of interest rate derivatives	**1,038**	1,120	1,046
Amortisation of interest rate derivatives, transferred to the income statement	**(186)**	(269)	(117)
Finance costs recognised in other comprehensive income/(loss)	**852**	851	929

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

8. Tax

Analysis of tax charge in the period	**Unaudited Six months to 30 June 2020 £000**	Audited Year to 31 December 2019 £000	Unaudited Six months to 30 June 2019 £000
Current tax - Germany			
Corporation tax charge	**171**	341	167
Adjustments in respect of prior periods	**(31)**	41	22
Deferred tax - Germany			
Deferred tax (credit)/charge	**(114)**	759	668
	26	1,141	857

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

	Unaudited Six months to 30 June 2020 £000	Audited Year to 31 December 2019 £000	Unaudited Six months to 30 June 2019 £000
(Loss)/profit before tax	**(114,944)**	154,500	75,368
Tax (credit)/charge at the standard rate of corporation tax in the UK of 19%	**(21,839)**	29,355	14,320
Effects of:			
Investment property revaluation not taxable	**25,968**	(15,652)	(8,579)
Qualifying property rental business not taxable under UK REIT rules	**(5,379)**	(4,001)	(5,597)
Recognition of tax losses	**841**	721	384
Finance costs disallowed under corporate interest restriction rules	**301**	420	220
German current tax charge	**171**	341	167
Adjustments in respect of prior periods	**(31)**	41	22
Profit on disposal of investment properties not taxable	**(6)**	(10,084)	(80)
Tax charge for the period	**26**	1,141	857

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 was developed in the last three years.

To remain a UK REIT, there is 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 8% (year to 31 December 2019 and six months to 30 June 2019: 15%), resulting in a tax charge of £0.2 million (year to 31 December 2019: £0.3 million; six months to 30 June 2019: £0.2 million). A deferred tax liability of £11.9 million (31 December 2019: £11.3 million; 30 June 2019: £11.8 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 prior to 30 September 2020 under schedule 5AAA to the Taxation of Chargeable Gains Act 1992, such that any disposals of UK investment properties by those entities will be deemed to arise in their parent companies and can therefore benefit from the REIT exemption.

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

9. 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 for the purposes of the EPS calculation 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 2020 £000	Audited Year to 31 December 2019 £000	Unaudited Six months to 30 June 2019 £000
(Loss)/profit for the period	**(114,970)**	153,359	74,511
Weighted average number of shares in issue	**Number**	Number	Number
Basic EPS calculation	**324,035,146**	322,850,595	322,850,595
Shares to be issued in satisfaction of incentive fee	**-**	1,184,551	-
Diluted EPS calculation	**324,035,146**	324,035,146	322,850,595
	Pence per share	Pence per Share	Pence per share
Basic EPS	**(35.5)**	47.5	23.1
Diluted EPS	**(35.5)**	47.3	23.1

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 is set out below.

An Adjusted EPRA earnings calculation has also been presented. This removes the effect of the Rent Smoothing Adjustments and, in the current period, the rent on the theme parks that has been deferred to 2021 (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.

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

9. Earnings per share (continued)

In calculating Adjusted EPRA EPS, the weighted average number of shares is 323,514,464 (31 December 2019: 322,540,246; 30 June 2019: 322,224,754), 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 2020 Number	Audited Year to 31 December 2019 Number	Unaudited Six months to 30 June 2019 Number
Shares in issue throughout the period	**322,850,595**	321,563,353	321,563,353
Pro rata adjustment for:			
Shares issued in March 2020 in settlement of 2019 incentive fee	**663,869**	-	-
Shares issued in March 2019 in settlement of 2018 incentive fee	**-**	976,893	661,401
Weighted average shares in issue	**323,514,464**	322,540,246	322,224,754

EPRA and Adjusted EPRA earnings are calculated as:

	Unaudited Six months to 30 June 2020 £000	Audited Year to 31 December 2019 £000	Unaudited Six months to 30 June 2019 £000
(Loss)/profit for the period	**(114,970)**	153,359	74,511
EPRA adjustments:			
Investment property revaluation (note 10)	**142,026**	(75,708)	(43,089)
German deferred tax on investment property revaluations (note 8)	**(114)**	759	668
Profit on disposal of investment properties	**(30)**	(53,074)	(421)
Other early debt repayment costs (note 7)	**16**	1,443	-
Fair value adjustment of interest rate derivatives	**15**	36	27
Cost of early repayment of debt on disposal of investment properties	**-**	27,868	-
EPRA earnings	**26,943**	54,683	31,696
Other adjustments:			
Rent Smoothing Adjustments (note 10)	**(9,786)**	(10,564)	(5,493)
Rent deferral	**(637)**	-	-
Incentive fee	**-**	5,256	-
Adjusted EPRA earnings	**16,520**	49,375	26,203

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

	Unaudited Six months to 30 June 2020 Pence per share	Audited Year to 31 December 2019 Pence per share	Unaudited Six months to 30 June 2019 Pence per share
EPRA EPS	**8.3**	16.9	9.8
Adjusted EPRA EPS	**5.1**	15.3	8.1

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

10. Investment properties

Freehold investment properties	**Unaudited Six months to 30 June 2020 £000**	Audited Year to 31 December 2019 £000	Unaudited Six months to 30 June 2019 £000
At the start of the period	**1,802,390**	2,018,115	2,018,115
Revaluation movement	**(97,375)**	88,901	48,851
Currency translation movement	**7,565**	(5,986)	(171)
Disposals	**-**	(301,535)	(3,480)
Reclassification on acquisition of freehold interest in leasehold property	**-**	2,595	-
Acquisition of freehold interest in leasehold property	**-**	262	
Additions	**-**	38	-
At the end of the period	**1,712,580**	1,802,390	2,063,315

Leasehold investment properties			
At the start of the period	**308,907**	317,105	317,105
Revaluation movement	**(34,603)**	(2,174)	-
Movement in headlease liabilities	**(94)**	(100)	(87)
Disposals	**-**	(3,115)	(1,335)
Additions	**-**	7	-
Reclassification on acquisition of freehold interest in leasehold property	**-**	(2,595)	-
Headlease liabilities on disposals	**-**	(221)	-
At the end of the period	**274,210**	308,907	315,683

Total investment properties			
At the start of the period	**2,111,297**	2,335,220	2,335,220
Revaluation movement	**(131,978)**	86,727	48,851
Currency translation movement	**7,565**	(5,986)	(171)
Movement in headlease liabilities	**(94)**	(100)	(87)
Disposals	**-**	(304,650)	(4,815)
Net cost of acquisition of freehold interest in leasehold property	**-**	262	-
Additions	**-**	45	-
Headlease liabilities on disposals	**-**	(221)	-
At the end of the period	**1,986,790**	2,111,297	2,378,998

The properties were valued as at 30 June 2020 at £1,958.7 million (31 December 2019: £2,083.1 million; 30 June 2019: £2,350.6 million)by CBRE Limited or Christie & Co in their capacity as independent external valuers. Of the total fair value, £116.5 million (31 December 2019: £110.3 million; 30 June 2019: £116.1 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.

