SECURE INCOME REIT PLC

Results for the six months to 30 June 2021

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

The Company's robust balance sheet, strong liquidity and experienced Management Team enabled us to support any tenants suffering business disruption through the pandemic, allowing the Company to resume its own strong growth trajectory.

The Company continued to pay quarterly dividends throughout the pandemic without interruption and, over seven years since listing, delivered a Total Accounting Return of 15.0% p.a. and a Total Shareholder Return of 15.6% p.a.. Over the same period, the FTSE EPRA NAREIT UK Index delivered 4.1% p.a..

The Company has £2.0 billion of gross property assets, £1.3 billion of net assets, £184 million of uncommitted and unfettered cash, structurally secure non-recourse debt, and difficult to replicate very long leases on Key Operating Assets in defensive sectors. The Management Team is strongly aligned with shareholders through its 12.4% interest in the business worth £161 million at the 7 September 2021 share price and remains energised, ambitious and aligned with all shareholders, looking to the future with confidence.

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Highlights

- Gross property valuation **up 2.0% over six months** driven by rental uplifts up to the end of July of 1.9% with Topped Up Net Initial Yield steady at 5.4%

- EPRA NTA per share **up 3.1% over six months** to 391.1 pence per share

- **Rents have returned to 92% of the levels they would have been without pandemic rent concessions and are anticipated to fully resume the levels originally contracted by January 2022**

- **19.6% uplift in Adjusted EPRA EPS** to 6.1p per share
    - **Like for like earnings have increased by 8.5%** as rents continue to return to their pre pandemic course
    - Impact of temporary rent concessions of 1.6p per share for the six months to 30 June 2021, down from 2.0p per share reflecting some three months of concessions reported in the half year to 30 June 2020

- **Shareholder returns have rebounded:**
    - **Total Accounting Return of 5.0%** following a negative 8.1% return for the same period in 2020
    - **Total Shareholder Return of 29.1%** following share price recovery to within 97% of EPRA NTA at 30 June 2021 and above 30 June 2021 EPRA NTA by 7 September 2021

- The Group's **Weighted Average Unexpired Lease Term of 19.7 years** remains one of the longest amongst UK REITs

- **Net LTV at 35.6%** down from 36.4% at 31 December 2020

- **EPRA Cost Ratio of 12.6%** among the lowest in the UK REIT sector

- The Company has further formalised its ESG policies including **committing to sign up to the UN Principles for Responsible Investment** in 2022. We actively engage with our tenants to work with them where possible on their own ESG initiatives and we continue to monitor this evolving area of regulation, reporting and best practice.

- The Management Team's 12.4% interest in the Company, worth £161 million at the 7 September 2021 share price, **provides strong alignment with shareholders.** Every member of the Prestbury senior Management Team is personally heavily invested in the Company and together invested a further £5.3 million of cash in interests in the Company's shares in 2020.

- **In the next six months the Company is seeking to deploy its surplus cash above an appropriate liquidity buffer**, firstly to optimise the terms of our debt refinancing with the remainder deployed in asset management opportunities and acquisitions. This should materially enhance shareholder returns.

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

"Following an undoubtedly turbulent 2020, we are pleased to be able to demonstrate with these results for the six months to 30 June 2021 that the growth trajectory of the Company is recovering. EPRA NTA per share has increased by 3.1% over the period contributing to a 5.0% Total Accounting Return, and with a significant share price recovery over the six months we can report a 29.1% Total Shareholder Return. Testament to the strength of our strategy of focussing on long term growth, in the seven years since listing the Company has delivered a Total Shareholder Return of 15.6% p.a. which compares to the FTSE EPRA NAREIT UK Index equivalent of 4.1% p.a.

"While we have all learned not to call an end to Covid-19 challenges too soon, rents across the entire portfolio are contracted to return to their pre-pandemic trajectory by the start of 2022 and we continue to believe that this Company is well positioned to further benefit from the recovery; our Management Team remains very ambitious and fully aligned to exploit our exceptional portfolio and strong cash position to drive performance, which altogether gives us strong cause for optimism."

Highlights continued

Balance sheet and portfolio	**30 June 2021 Unaudited**	31 December 2020 Audited	30 June 2020 Unaudited
Properties at independent valuation	**£1,985.7m**	£1,946.9m	£1,958.7m
Net assets	**£1,260.2m**	£1,221.5m	£1,244.1m
EPRA NTA	**£1,267.3m**	£1,229.2m	£1,252.0m
EPRA NTA per share	**391.1p**	379.3p	386.4p
Uncommitted cash	**£183.6m**	£192.0m	£219.6m
Net Loan To Value ratio	**35.6%**	36.4%	35.3%
Annualised passing rent before Covid 19 concessions	**£114.7m**	£113.3m	£111.8m
Topped Up Net Initial Yield	**5.38%**	5.42%	5.32%
Running Yield by January 2022 (1)	**5.50%**	5.58%	5.58%
Weighted Average Unexpired Lease Term	**19.7 years**	20.2 years	20.8 years