The valuations were prepared on a fixed fee basis, independent of the portfolio value, and were undertaken in accordance with RICS Valuation – Global Standards 2020 on the basis of fair value, supported by reference to market evidence of transaction prices for similar properties where available. The valuers considered there to be a shortage of such evidence for the leisure and budget hotels valuations as at the balance sheet date.

While the Royal Institution of Chartered Surveyors mandated that valuations in certain sectors should be subject to "material valuation uncertainty" as at 30 June 2020, this proviso is applied on a sector basis. The 30 June 2020 valuations of the healthcare assets, which account for 39% of the Group's property assets by value as at that date, did not carry such a proviso and none of the June 2019 or December 2019 valuations in any sector were subject to material valuation uncertainty.

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

10. Investment properties (continued)

The valuation report on healthcare assets accounting for 39% of the Group's investment property valuations as at 30 June 2020 included this wording:

> "In the healthcare sector, as at the Valuation Date, transaction volumes provided enough up-to-date comparable market evidence upon which to base opinions of value for the Hospital assets and therefore there is no material uncertainty associated with these properties. We do however recommend that you keep the Valuations of all assets contained in this report under frequent review."

The reports from each valuer included statements about material valuation uncertainty in respect of the leisure and budget hotel properties, which comprise 61% of the Group's investment property valuations as at 30 June 2020. The report on leisure and budget hotel assets accounting for 51% of the Group's investment property valuations as at 30 June 2020 included this wording:

> "The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a 'Global Pandemic' on the 11 March 2020, has impacted many aspects of daily life and the global economy – with some real estate markets experiencing significantly lower levels of transactional activity and liquidity.
>
> As at the Valuation Date, in the case of the Visitor Attraction and Hotel properties listed within this report there is a shortage of market evidence for comparison purposes, to inform opinions of value. Our Valuation of these properties is therefore reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution – should be attached to our Valuation than would normally be the case.
>
> For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the Valuation cannot be relied upon. Rather, the declaration has been included to ensure transparency of the fact that – in the current extraordinary circumstances – less certainty can be attached to the Valuation than would otherwise be the case. The material uncertainty clause is to serve as a precaution and does not invalidate the Valuation. Given the unknown future impact of COVID-19 on the real estate market and the difficulty in differentiating between short-term impacts and longer-term structural market changes, we recommend that you keep the Valuations contained in this report under frequent review."

The report on leisure assets accounting for 10% of the Group's investment property valuations as at 30 June 2020 included this wording:

> "The outbreak of the Novel Coronavirus (COVID-19), declared by the World Heath Organisation as a 'Global Pandemic' on the 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.
>
> Market activity is being impacted in many sectors. As at the Valuation Date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.
>
> Our valuations are therefore reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of the properties under frequent review.
>
> For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the declaration has been included to ensure transparency of the fact that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is to serve as a precaution and does not invalidate the valuation."

The historic cost of the Group's investment properties as at 30 June 2020 was £1,479.6 million (31 December 2019: £1,479.6 million; 30 June 2019: £1,686.8 million).

All of the investment properties are held within six (31 December 2019 and 30 June 2019: six) ring-fenced security pools as security under fixed charges in respect of separate secured debt facilities.

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

10. Investment properties (continued)

Under the Group's accounting policy in line with International Financial Reporting Standards, the carrying value of leasehold property is 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 reconciliation between the carrying value of the investment properties and their independent external valuation is as follows:

	Unaudited 30 June 2020 £000	Audited 31 December 2019 £000	Unaudited 30 June 2019 £000
Carrying value	**1,986,790**	2,111,297	2,378,998
Gross-up of headlease liabilities	**(28,098)**	(28,190)	(28,424)
Independent external valuation	**1,958,692**	2,083,107	2,350,574

Included within the carrying value of investment properties at 30 June 2020 is £167.8 million (31 December 2019: £155.7 million; 30 June 2019: £202.6 million) in respect of Rent Smoothing Adjustments described in note 4, representing the amount of any net mismatch between rent included in the income statement and cash rents actually received. This net receivable increases over broadly the first half of each lease term (in the case of fixed or minimum uplifts) or the period of any temporary rent reduction (those agreed with tenants during the period in light of Covid-19) and then unwinds, reducing to zero by the end of the lease term.

The difference between rents on a straight line basis and rents actually receivable is included within, but does not increase over fair value, the carrying value of investment properties. Also included in the revaluation movement for the period is the impact of back rent received during a prior year from a May 2017 rent review on the healthcare portfolio, which is recognised in revenue over the whole lease term despite the cash having been received in 2017, and movements on the headlease liabilities.

	Unaudited Six months to 30 June 2020 £000	Audited Year to 31 December 2019 £000	Unaudited Six months to 30 June 2019 £000
Revaluation movement	**(131,978)**	86,727	48,851
Rent Smoothing Adjustments (note 4)	**(9,786)**	(10,564)	(5,493)
Adjustment for back rent received	**(168)**	(355)	(182)
Movement in headlease liabilities	**(94)**	(100)	(87)
Revaluation movement in the income statement	**(142,026)**	75,708	43,089

The Rent Smoothing Adjustments are further explained in the Supplementary Information which follows these condensed financial statements.

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

At each reporting date, certain directors of the Investment Adviser, who have recognised professional qualifications and are experienced in valuing the types of property owned by the Group, initially analyse the independent 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 independent external valuers, focusing on properties with unexpected fair value changes or any with unusual characteristics. The Audit Committee considers the valuation process as part of its overall responsibilities, including meetings with the independent external valuers, and reports on its assessment of the procedures to the Board.

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

10. Investment properties (continued)

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

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

Portfolio	Fair value £000	Key unobservable input	Inputs Range	Inputs Blended yield
At 30 June 2020:				
Healthcare	769,095	Net Initial Yield	3.9% - 4.5%	4.5%
		Running Yield by January 2022	4.0% - 4.6%	4.6%
Leisure - UK	697,672	Topped Up Net Initial Yield	4.9% - 6.1%	5.4%
		Running Yield by January 2022	5.4% - 6.9%	5.7%
		Future RPI assumption per annum	2.1% - 2.5%	2.5%
Budget hotels	403,498	Topped Up Net Initial Yield	5.1% - 16.2%	6.9%
		Running Yield by January 2022	5.1% - 16.2%	7.3%
		Future RPI assumption per annum	2.5%	2.5%
Leisure - Germany	116,525	Topped Up Net Initial Yield	5.6%	5.6%
		Running Yield by January 2022	5.9%	5.9%
Total at 30 June 2020	**1,986,790**			
At 31 December 2019:				
Healthcare	748,385	Net Initial Yield	3.9% - 4.5%	4.5%
		Running Yield by December 2020	4.0% - 4.6%	4.6%
Leisure - UK	751,008	Net Initial Yield	3.7% - 6.2%	5.0%
		Running Yield by December 2020	4.2% - 6.9%	5.1%
		Future RPI assumption per annum	2.5% - 3.1%	
Budget hotels	501,654	Net Initial Yield	4.3% - 10.5%	5.5%
		Running Yield by June 2020	4.5% - 10.5%	5.7%
		Future RPI assumption per annum	2.5%	
Leisure - Germany	110,250	Net Initial Yield	5.5%	5.5%
		Running Yield by July 2020	5.7%	5.7%
Total at 31 December 2019	**2,111,297**			
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%	
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%	
Leisure - Germany	116,050	Net Initial Yield	5.3%	5.3%
		Running Yield by July 2020	5.5%	5.5%
Total at 30 June 2019	**2,378,998**			

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).

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

10. Investment properties (continued)

Other than headlease payments, the majority of which are recoverable from tenants, the Group did not have any contractual investment property obligations at any balance sheet date. With the exception of a negligible proportion of the Group's income which relates to an operating agreement, all responsibility for property liabilities 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 in the first instance but c. 90% is currently recoverable from tenants.

11. Cash and cash equivalents

	Unaudited 30 June 2020 £000	Audited 31 December 2019 £000	Unaudited 30 June 2019 £000
Free cash and cash equivalents	**226,392**	240,254	70,853
Secured cash	**14,728**	26,261	26,828
Regulatory capital	**-**	604	657
	241,120	267,119	98,338

Secured cash is held in accounts over which the providers of secured debt have fixed security. The Group is unable to access this cash unless and until it is released to free cash each quarter, which takes place after quarterly interest and loan repayments have been made as long as the terms of the associated secured facility are complied with.

In the prior year and until March 2020 the Company was classified as an internally managed Alternative Investment Fund and was required by the Financial Conduct Authority to hold a balance of regulatory capital in liquid funds, which was maintained in cash. This classification ceased to apply during the period so the Company is no longer required to hold regulatory capital.

12. Trade and other receivables

	Unaudited 30 June 2020 £000	Audited 31 December 2019 £000	Unaudited 30 June 2019 £000
Trade receivables	**196**	359	51
Accrued income – deferred rents	**8,892**	-	-
Prepayments	**860**	874	1,021
Amounts receivable from investment property disposals	**-**	2,565	3,467
	9,948	3,798	4,539

13. Trade and other payables

	Unaudited 30 June 2020 £000	Audited 31 December 2019 £000	Unaudited 30 June 2019 £000
Trade payables	**1,099**	1,172	400
Rent received in advance and other deferred income	**20,123**	24,402	22,732
Interest payable	**7,897**	8,019	9,082
Accruals and other payables	**1,451**	1,505	1,169
Tax and social security	**516**	3,192	1,221
	31,086	38,290	34,604

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

14. Secured debt

Amounts falling due within one year	**Unaudited 30 June 2020 £000**	Audited 31 December 2019 £000	Unaudited 30 June 2019 £000
Fixed rate secured debt	**6,345**	3,480	4,156
Unamortised finance costs	**(2,255)**	(2,310)	(2,441)
	4,090	1,170	1,715
Amounts falling due in more than one year			
Fixed rate secured debt	**852,032**	852,411	1,009,619
Floating rate secured debt	**73,272**	74,766	76,220
Unamortised finance costs	**(5,663)**	(6,769)	(8,615)
	919,641	920,408	1,077,224

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

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 were no defaults or breaches of any loan covenants during the current or any prior period.

At each balance sheet date, all financial assets and liabilities other than derivatives in effective hedges and derivatives classified as held for trading were measured at amortised cost.

As at 30 June 2020 the fair value of the Group's secured debt was £976.8 million (31 December 2019: £961.0 million; 30 June 2019: £1,129.9 million). Fair value is not the same as a liquidation valuation, 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 secured debt was valued in accordance with IFRS 13 by reference to interbank bid market rates as at the close of business on the balance sheet date by Chatham Financial Europe Limited (31 December 2019: by Chatham Financial Europe Limited; 30 June 2019: by J.C. 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. There were no transfers to or from other levels of the fair value hierarchy during the current or prior year.

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

15. Interest rate derivatives

Fair value	**Unaudited 30 June 2020 £000**	Audited 31 December 2019 £000	Unaudited 30 June 2019 £000
Interest rate swaps (average rate 1.3%):			
Falling due within one year	**(484)**	(246)	(229)
Falling due in more than one year	**(1,392)**	(757)	(848)
Interest rate caps (average rate 1.5%):			
Falling due in more than one year	**14**	43	82
	(1,862)	(960)	(995)

The movements in the fair value of interest rate derivatives were as follows:

	Unaudited Six months to 30 June 2020 £000	Audited Year to 31 December 2019 £000	Unaudited Six months to 30 June 2019 £000
At the start of the period	**(960)**	(5)	(5)
Charge to the income statement (note 7)	**(50)**	(104)	(61)
Charge to other comprehensive income (note 7)	**(852)**	(851)	(929)
At the end of the period	**(1,862)**	(960)	(995)

The Group utilises interest rate derivatives in risk management as cash flow hedges to protect against movements in future interest costs on secured loans which bear interest at variable rates. The derivatives have been valued in accordance with IFRS 13 by reference to interbank bid market rates as at the close of business on the last working day prior to each balance sheet date by Chatham Financial Europe Limited (31 December 2019: Chatham Financial Europe Limited; 30 June 2019: J.C. Rathbone Associates Limited). The fair values are calculated using present values of future cash flows based on market forecasts of interest rates and adjusted for the credit risk of the counterparties. The amounts and timing of future cash flows are projected on the basis of the contractual terms of the derivatives. All interest rate derivatives are classified as level 2 in the fair value hierarchy as defined in IFRS 13 and there were no transfers to or from other levels of the fair value hierarchy during the current or prior year.