(1) Using independent external valuers' RPI estimates averaging 2.5%

Earnings and returns	**Six months to 30 June 2021 Unaudited**	Six months to 30 June 2020 Unaudited
Adjusted EPRA EPS:		
Like for like rent net of all costs and tax, before rent concessions	**7.7p**	7.1p
Temporary rent concessions on a cash basis	**(1.6)p**	(2.0)p
Adjusted EPRA EPS	**6.1p**	5.1p
IFRS EPS:		
Like for like rent net of costs and tax, before revaluations and rent concessions	**8.9p**	8.7p
IFRS impact of temporary rent concessions, spread over lease terms	**(0.3)p**	(0.3)p
IFRS rent net of costs and tax, before revaluations	**8.6p**	8.4p
Property revaluations	**11.0p**	(43.9)p
IFRS EPS	**19.6p**	(35.5)p
Total Accounting Return	**5.0%**	(8.1)%
Total Shareholder Return	**29.1%**	(35.9)%
Dividends per share	**7.3p**	8.4p
Latest dividend per share annualised: % of EPRA NTA (1)	**4.0%**	3.8%
Latest dividend per share annualised: % of 30 June share price (1)	**4.2%**	5.4%
Total Accounting Return over 30 June 2014 EPRA NTA	**15.0% p.a.**	
Total Shareholder Return over issue price at 2014 listing	**15.6% p.a.**	

(1) This is illustrative and does not constitute a dividend forecast

Capitalised terms are defined in the glossary at the end of these reports.

BUSINESS REVIEW

Chairman's Statement

Following an undoubtedly turbulent 2020, we are pleased to be able to demonstrate with these results for the six months to 30 June 2021 that the growth trajectory of the Company is recovering. EPRA NTA per share has increased by 3.1% over the period contributing to a 5.0% Total Accounting Return, and with a significant share price recovery over the six months we can report a 29.1% Total Shareholder Return.

Our major tenants are either in the healthcare sector which was sheltered from the economic impact of Covid-19, or are in the leisure and hospitality sectors, where we have started to see the benefits of supporting them through the challenges of the pandemic. Those businesses have begun their own recovery and appear to be gaining momentum in building their trade back to pre-pandemic levels. While we have all learned not to call an end to Covid-19 challenges too soon, we believe that this Company is well positioned to further benefit from the recovery in future.

Results and financial position

The Group's net asset value per share at 30 June 2021 reported under IFRS was 388.9 pence, up 3.2% since 31 December 2020. 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 2021 was 391.1 pence, up 3.1% since 31 December 2020.

Financial position	**IFRS Net Assets**		**EPRA NTA**	
	£m	**Pence per share**	**£m**	**Pence per share**
At 1 January 2021	1,221.5	377.0	1,229.2	379.3
Investment property revaluation	36.4	11.2	44.2	13.6
Other retained earnings	26.0	8.0	17.6	5.5
Dividends paid	(23.7)	(7.3)	(23.7)	(7.3)
	38.7	11.9	38.1	11.8
At 30 June 2021	**1,260.2**	**388.9**	**1,267.3**	**391.1**
Total Accounting Return	62.4	19.2	61.8	19.1
Total Accounting Return %		**5.1%**		**5.0%**

A 1.9% increase in rents up to the end of July, captured in the 30 June 2021 valuations, has resulted in a return to the positive momentum in Total Accounting Return reported in pre-pandemic reporting periods with the independent portfolio valuation increasing by 2.0% in the six months to 30 June.

Earnings for the six months to 30 June	**IFRS EPS**		**Adjusted EPRA EPS**	
	2021 Pence per share	**2020 Pence per share**	**2021 Pence per share**	**2020 Pence per share**
Like for like earnings before revaluations and before rent concessions and dividends	**8.9**	8.7	**7.7**	7.1
Temporary rent concessions	**(0.3)**	(0.3)	**(1.6)**	(2.0)
Earnings before revaluations	**8.6**	8.4	**6.1**	5.1
Property revaluations net of deferred tax	**11.0**	(43.9)	**-**	-
Earnings per share	**19.6**	(35.5)	**6.1**	5.1

BUSINESS REVIEW

Chairman's Statement continued

Results and financial position (continued)

Since 31 December 2020, we have agreed in a small number of cases further short term cash flow smoothing of rental payments amounting to less than 1.5% of total portfolio rents, but there have been no further rent concessions granted with any material impact on the Group's reported earnings. In our 2021 earnings we can see the positive impact from our long term inflation protected lease structure in the increased like for like earnings under both IFRS and Adjusted EPRA earnings measures. Rent collections throughout the period have also remained strong.

Over two thirds of the Company's portfolio has the benefit of annual fixed or inflation linked upwards only rent reviews and the balance is reviewed at five yearly intervals. The reduction in the impact of the temporary rent concessions in our Adjusted EPRA EPS measure in comparison with the same period last year reflects our approach to reporting on the cash impact of these concessions, with earnings reduced by 2.0 pence per share in the first half of 2020, where the concession period was three months, compared with 1.6 pence per share in the six months to 30 June 2021. This culminates in a 19.6% improvement in Adjusted EPRA EPS in the period compared to the same period last year.

We were able to deploy an element of our surplus liquidity toward supporting the dividend through 2020. In 2021 the level of support required is beginning to tail off as our increased earnings and cash flows reflect the expiry of various rent concessions. We were pleased to be able to announce an increase of 8.2% in the rate of the quarterly dividend to 3.95 pence per share in July 2021. Unless our earnings change as a result of acquisitions, debt refinancing, lease variations or disposals, that level of dividend is the Board's expectation for the remaining three quarters to June 2022.

Outlook

Throughout the pandemic our hospitals, which represent some 40% of our portfolio by value, have provided a pivotal role in the pandemic response. Our tenant Ramsay, the £8.6 billion listed group which is the largest private healthcare provider in Australia, France and Scandinavia, supported the global Covid response, reporting that they have treated more NHS patients than any other UK private sector provider. With waiting lists rising to unprecedented levels and Ramsay predominantly carrying out NHS work even before the pandemic, our hospitals are likely to continue to be in great demand, underpinning this excellent global tenant covenant.

Alton Towers and Thorpe Park are two of the UK's top theme parks and are leased to Merlin, the world's second biggest visitor attraction operator after Disney. Both our theme parks and regional budget hotels have been beneficiaries of the staycation effect with Travelodge reporting revenues within 5% of 2019 levels for the four week period including "Freedom Day" on 19 July 2021 and revenue per available room above 2019 levels in the early weeks of August. Whilst the general economy has also rebounded strongly, there are obstacles in the path of a complete recovery. Labour shortages are feeding through into supply chain interruptions, inflation is rising and a fourth wave of infections is widely predicted in the autumn, albeit with a predominantly vaccinated adult population and a Government eager to avoid the reimposition of restrictions this should temper those headwinds. These elements may hamper the speed of recovery but we do not foresee that they will ultimately knock it off course.

In our long lease property market the combination of low interest rates and rising inflation creates a very supportive environment. Yields for properties let on long inflation protected leases are typically 7% above the gross redemption yield of long dated index linked gilts, providing an attractive blend of income return and inflation protection that is generating strong bidding for these types of assets in the market. However, whilst we have seen a revival in the trading and share prices of many leisure and hospitality businesses and a recovery in their bond prices, the property investment market in this sector remains subdued. We believe that the low number of transactions is primarily due to buyers seeking to obtain a pandemic discount whilst owners feel little compulsion to sell unless they can receive much closer to pre-pandemic pricing. This stand-off is generating little comparable evidence, leaving the valuation yields for our leisure and hospitality assets largely unchanged since the pandemic nadir of last summer, at a time when vaccines were yet to be approved let alone being successfully rolled out. Eventually the bid-offer spread will narrow and whilst we can only speculate on the timing, we strongly believe that it will be resolved in our favour and that as trading continues to improve, our yields will start to re-rate. In the meantime, the rents across the entire portfolio are contracted to return to their pre-pandemic trajectory by the start of 2022.

BUSINESS REVIEW

Chairman's Statement continued

Outlook (continued)

We are pleased to have seen a resumption of our performance track record with a Total Shareholder Return of over 15% per annum since float in 2014. We are excited about the opportunity to further drive future returns not only as valuations recover but with a reduction in our cost of our debt. Our biggest loan of £376 million, maturing in October 2022, represents over 40% of our total debt and is our most expensive facility, carrying a coupon of 5.7%. We have the flexibility of our considerable uncommitted cash buffer of £184 million, some of which may play a part in optimising financial terms of new loans. Our aim is to maintain all the structural safety and covenant headroom that we have always sought while delivering savings on the interest cost to the benefit of shareholders through increased dividends. We also look beyond the Merlin refinancing date to our wider asset pool and will continue to seek opportunities to further drive shareholder returns within a well-managed capital structure. We are also actively seeking opportunities to deploy cash for acquisitions or for asset management within our existing portfolio. We are, therefore, seeking to deploy all of our surplus cash within the next six months in opportunities that we consider will be materially accretive to shareholder returns.

Over the course of last year our share price discount to net assets has closed but with most of our long income peers currently trading at a material NAV premium, we and our Management Team remain very ambitious and fully aligned to exploit our exceptional portfolio and strong cash position to drive performance over the long term as our strategy is designed to deliver.

Martin Moore
Chairman
8 September 2021

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 to 30 June 2021.