The entire £50.0 million notional amount of the interest rate swaps and £10.0 million of the notional amount of the interest rate caps are used to hedge cash flow interest rate risk on £60.0 million of the floating rate loans described in note 14. The notional amounts of the interest rate derivatives equal the loan principal balance, and their maturity dates also match. £3.3 million (31 December 2019 and 30 June 2019: £3.3 million) of the notional amount of the interest rate caps was not designated for hedge accounting to allow for any future loan prepayments and as a result, although the entire cash flow interest rate is hedged, the hedges as measured for the purposes of IFRS 9 were expected on inception to be 94.5% effective throughout their lives.

The remaining £16.5 million notional amount of the interest rate caps is used to hedge cash flow interest rate risk on the remaining £13.3 million (31 December 2019: £14.8 million; 30 June 2019: £16.5 million) of the floating rate loans described in note 14. Following a rebalancing of the hedging arrangements on £3.3 million (31 December 2019: £1.7 million; 30 June 2019: £nil) of the notional amount of the interest rate caps, matching the loan principal that has been repaid from the proceeds of investment property sales, the notional amounts of the interest rate caps designated for hedge accounting equal the loan principal balance and their maturity dates also match. As a result, these hedges, which have a fair value of £7,000 (31 December 2019: £40,000; 30 June 2019: £54,000), are expected to be 100% effective throughout their lives. The remaining interest rate caps, which have a fair value of £2,000 (31 December 2019: £3,000; 30 June 2019: £nil), have been classified as held for trading.

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

16. Deferred tax

The movements in the deferred tax liability relate to unrealised gains on the Group's German investment properties.

	Unaudited Six months to 30 June 2020 £000	Audited Year to 31 December 2019 £000	Unaudited Six months to 30 June 2019 £000
At the start of the period	**11,267**	11,110	11,110
(Credit)/charge to the income statement (note 8)	**(114)**	759	668
Charge/(credit) to other comprehensive income	**778**	(602)	(10)
At the end of the period	**11,931**	11,267	11,768

17. Share capital

Share capital represents the aggregate nominal value of shares issued. The movement in the number of fully paid ordinary shares of 10p each in issue was as follows:

	Unaudited Six months to 30 June 2020 Number	Audited Year to 31 December 2019 Number	Unaudited Six months to 30 June 2019 Number
At the start of the period	**322,850,595**	321,563,353	321,563,353
Issue of ordinary shares:			
in settlement of 2019 incentive fee	**1,184,551**	-	-
in settlement of 2018 incentive fee	**-**	1,287,242	1,287,242
At the end of the period	**324,035,146**	322,850,595	322,850,595

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

18. 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 20, under the terms of the incentive fee arrangements.

Movements in other reserves comprise:

	Currency translation differences £000	Shares to be issued £000	Cash flow hedging instruments £000	**Total £000**
Period to 30 June 2020 (unaudited)				
At the start of the period	3,305	4,910	(1,051)	**7,164**
Currency translation movements	2,541	-	-	**2,541**
Fair value of derivatives	-	-	(852)	**(852)**
Other comprehensive income	2,541	-	(852)	**1,689**
Shares issued in the period	-	(4,910)	-	**(4,910)**
At the end of the period	5,846	-	(1,903)	**3,943**
Year to 31 December 2019 (audited)				
At the start of the year	5,305	4,872	(200)	**9,977**
Currency translation movements	(2,000)	-	**-**	**(2,000)**
Fair value of derivatives	-	-	(851)	**(851)**
Other comprehensive loss	(2,000)	-	(851)	**(2,851)**
Shares issued in the year	-	(4,869)	-	**(4,869)**
Shares to be issued	-	4,907	-	**4,907**
At the end of the year	3,305	4,910	(1,051)	**7,164**
Period to 30 June 2019 (unaudited)				
At the start of the period	5,305	4,872	(200)	**9,977**
Currency translation movements	26	-	-	**26**
Fair value of derivatives	-	-	(929)	**(929)**
Other comprehensive loss	26	-	(929)	**(903)**
Shares issued in the period	-	(4,872)	-	**(4,872)**
At the end of the period	5,331	-	(1,129)	**4,202**

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

19. 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 includes within the denominator 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 20.

EPRA, the European Public Real Estate Association, publishes guidelines for the calculation of three measures of NAV to enable consistent comparisons of different property companies. The Group uses EPRA Net Tangible Assets ("EPRA NTA") as the basis most suitable for reporting its long term fair value since it excludes items that are considered to have no impact in the long term, such as the fair value of derivatives and a portion of the deferred tax on investment properties held for long term benefit. The calculation of EPRA NTA 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 NTA are as follows:

	Unaudited 30 June 2020		Audited 31 December 2019		Unaudited 30 June 2019	
	£000	**Pence per share**	£000	Pence per share	£000	Pence per share
Basic NAV	**1,244,092**	**383.9**	1,384,542	428.8	1,329,854	411.9
EPRA adjustments:						
Dilution from shares to be issued for incentive fee	**-**	**-**	-	(1.5)	-	-
Diluted NAV	**1,244,092**	**383.9**	1,384,542	427.3	1,329,854	411.9
Deferred tax on German investment property revaluations	**5,965**	**1.8**	5,634	1.8	5,884	1.8
Fair value of interest rate derivatives	**1,951**	**0.7**	1,084	0.3	1,153	0.4
EPRA NTA	**1,252,008**	**386.4**	1,391,260	429.4	1,336,891	414.1

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

	Unaudited 30 June 2020 Number	Audited 31 December 2019 Number	Unaudited 30 June 2019 Number
Basic NAV	**324,035,146**	322,850,595	322,850,595
Diluted NAV and EPRA NTA	**324,035,146**	324,035,146	322,850,595

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

20. Related party transactions and balances

Interests in shares

In aggregate, the Management Team and entities related to them own 40,164,756 shares in the capital of the Company which amounts to a 12.4% interest.