The Supplementary Information which follows the condensed financial statements includes calculations of the various EPRA and Adjusted EPRA performance measures referred to in this report. Capitalised terms are explained in the Glossary at the end of the Supplementary Information.

Tenant support provided

No rent reductions have been granted since 31 December 2020. Largely as a consequence of the later than originally expected relaxation of all Covid-19 restrictions, delayed from June to July this year, we have agreed one further rent deferral since the 2020 year end on less than 1.5% of total Group rents as further explained below.

The support measures granted in 2020 with an impact on the 2021 financial year are:

- June 2020 and September 2020 rents due from Merlin Entertainments Limited, amounting to £17.6 million at the 30 June 2021 exchange rate, were deferred to September 2021. The deferred rent was recorded in the income statement for the year to 31 December 2020 but in order to more clearly and logically demonstrate the impact on the Group's results in the period over which the concession was granted, these rents were excluded from Adjusted EPRA EPS for the 2020 financial year and will be recorded in Adjusted EPRA EPS in the period in which they are received, which, under the terms of the agreement made with the tenant, is contracted to be in the second half of the 2021 financial year.

- A CVA approved by Travelodge Hotels Limited creditors in 2020 has resulted in £8.8 million of rent foregone in 2021, of which £4.4 million relates to the six months to 30 June 2021. Rents return to the levels originally contracted in January 2022. As a further result of the CVA, receipt of any rental uplifts arising in 2020 and 2021 is deferred until the rents have returned to their contractual levels. Cash flows from a further £0.6 million of rent that would otherwise have been receivable in 2021 have therefore been deferred to January 2022, of which £0.2 million relates to the six months to 30 June 2021. Consistent with the treatment of the Merlin rent deferral, the deferred uplifts will be recorded in Adjusted EPRA EPS in the period in which they are received. The majority of the Travelodge rent reductions took effect in the 2020 financial year and for the purposes of comparison, the rent reduction in 2020 was £14.5 million relating to the nine months from April to December 2020.

Further support provided in the year to date:

- Monthly rents totalling £0.6 million originally due in May and June 2021 from the tenant of the Brewery have been deferred so they are payable in twelve monthly instalments from September 2021. The deferred rent has been recorded in the income statement for the period to 30 June 2021 but will be recorded in Adjusted EPRA EPS in the period in which it is received.

The impact of these concessions on the Group's rental cash flows and on Adjusted EPRA EPS for the six months to 30 June 2021 and the contractually scheduled impact on the second half of the 2021 financial year is set out below.

	Actual Six months to 30 June 2021 £m	Contracted Six months to 31 December 2021 (1) £m	**Contracted Year to 31 December 2021 (1) £m**
Hotels rent reduction	(4.4)	(4.4)	**(8.8)**
Hotels rent deferral	(0.2)	(0.4)	**(0.6)**
Brewery rent deferral	(0.6)	0.2	**(0.4)**
Merlin rent deferral	-	17.6	**17.6**
Impact on rental cash flow and Adjusted EPRA EPS	(5.2)	13.0	**7.8**

(1) This is a contractual position and does not constitute a profit forecast

There are no concessions in place which reduce rents receivable in 2022 or future financial years.

The accounting policy for rent concessions is explained in the Financial Review section of this Investment Adviser's Report and remains unchanged since the 31 December 2020 annual report.

BUSINESS REVIEW

Investment Adviser's Report continued

Rent collections

Over the period to 7 July 2021, the Group reported only minimal rent arrears in each quarterly collection cycle.

Rent collections	8 January to 7 April 2021 £m	8 April to 7 July 2021 £m
Originally contracted rents	28.3	28.7
Rent concessions:		
Reduced rents	(2.2)	(2.2)
Deferred rents	(0.1)	(0.8)
Due in the period	26.0	25.7
Collected on or before the due date	(25.9)	(25.4)
Rent arrears at the date of this report	0.1	0.3
Collected by due date (%)	99.9%	98.7%

Amounts collected by the due date in the prior year, calculated on the same basis, were:

8 January to 7 April 2020	83.1%	}Lower collections in April to July 2020 reflect rent
8 April to 7 July 2020	89.7%	}receipts delayed during Travelodge CVA
8 July to 7 October 2020	99.9%	
8 October 2020 to 7 January 2021	97.7%	

There were no material impairments of receivables in the period or the prior year.

BUSINESS REVIEW

Investment Adviser's Report continued

The portfolio

The Group held 160 properties at 30 June 2021 with passing rent before temporary concessions of £114.7 million, up from £113.3 million at 31 December 2020.

	Number of properties	Valuation £m	Passing rent before temporary concessions £m
At the start of the period	161	1,946.9	113.3
Change in valuation at constant currency	-	44.3	1.7
Exchange rate movements	-	(5.4)	(0.3)
Non-core pub disposal	(1)	(0.1)	-
At the end of the period	**160**	**1,985.7**	**114.7**

Portfolio valuation and rents by sector

The portfolio is valued by qualified independent external valuers every six months. There was a 2.3% increase in valuation at constant currency over the six month period, resulting in a net movement of 2.0% after exchange rate movements on the German assets.

	Leisure *		Healthcare		Budget Hotels		**Total**	
Passing rent before concessions	£m	Change %	£m	Change %	£m	Change %	**£m**	**Change %**
31 Dec 2020	47.5		36.6		29.2		**113.3**	
Change in rent	0.7	1.6%	1.0	2.8%	-	-	**1.7**	**1.5%**
Exchange rate movement	(0.3)	(0.7)%	-	-	-	-	**(0.3)**	**(0.2)%**
30 June 2021	47.9	0.9%	37.6	2.8%	29.2	-	**114.7**	**1.3%**

	Leisure *		Healthcare		Budget Hotels		**Total**	
Valuation	£m	Change %	£m	Change %	£m	Change %	**£m**	**Change %**
31 Dec 2020	793.0		769.1		384.8		**1,946.9**	
Revaluation	19.4	2.4%	21.3	2.8%	3.6	0.9%	**44.3**	**2.3%**
Exchange rate movement	(5.4)	(0.6)%	-	-	-	-	**(5.4)**	**(0.3)%**
Disposal	(0.1)	-	-	-	-	-	**(0.1)**	**-**
30 June 2021	806.9	1.8%	790.4	2.8%	388.4	0.9%	**1,985.7**	**2.0%**

* £6.8 million of the passing rent at 30 June 2021 and £113.7 million of the valuations at that date relate to the German Leisure properties which are denominated in Euros, translated at the period end exchange rate of €1:£0.86

In reaching their assessment of market values, the independent external valuers had all details of agreed rent concessions. 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 January 2022. While the 30 June 2020 and 31 December 2020 valuations of the Leisure and Budget Hotels assets were required under the RICS rules to be expressed as subject to "material valuation uncertainty", there is no such caveat applied to the 30 June 2021 valuations. Further details of valuations are given in note 10 to the condensed financial statements.

BUSINESS REVIEW

Investment Adviser's Report continued

The portfolio (continued)

Yields by sector

	Leisure		Healthcare ^		Budget Hotels		**Total**	
	30 June 2021	31 Dec 2020	30 June 2021	31 Dec 2020	30 June 2021	31 Dec 2020	**30 June 2021**	31 Dec 2020
Topped Up Net Initial Yield *	5.49%	5.54%	4.46%	4.46%	7.03%	7.10%	**5.38%**	5.42%
Running Yield by January 2022 †	5.67%	5.76%	4.46%	4.58%	7.24%	7.21%	**5.50%**	5.58%

* Topped Up Net Initial Yield ignores the temporary rent concessions. The Leisure Topped Up Net Initial Yield increased to 5.57% and the total Topped Up Initial Yield to 5.41% by the end of July 2021.

^ The healthcare valuations 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 2021.

† the Leisure and Budget Hotels Running Yields are calculated using the independent external valuers' estimates of RPI averaging 2.5% per annum (31 December 2020: 2.5%)

The growth in like for like passing rent before concessions was 1.3% over the period. Rent reviews were completed on 62% of portfolio rents in the period. Very shortly after the period end, rents on the German leisure assets increased by their fixed annual uplift of 3.34% and the rents receivable from The Brewery on Chiswell Street also increased from £3.4 million to £3.8 million per annum following the five yearly fixed uplift on that property. These increases amount to a further 0.6% uplift, bringing the total growth to 1.9% by the end of July 2021.

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 2021 £m**	31 December 2020 £m
Merlin Entertainments Limited *	**36.1**	35.6
Ramsay Health Care Limited	**35.4**	34.4
Travelodge Hotels Limited	**29.2**	29.2
SMG Europe Holdings Limited & SMG	**4.2**	4.0
The Brewery on Chiswell Street Limited ^	**3.4**	3.4
Orpea SA	**2.2**	2.2
Stonegate Pub Company Limited	**2.2**	2.2
Others †	**2.0**	2.3
	114.7	113.3

* £6.8 million (31 December 2020: £7.1 million) of the Merlin annualised rents are Euro denominated. The total Merlin contracted rent increased to £36.3 million in July 2021, following the fixed annual uplift on the German assets.

^ contracted rent increased to £3.8 million in July 2021

† including £0.3 million (31 December 2020: £0.5 million) of estimated variable net income for the car park at Manchester Arena

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)

Basis of rent reviews

The income arising on the portfolio benefits from fixed contractual rental uplifts averaging 2.8% per annum on 41% of total rents. There are upwards only RPI-linked rent reviews on 58% of the income with 1% subject to upwards only open market rent reviews. 68% of the rent is subject to annual review and the balance to five yearly review cycles.