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

	Unaudited 30 June 2020		Audited 31 December 2019		Unaudited 30 June 2019	
	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 * †	**18,342,009**	**5.66%**	18,342,009	5.68%	24,016,096	7.44%
Mike Brown †	**1,183,580**	**0.37%**	1,183,580	0.37%	1,183,580	0.37%
Sandy Gumm †	**192,574**	**0.06%**	192,574	0.06%	192,574	0.06%
Martin Moore	**127,226**	**0.04%**	118,357	0.04%	118,357	0.04%
Ian Marcus	**95,871**	**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	**26,286**	**0.01%**	22,739	0.01%	22,739	0.01%

* comprising 16,850,300 (31 December 2019: 16,850,300; 30 June 2019: 22,466,916) shares held by PIHL Property LLP, 1,491,709 (31 December 2019 and 30 June 2019: 1,491,709) shares held by Yoginvest Limited and nil (31 December 2019: nil; 30 June 2019: 57,471) shares held by the Saper Trust. Nick Leslau has a 95% (31 December 2019: 95%; 30 June 2019: 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 2020 a further 19,262,042 (31 December 2019 and 30 June 2019: 19,059,132) shares, representing 5.9% (31 December 2019 and 30 June 2019: 5.9%) of the issued share capital, were owned by Prestbury Incentives Limited and 1,184,551 (31 December 2019: 1,184,551; 30 June 2019: nil) shares, representing 0.4% (31 December 2019: 0.4%; 30 June 2019: nil) of the issued share capital were owned by Prestbury Investment Partners Limited, the Investment Adviser to the Group. Nick Leslau, Mike Brown and Sandy Gumm are shareholders and directors of Prestbury Incentives Limited and Prestbury Investment Partners Limited.

Dividends paid to related parties and key management personnel

Dividends were paid to related parties and key management personnel as follows:

	Unaudited Six months to 30 June 2020 £000	Audited Year to 31 December 2019 £000	Unaudited Six months to 30 June 2019 £000
Nick Leslau *	**1,541**	3,668	1,889
Prestbury Incentives Limited †	**1,601**	3,049	1,448
Mike Brown	**99**	193	93
Prestbury Investment Partners Limited †	**50**	-	-
Sandy Gumm	**16**	31	15
Martin Moore	**10**	19	9
Ian Marcus	**7**	14	7
Jonathan Lane	**5**	9	5
Leslie Ferrar	**2**	4	2
	3,331	6,987	3,468

* comprising dividends paid on ordinary shares held by an LLP in which he has a 95% indirect interest and another company which he wholly owns.

† Nick Leslau, Mike Brown and Sandy Gumm are shareholders in and directors of Prestbury Incentives Limited and Prestbury Investment Partners Limited, together with other key management personnel, Tim Evans and Ben Walford.

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

20. Related party transactions and balances (continued)

Directors' fees

Fees totalling £200,000 per annum (year to 31 December 2019 and six months to 30 June 2019: £200,000 per annum) were payable to the four independent non-executive Directors. The Directors connected to Prestbury Investment Partners Limited (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 2019: £200,000; six months to 30 June 2019: £100,000). No fees were outstanding at any balance sheet date.

Advisory fees payable

The Investment Advisory Agreement sets out the terms of the relationship between the Company and the Investment Adviser including the calculation of the advisory fee and the incentive fee. The agreement has a termination date in December 2025 and neither party to the agreement has any contractual renewal right. The agreement may be terminated in certain circumstances which are summarised on page 59 of the March 2016 Secondary Placing Disclosure Document which is available in the Investor Centre of the Company's website. It includes a right for the Company to terminate the agreement without compensation in the event of an unremedied breach by the Investment Adviser and a right for the Investment Adviser to terminate in the event of a change of control of the Company. The maximum termination fee is four times the previous quarter's advisory fee, with any such termination payment designed to cover the cost of redundancies and office wind down costs that may be required following the Investment Adviser's loss of the management of the Group.

During the period, the Investment Adviser was Prestbury Investment Partners Limited ("PIP"). Nick Leslau, Mike Brown and Sandy Gumm, who are Directors of the Company, are also directors and shareholders in PIP. Until 10 December 2019, the Investment Adviser was Prestbury Investments LLP ("PILLP"), at which date the Investment Advisory Agreement was novated from PILLP to PIP with the terms of the agreement remaining unchanged. The ownership of PILLP and PIP is identical and PIP had the same resources available to it to perform the services required as PILLP had at the time of transfer. Nick Leslau, Mike Brown and Sandy Gumm hold partnership interests in PILLP.

The fees are calculated on a reducing scale based on the Group's EPRA NAV. The Remuneration Committee concluded in March 2020 that, in order for the calculation of the fees to remain consistent with the way that those fees have been calculated since the Company's listing and as set out in the contract, the fees would continue to be calculated on the basis of EPRA NAV originally in place. As that basis is set out in the EPRA Guidance previously issued in 2016, we refer to that measure in these condensed financial statements as "2016 basis EPRA NAV" and it reconciles to EPRA NTA as follows:

	Unaudited 30 June 2020		Audited 31 December 2019		Unaudited 30 June 2019	
	£000	**Pence per share**	£000	Pence per share	£000	Pence per share
EPRA NTA	**1,252,008**	**386.4**	1,391,260	429.4	1,336,891	414.1
Add back 50% of deferred tax on German investment property revaluations	**5,965**	**1.8**	5,633	1.7	5,884	1.8
2016 basis EPRA NAV	**1,257,973**	**388.2**	1,396,893	431.1	1,342,775	415.9

Advisory fees payable to the Investment Adviser are calculated at:

- 1.25% per annum on 2016 basis EPRA NAV up to £500 million, plus
- 1.0% per annum on 2016 basis EPRA NAV between £500 million and £1 billion, plus
- 0.75% per annum on 2016 basis EPRA NAV between £1 billion and £1.5 billion, plus
- 0.5% per annum on 2016 basis EPRA NAV over £1.5 billion.

In addition, following a proposal made by the Investment Adviser, with effect from 1 April 2020 the advisory fee is reduced to the extent that the net assets used in the fee calculation include the surplus cash realised on the disposal of a portfolio of hospitals in August 2019 to the extent that it remains available for deployment. The balance of the surplus cash at 1 April 2020 was £158.3 million and as at 30 June 2020 was £149.4 million.

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

20. Related party transactions and balances (continued)

During the period, advisory fees of £6.7 million (year to 31 December 2019: £0.8 million; six months to 30 June 2019: £nil) plus VAT were payable in cash to PIP, of which £0.1 million (31 December 2019: £0.8 million; 30 June 2019; £nil) was outstanding as at the balance sheet date and included in trade and other payables. During the period, advisory fees of £nil (year to 31 December 2019: £12.3 million; six months to 30 June 2019: £6.7 million) plus VAT were payable in cash to PILLP, of which £nil (31 December 2019: £nil; 30 June 2019; £0.1 million) was outstanding as at the balance sheet date included in trade and other payables.

Incentive fee payable

The Investment Adviser 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 the Investment Adviser's interests with those of shareholders. TAR is measured as growth in 2016 basis EPRA NAV per share plus dividends paid in the period. For these purposes the relevant net assets measure is calculated in accordance with 2016 basis EPRA NAV in order to maintain consistency in these calculations over time.