	30 June 2021			31 December 2020
Percentage of contracted rents before temporary concessions	Reviewed annually	Reviewed five yearly	**Total portfolio**	Total portfolio
Upwards only RPI:				
Uncapped	26%	26%	**52%**	52%
Collared *	4%	2%	**6%**	6%
Total upwards only RPI-linked reviews	30%	28%	**58%**	58%
Fixed uplifts:				
Annual reviews †	38%	-	**38%**	38%
Five-yearly reviews ^	-	3%	**3%**	3%
Total fixed uplifts	38%	3%	**41%**	41%
Upwards only open market reviews	-	1%	**1%**	1%
Total portfolio	68%	32%	**100%**	100%

* annual reviews with a 2% collar and 5% cap; five yearly reviews with collars between 1% and 1.5% and caps between 3.5% and 4.0%

† weighted average increase of 2.9% per annum

^ weighted average increase of 2.5% per annum

Change in RPI calculation methodology from 2030

In November 2020, the UK Government and UK Statistics Authority announced changes to its calculation of RPI to align it with the Consumer Prices Index ("CPIH") from February 2030. CPIH has been on average 0.8 percentage points lower than RPI over the past ten years. The exact impact on the Group will depend on precisely how the UK Statistics Agency implements the change because that will have a bearing on how any change interacts with the specific terms of the leases. On a downside basis, if CPIH continues to run below RPI the rental uplifts from 2030 onwards would be lower than they would otherwise have been. However, depending on how the change is implemented, lease provisions may provide protection resulting in there being no change in some or all cases. In the event that rental uplifts do change from 2030, any valuation impact in such circumstances is expected to be insignificant as the market tends not to differentiate materially between RPI and CPIH lease structures, with the other property characteristics carrying greater weight in establishing pricing.

BUSINESS REVIEW

Investment Adviser's Report continued

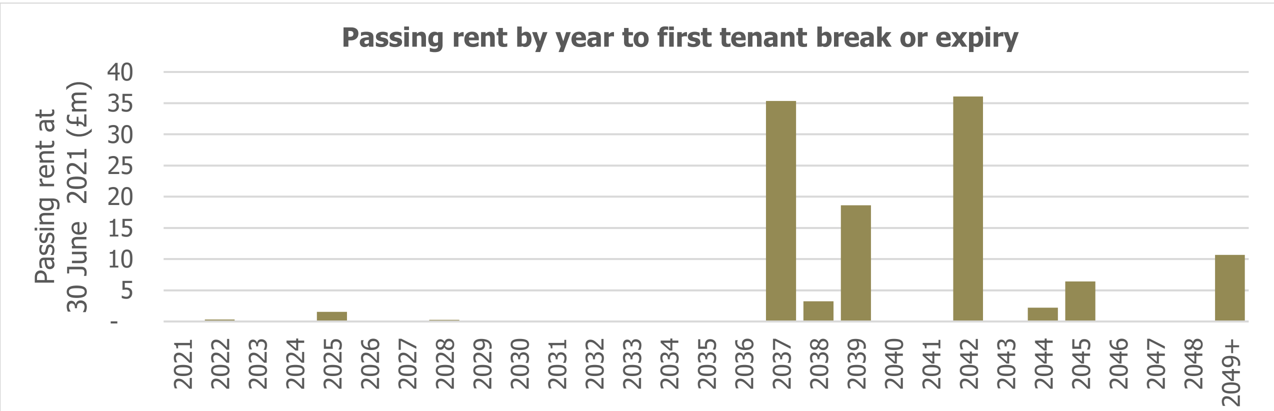
The portfolio (continued)

Lease lengths

The leases on the Group's portfolio are very long, with a Weighted Average Unexpired Lease Term of 19.7 years from 30 June 2021 without tenant break, which is significantly longer than the vast majority of the other major UK REITs (defined as those with a market capitalisation in excess of £1 billion).

	Leisure		Healthcare		Budget Hotels		**Total**	
	30 June 2021	31 Dec 2020	30 June 2021	31 Dec 2020	30 June 2021	31 Dec 2020	**30 June 2021**	31 Dec 2020
Weighted Average Unexpired Lease Term (years)	21.7	22.1	16.3	16.8	20.9	21.4	**19.7**	20.2

98% of contractual passing rents have an unexpired term without break of more than 15.5 years.



No material vacancies or landlord costs

The portfolio is fully let, other than a small restaurant unit at Manchester Arena. 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.

BUSINESS REVIEW

Investment Adviser's Report continued

The portfolio (continued)

Leisure assets (41% of portfolio value)

Contracted rents before temporary rent concessions	**30 June 2021 £m**	31 December 2020 £m
UK assets	**41.1**	40.4
German assets (at constant Euro exchange rate)	**6.8**	6.8
	47.9	47.2

The Company's leisure assets are:

- four well established, large scale visitor attractions with accommodation operated by Merlin Entertainments Limited;
- Manchester Arena, the UK's largest indoor arena by capacity;
- The Brewery, one of London's largest catered events venues, on Chiswell Street in the City of London; and
- a portfolio of 17 freehold high street pubs located in England and Scotland.

Merlin attractions and hotels

The Merlin assets include two of the UK's top three resort theme parks by visitor numbers, Alton Towers and Thorpe Park, as well as Warwick Castle, including all of the on-site accommodation at the three attractions. The German assets operated by Merlin are the Heide Park resort theme park and hotel in Soltau, Saxony, which is the largest in Northern Germany. These assets are all held freehold and are let to subsidiaries of Merlin Entertainments Limited, which owns all of Merlin's operating businesses worldwide and which is the guarantor of all lease obligations for these assets. Measured by the number of visitors, Merlin is Europe's largest and the world's second largest operator of leisure attractions, second only to Disney.

Merlin was taken private in 2019 at a price representing an enterprise value of some £6 billion. It is owned by a consortium of substantial, established, long term investors: Kirkbi, the owner of the Lego business which has been invested in Merlin since 2005 and which owns 47.5% of Merlin, together with Blackstone Core Equity, a long term fund comprising part of Blackstone's latest reported assets under management of c. £495 billion, Canada Pension Plan Investment Board, one of the world's largest pension fund investors with latest reported assets under management of over £300 billion and the Wellcome Trust which invested in a 10% interest in 2020 and which has assets under management of c. £29 billion. During the pandemic, Merlin was able to access capital from public bond markets as part of their liquidity management strategies. The quoted pricing for Merlin's publicly traded 5.75% bonds maturing in 2026, which have been in issue since before the onset of the pandemic, has recovered to within 95% of the pre pandemic price (taking the quoted price at 1 January 2020) and trading above par at a yield to maturity on 3 September 2021 of 4.9%.

Total contracted rents receivable from Merlin were £36.1 million per annum at 30 June 2021 and increased to £36.3 million per annum in July 2021 following the fixed annual rental increase on the German assets. This is an increase of 3.0% over £35.3 million at 31 December 2020 (on a constant currency basis). The weighted average term to expiry of the Merlin leases is 21.0 years without break from 30 June 2021 and the tenants have two successive rights to renew for 35 years at the end of each term. There are upwards only uncapped RPI-linked rent reviews on the UK properties every June throughout the term, which in the six months to 30 June 2021 resulted in a rental increase of 2.9%. The German properties are subject to fixed annual increases of 3.34% every July throughout the term. The leases are on full repairing and insuring terms.

Manchester Arena and ancillary assets

Manchester Arena is a long leasehold strategic site of eight acres which is located on top of Manchester Victoria Railway and Metrolink station. It comprises a 21,000 seat arena, the UK's largest indoor arena by capacity, some additional 160,000 sq ft of office and leisure space, a multi-storey car park with approximately 1,000 spaces, and other income sources.

The Arena is let to SMG and SMG Europe Holdings Limited, part of ASM Global, with 24.0 years unexpired without break from 30 June 2021. The annual rent is £4.1 million (before head rent) and is reviewed annually every June in line with RPI, collared between 2% and 5%, which in 2021 resulted in a rental increase of 3.3%.

BUSINESS REVIEW

Investment Adviser's Report continued

The portfolio (continued)

ASM Global was created by a merger of AEG Facilities and SMG in October 2019 and is the world's largest venue management company, operating over 300 venues in 21 countries and with pro forma annualised 2019 revenues of $500 million estimated at the time of the merger. The Arena was closed throughout the pandemic period but it was able to reopen in August 2021 and the current expectation is that it is likely to be fully operational from September 2021. Despite not trading as a result of the pandemic restrictions, all Arena rents have been received when due, reflecting the strength of this large and well capitalised global operator as tenant. The office and ancillary leisure space at Manchester Arena is let to tenants including Serco, Unison, JCDecaux and go-karting operator TeamSport. The leases on the Manchester site as a whole have a weighted average term to expiry of 17.3 years from 30 June 2021 and produce net passing rent of £5.6 million per annum at that date.

The Brewery on Chiswell Street

The Brewery is a predominantly freehold investment let to an established specialist venue operator on a full repairing and insuring lease. The largest catered event space in the City of London, it is located within five minutes' walk of the new Crossrail Station at Liverpool Street. As with Manchester Arena, the Brewery has been closed throughout the pandemic period but has been permitted to reopen from July 2021. It is now staging events again and is expected to be fully operational from September 2021.

The lease term to expiry is 35.0 years without break from 30 June 2021 and the lease provides for five-yearly fixed uplifts of 2.5% per annum compounded. The passing rent was £3.4 million per annum as at 30 June 2021 and increased to £3.8 million in July 2021.