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 (save for certain limited exceptions), with the restriction lifted on a phased basis over a period from 18 to 42 months from the date of issue. Shares may be released from the sale restriction in the event that shares need to be sold to settle the tax liability on receipt of those shares, but this exemption has never been requested.

The incentive fee is calculated by reference to growth in TAR: if that growth exceeds a hurdle rate of 10% over a given financial year, an incentive fee equal to 20% of this excess is payable in shares to the Investment Adviser. In the event of an incentive fee being payable, a high water mark is established, represented by the 2016 basis EPRA NAV per share at the end of the relevant financial year, after the impact of the incentive fee, which is then the starting point for the cumulative hurdle calculations for future periods. The hurdle is set at the higher of the 2016 basis EPRA NAV at the start of the year plus 10% or the high water mark plus 10% per annum for the period since it was established. Dividends or other distributions paid in any period are treated as payments on account against achievement of the hurdle rate of return. The incentive fee payable in any year (save for fees payable in the event of a sale of the Company) is subject to a cap of 5% of 2016 basis NAV.

A high water mark of 431.1 pence per share was established at 31 December 2019 when a fee was last earned, therefore TAR measured on a 2016 basis EPRA NAV calculation will have to exceed 43.1 pence per share for the year ending 31 December 2020 for a fee to be earned; that is, 2016 basis EPRA NAV before distributions for the year will have to exceed 474.2 pence per share (£1,536.6 million) at 31 December 2020 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 2016 basis EPRA NAV of the Group at 31 December 2020, assuming that:

- there are no acquisitions, disposals or lease variations in the second half of 2020;
- there is no change to the investment property valuations as at 30 June 2020;
- no 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 2020 independent investment property valuations; and
- distributions over the remainder of the year are paid in line with Board's policy announced in July 2020, with the special assumption that there are no material further lockdowns or other pandemic related events that vary the Board's assessment of the risk of declaring a dividend for the fourth quarter.

This estimate does not constitute a forecast. It 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 2020 year and as a result no fee is accrued at 30 June 2020 (30 June 2019: £nil).

21. Events after the balance sheet date

On 28 August 2020, the Company paid a distribution of £11.8 million as an interim dividend of 3.65 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 paid in the period. Total Accounting Return is a shareholder return measure calculated as the movement in net assets per share on an EPRA basis plus dividends per share paid over the period. Comparative figures below have been restated to be consistent with the new measure of EPRA Net Tangible Assets (EPRA NTA), which is used as the EPRA basis of net assets for these purposes, that was introduced by EPRA with effect from 1 January 2020.

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

TAR – EPRA NTA performance

	Six months to 30 June 2020 Pence	Year to 31 December 2019 Pence	Six months to 30 June 2019 Pence
EPRA NTA per share:			
at the start of the period	**429.4**	398.8	398.8
at the end of the period	**386.4**	429.4	414.1
(Decrease)/increase in EPRA NTA per share	**(43.0)**	30.6	15.3
Dividends per share	**8.4**	16.3	7.9
(Decrease)/increase in EPRA NTA plus dividends per share	**(34.6)**	46.9	23.2
TAR	**(8.1)%**	11.8%	5.8%

TSR – share price performance

	Six months to 30 June 2020 Pence	Year to 31 December 2019 Pence	Six months to 30 June 2019 Pence
Mid-market closing share price:			
at the start of the period	**434.0**	377.0	377.0
at the end of the period	**270.0**	434.0	400.0
(Decrease)/increase in share price	**(164.0)**	57.0	23.0
Dividends per share	**8.4**	16.3	7.9
(Decrease)/increase in share price plus dividends per share	**(155.6)**	17.3	30.9
TSR	**(35.9)%**	19.4%	8.2%

ADDITIONAL INFORMATION

Supplementary Information continued

EPRA measures

	30 June 2020	31 December 2019	30 June 2019
EPRA Net Tangible Assets ("EPRA NTA") per share	**386.4p**	429.4p	414.1p
EPRA Net Reinstatement Value per share	**429.0p**	474.6p	458.8p
EPRA Net Disposal Value per share	**370.0p**	417.9p	399.5p
EPRA Net Initial Yield	**4.28%**	4.94%	5.04%
EPRA Topped Up Net Initial Yield	**5.31%**	4.94%	5.04%
EPRA Vacancy Rate	**-**	-	-

	Six months to 30 June 2020	Year to 31 December 2019	Six months to 30 June 2019
EPRA EPS	**8.3p**	16.9p	9.8p
Adjusted EPRA EPS	**5.1p**	15.3p	8.1p
EPRA Capital Expenditure	**£0.2m**	£0.3m	-
EPRA Cost Ratio excluding direct vacancy costs	**14.6%**	17.5%	12.8%
EPRA Cost Ratio including direct vacancy costs	**14.8%**	17.6%	12.9%
Adjusted EPRA Cost Ratio excluding direct vacancy costs	**17.5%**	14.9%	13.9%
Adjusted EPRA Cost Ratio including direct vacancy costs	**17.6%**	15.0%	14.0%

ADDITIONAL INFORMATION

Supplementary Information continued

EPRA Net Tangible Assets per share

	30 June 2020		31 December 2019		30 June 2019	
	£000	**Pence per share**	£000	Pence per share	£000	Pence per share
Basic NAV	**1,244,092**	**383.9**	1,384,542	428.8	1,329,584	411.9
EPRA adjustments:						
Dilution from shares to be issued for 2019 incentive fee	**-**	**-**	-	(1.5)	-	-
Diluted NAV	**1,244,092**	**383.9**	1,384,542	427.3	1,329,584	411.9
Deferred tax on investment property revaluations	**5,965**	**1.8**	5,634	1.8	5,884	1.8
Fair value of derivatives	**1,951**	**0.7**	1,084	0.3	1,153	0.4
EPRA NTA	**1,252,008**	**386.4**	1,391,260	429.4	1,336,621	414.1

The number of shares in issue at each balance sheet date for the above calculations is as follows:

	30 June 2020 Number	31 December 2019 Number	30 June 2019 Number
Basic NAV	**324,035,146**	321,563,353	322,850,595
Shares to be issued in satisfaction of incentive fee (note 18)	**-**	1,287,242	-
Diluted NAV and EPRA measures	**324,035,146**	322,850,595	322,850,595

EPRA Net Reinstatement Value per share

	30 June 2020		31 December 2019		30 June 2019	
	£000	**Pence per share**	£000	Pence per share	£000	Pence per share
Basic NAV	**1,244,092**	**383.9**	1,384,542	428.8	1,359,584	411.9
EPRA adjustments:						
Dilution from shares to be issued for 2019 incentive fee	**-**	**-**	-	(1.5)	-	-
Diluted NAV	**1,244,092**	**383.9**	1,384,542	427.3	1,359,584	411.9
Adjustment for real estate transfer taxes	**132,211**	**40.8**	140,826	43.5	138,340	42.9
Deferred tax on investment property revaluations	**11,931**	**3.6**	11,267	3.5	11,768	3.6
Fair value of interest rate derivatives	**1,951**	**0.7**	1,084	0.3	1,153	0.4
EPRA Net Reinstatement Value	**1,390,185**	**429.0**	1,537,719	474.6	1,480,845	458.8

ADDITIONAL INFORMATION

Supplementary Information continued

EPRA Net Disposal Value per share

	30 June 2020		31 December 2019		30 June 2019	
	£000	**Pence per share**	£000	Pence per share	£000	Pence per share
Basic NAV	**1,244,092**	**383.9**	1,384,542	428.8	1,329,584	411.9
EPRA adjustments:						
Dilution from shares to be issued for 2019 incentive fee	**-**	**-**	-	(1.5)	-	-
Diluted NAV	**1,244,092**	**383.9**	1,384,542	427.3	1,329,584	411.9
Fair value of fixed rate debt	**(45,195)**	**(13.9)**	(30,343)	(9.4)	(39,950)	(12.4)
EPRA Net Disposal Value	**1,198,897**	**370.0**	1,354,199	417.9	1,289,634	399.5

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

EPRA Net Initial Yield and EPRA Topped Up Net Initial Yield

	30 June 2020 £000	31 December 2019 £000	30 June 2019 £000
Investment property, all of which is completed and wholly owned, at external valuation	**1,958,692**	2,083,107	2,050,219
Allowance for estimated purchasers' costs	**132,212**	140,826	138,340
Grossed up completed property portfolio valuation	**2,090,904**	2,223,933	2,188,559
Annualised cash passing rental income	**90,392**	110,726	111,080
Annualised non-recoverable property outgoings	**(845)**	(866)	(813)
Annualised net rents	**89,547**	109,860	110,267
Notional rent increase on expiry of rent concessions, rent free periods and other lease incentives	**21,446**	48	97
Topped-up annualised net rents	**110,993**	109,908	110,364
EPRA Net Initial Yield	**4.28%**	4.94%	5.04%
EPRA Topped Up Net Initial Yield	**5.31%**	4.94%	5.04%

The EPRA Net Initial Yield as at 30 June 2020 reflects the temporary rent concessions on the budget hotels and pubs portfolios arising as a result of the Covid-19 pandemic.

EPRA Vacancy Rate

	30 June 2020	31 December 2019	30 June 2019
EPRA Vacancy Rate	**0%**	0%	0%

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

ADDITIONAL INFORMATION

Supplementary Information continued

EPRA EPS

	Six months to 30 June 2020 £000	Year to 31 December 2019 £000	Six months to 30 June 2019 £000
Basic earnings attributable to shareholders	**(114,970)**	153,359	74,511
EPRA adjustments:			
Investment property revaluation	**142,026**	(75,708)	(43,089)
German deferred tax on investment property revaluation	**(114)**	759	668
Profit on disposal of investment properties	**(30)**	(53,074)	(421)
Fair value adjustment of interest rate derivatives	**15**	36	27
Other early debt repayment costs	**16**	1,443	-
Cost of early debt repayment on property sales	**-**	27,868	-
EPRA earnings	**26,943**	54,683	31,696
Other adjustments:			
Rent Smoothing Adjustments	**(9,786)**	(10,564)	(5,493)
Theme parks rent deferral	**(637)**	-	-
Incentive fee	**-**	5,256	-
Adjusted EPRA earnings	**16,520**	49,375	26,203

Weighted average number of shares in issue	**Six months to 30 June 2020 Number**	Year to 31 December 2019 Number	Six months to 30 June 2019 Number
Adjusted EPRA EPS	**323,514,464**	322,540,246	322,224,754
Adjustment for weighting of shares issued during the period *	**520,682**	1,494,900	625,841
EPRA EPS	**324,035,146**	324,035,146	322,850,595
Shares to be issued in satisfaction of 2019 incentive fee	**-**	1,184,551	-
Diluted EPRA EPS	**324,035,146**	325,219,697	322,850,595

* 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 2020 Pence per share	Year to 31 December 2019 Pence per share	Six months to 30 June 2019 Pence per share
EPRA EPS	**8.3**	16.9	9.8
Diluted EPRA EPS	**8.3**	16.8	9.8
Adjusted EPRA EPS	**5.1**	15.3	8.1

ADDITIONAL INFORMATION

Supplementary Information continued

EPRA Capital Expenditure

	Six months to 30 June 2020 £000	Year to 31 December 2019 £000	Six months to 30 June 2019 £000
Acquisitions completed and committed	**-**	307	-
Development	**-**	-	-
Expenditure on like for like portfolio	**-**	-	-
Other	**239**	-	-
EPRA Capital Expenditure	**239**	307	-

The expenditure in the current period relates to the acquisition of car park equipment at Manchester Arena, while the expenditure on acquisitions in the prior year represents the purchase of the freehold of an existing leasehold investment property. 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 2020 £000	Year to 31 December 2019 £000	Six months to 30 June 2019 £000
Revenue (note 4)	**60,887**	132,677	69,040
Tenant contributions to property outgoings	**(899)**	(1,580)	(805)
EPRA gross rental income	**59,988**	131,097	68,235
Non-recoverable property operating expenses *	**1,058**	1,549	772
Less headlease costs included in non-recoverable property operating expenses	**(300)**	(662)	(349)
Administrative expenses	**8,096**	22,128	8,353
EPRA costs including direct vacancy costs	**8,854**	23,015	8,776
Direct vacancy costs	**(69)**	(95)	(46)
EPRA costs	**8,785**	22,920	8,730
EPRA Cost Ratio including direct vacancy costs	**14.8%**	17.6%	12.9%
EPRA Cost Ratio excluding direct vacancy costs	**14.6%**	17.5%	12.8%

* included within £2.0 million (31 December 2019: £3.1 million; 30 June 2019 £1.6 million) of property costs payable by the Group are £0.9 million (31 December 2019: £1.6 million; 30 June 2019 £0.8 million) of headlease costs and costs that are recoverable from the tenant.

The Group capitalises the initial direct costs incurred in obtaining a lease which are then charged to the income statement over the term of the relevant lease. During the period, costs of £53,000 (year to 31 December 2019: £10,000; six months to 30 June 2019 £nil) were capitalised, and £15,000 (year to 31 December 2019: £19,000; six months to 30 June 2019: £11,000) was released from capitalised costs and charged to the income statement. Rent review costs of £7,000 (year to 31 December 2019: £416,000; six months to 30 June 2019: £168,000) are included in non-recoverable property operating expenses. The Group otherwise has no capitalised overheads or other operating expenses and does not capitalise interest.

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 20).

	Six months to 30 June 2020 £000	Year to 31 December 2019 £000	Six months to 30 June 2019 £000
EPRA gross rental income	**59,988**	131,097	68,235
Rent Smoothing Adjustments	**(9,786)**	(10,564)	(5,493)
Adjusted EPRA gross rental income excluding non-cash items	**50,202**	120,533	62,742
EPRA costs	**8,854**	23,015	8,776
Incentive fee settled in shares	**-**	(4,907)	-
Adjusted EPRA costs including direct vacancy costs	**8,854**	18,108	8,776
Direct vacancy costs	**(69)**	(95)	(46)
Adjusted EPRA costs excluding direct vacancy costs	**8,785**	18,013	8,730
EPRA Cost Ratio including direct vacancy costs	**17.6%**	15.0%	14.0%
EPRA Cost Ratio excluding direct vacancy costs	**17.5%**	14.9%	13.9%

ADDITIONAL INFORMATION

Supplementary Information continued

Rent Smoothing Adjustments

The Group's accounting policy, in line with IFRS, requires the impact of any fixed or minimum rental uplifts to be spread evenly over the term of a lease and as a result there is a material mismatch between the rental cash flows and rental revenues shown in the income statement. The adjustments historically related to the 42% of portfolio rents (before rent concessions) that are subject to fixed uplifts and the 6% of portfolio rents with minimum uplifts on RPI-linked reviews. In the current period, the Rent Smoothing Adjustments also reflect the effect of the temporary Covid-19 rent reductions agreed with the tenants on the budget hotels and pubs portfolios. Under IFRS 16 the effect of the reductions is spread over the remaining lease term from the effective date of the modification, which is the date at which both parties agreed to the modification.

A receivable is included in the book value of investment property for the amount of rent included in the income statement ahead of actual cash receipts. A receivable relating to fixed and minimum uplifts increases over broadly the first half of the later of the lease commencement or the date of acquisition term then unwinds to zero over the remainder of each lease term. If a lease is extended, the receivable at the date of modification is not adjusted but the smoothing is recalculated over the new term from that date. A receivable relating to rent concessions increases over the period during which the rent is reduced, then unwinds to zero over the remainder of each lease term.

So as not to overstate the portfolio value, any movement in the receivable is offset against property revaluation movements and since this adjustment increases rental income and reduces property revaluation gains (and vice versa in the second half of each lease term or once the rent concession has expired) it does not change the Group's retained earnings or net assets. Income recognised in this way in excess of cash flow is also taken out of Adjusted EPRA EPS so as not to artificially flatter the Group's dividend cover.

The impact of the Rent Smoothing Adjustments on the Group's balance sheet as at 30 June 2020 is as follows:

	Receivable at 30 June 2020 £m	Maximum receivable £m	Date at which smoothing starts to unwind
Fixed/minimum uplifts recognised ahead of cash receipt:			
Healthcare – Ramsay hospitals	**107.9**	111.8	March 2023
German leisure *	**37.5**	39.9	June 2026
Healthcare – Lisson Grove hospital	**11.7**	20.6	March 2035
The Brewery	**2.8**	23.5	June 2041
Manchester Arena	**2.4**	8.9	June 2032
Pubs	**0.4**	2.0	March 2030
	162.7	206.7	
Covid-19 related rent concessions:			
Budget hotels	**4.6**	21.1	Dec 2021
Pubs	**0.5**	1.1	Sept 2020
	167.8	228.9	

* at the period end Euro conversion rate of €1:£0.91.

The future impact of this adjustment would change if there were acquisitions, disposals or lease variations of properties with fixed or minimum RPI-linked rental uplifts. Assuming no change in the portfolio, the increase/(decrease) in rental income that will be recognised on the portfolio during the current year and is expected for each of the next three financial years (with the German adjustment translated at the 2020 average Euro conversion rate of €1:£0.87) is as follows:

	Fixed/minimum uplifts £m	Covid-19 rent reductions £m	**Total £m**
2020	8.9	14.8	**23.7**
2021	7.3	7.3	**14.6**
2022	5.7	(1.2)	**4.5**
2023	4.3	(1.2)	**3.1**

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
CVA	A Company Voluntary Arrangement, which is a process under UK insolvency law which allows a company to reschedule its debts with the consent of a specified majority of its creditors
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 October 2019
EPRA NTA	A measure of **NAV** designed by **EPRA** to present the fair value of a company on a long term basis. For these purposes, the Group uses EPRA Net Tangible Assets as defined in the **EPRA Guidance**.
EPS	Earnings per share, calculated as the profit for the period after tax attributable to members of the 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 Adviser	Prestbury Investment Partners Limited or, as the context requires, its predecessor Prestbury Investments LLP
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** as modified by the amendments to the bases of fee calculation set out in note 20 to the interim financial statements
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 property value
Management Team	Nick Leslau, Mike Brown, Tim Evans, Sandy Gumm and Ben Walford, who are directors of the **Investment Adviser**
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 any mismatch in rent received in the income statement and cash received
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"
Topped Up Net Initial Yield	**Net Initial Yield** adjusted to include notional rent in respect of let properties which are subject to a rent free period at the valuation date
Total Accounting Return	The movement in net asset value over a period plus dividends paid in the period, expressed as a percentage of the net asset value at the start of the period
Total Shareholder Return	The movement in share price over a period plus dividends paid in that period, expressed as a percentage of the share price at the start of the period
Uncommitted Cash	Cash balances not subject to fixed charges in favour of lenders, net of any creditors or other cash commitments at the balance sheet date
Weighted Average Unexpired Lease Term	The term to the first tenant break or expiry of the leases in the portfolio, weighted by rental value before rent concessions

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 Investment Partners Limited 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	Chatham Financial Europe Limited 12 St James's Square, London SW1Y 4LB
Financial PR adviser	FTI Consulting LLP 200 Aldersgate, Aldersgate Street, London EC1A 4HD Email: SecureIncomeREIT@fticonsulting.com
Registrar	Link Asset Services The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU Helpline: 0871 664 0300 Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open 9.00am - 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