Pubs portfolio

At 30 June 2021 the portfolio of 17 high street pubs produced passing rent of £2.2 million per annum and the leases have an average term to expiry of 24.0 years without break. The pubs had all reopened for indoor trading, subject to Covid restrictions, by May 2021 and with final social distancing restrictions lifted in July 2021. During the period, one pub with negligible rent was sold with vacant possession for £150,000, slightly ahead of its 31 December 2020 book value.

16 of the pubs are let on individual leases either to, or guaranteed by, Stonegate Pub Company Limited. Stonegate acquired the Ei Group for £1.27 billion in March 2020, creating the largest pub company in the UK with over 4,500 pubs. Stonegate was able to access public debt markets during the pandemic period in support of the group's liquidity needs. Stonegate's Sterling bonds maturing in 2025, issued in July 2020, were trading above par at a yield to maturity of 6.9% at close on 3 September 2021. The lease of the remaining pub in Palmers Green, London, which was assigned to another operator in the period, represents 1.5% of the pub rents and a negligible proportion of total Group rents.

Pub rents are subject to five-yearly RPI-linked increases collared between 1% and 4% per annum compounded. The next review falls in February 2025.

BUSINESS REVIEW

Investment Adviser's Report continued

The portfolio (continued)

Healthcare assets (39% of portfolio value)

Contracted rents	**30 June 2021 £m**	31 December 2020 £m
Ramsay hospitals	**35.4**	34.4
London psychiatric hospital	**2.2**	2.2
	37.6	36.6

The Group's healthcare assets, 11 freehold private acute hospitals and a central London freehold private psychiatric hospital, have continued to trade throughout the pandemic with no rent concessions required. The private hospitals are located throughout England and are let to a subsidiary of Ramsay Health Care Limited, the ASX50 listed Australian healthcare company. The psychiatric hospital, the only private facility of its kind in Central London, is let to a subsidiary of Orpea SA, a very substantial European operator of retirement homes, rehabilitation clinics and psychiatric care.

The Ramsay hospitals are let on full repairing and insuring leases with a term to expiry at 30 June 2021 of 15.9 years without break. The rents increase in May each year by a fixed minimum of 2.75% per annum throughout the lease term. Following the May 2021 fixed uplifts, the rents on the Ramsay portfolio increased from £34.4 million to £35.4 million per annum. In addition, there is an upwards only open market rent 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. It is subject to a formal arbitration process which was put on hold by agreement between the parties during 2020 to allow Ramsay management to fully focus on its pandemic response and because the arbitrator would have been unable to inspect the hospitals during the lockdowns. Given the uncertainty over the time taken to resolve the arbitration and the nature of that process, there is currently no indication of the likely review outcome and these financial statements take no account of any potential increase in rental income that may arise from it.

The leases on the Ramsay hospitals are all guaranteed by Ramsay Health Care Limited, one of the top five private hospital operators in the world and the largest operator of private hospitals in Australia, France and Scandinavia. Ramsay is a constituent of the ASX 50 index of Australia's largest companies, with a market capitalisation at 7 September 2021 (and using the exchange rate on that date) of £8.6 billion (£8.1 billion at 9 March 2021).

The Ramsay hospitals continued to trade without pause throughout the pandemic and, through their contracts with NHS England, provided guaranteed capacity to the NHS to tackle the Covid crisis at cost (including the cost of their rents) for approximately a year from late March 2020. Ramsay reported in February 2021 that they had treated more than 500,000 NHS patients over this period, more than any other provider in the independent sector. In their results for the year to 30 June 2021 Ramsay announced 11.9% earnings growth for their worldwide group and 9.9% growth in EBITDAR in the UK segment. The Ramsay balance sheet is strong with low leverage and significant cash flows supporting material capital expenditure over the year in the existing estate and also earmarked for further investment in future. Ramsay noted that private admissions returned strongly after lockdown restrictions eased in April, demonstrating the strength of their business model which allows them to mix private treatment with NHS cases. Ramsay's management highlights the opportunities in the UK and elsewhere from the backlog in demand for both public and private healthcare services alongside the existing demographic and other growth drivers for their business.

The London psychiatric hospital is let on a full repairing and insuring lease with a term to expiry at 30 June 2021 of 23.1 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 £2.17 million to £2.23 million on 3 May 2021. The lease is guaranteed by Orpea SA, a leading European operator of retirement homes, rehabilitation clinics and psychiatric care, listed on Euronext Paris with a market capitalisation at 7 September 2021 (and using the exchange rate on that date) of £6.1 billion (£5.7 billion at 9 March 2021).

BUSINESS REVIEW

Investment Adviser's Report continued

The portfolio (continued)

Budget Hotels assets (20% of portfolio value)

	30 June 2021 £m	31 December 2020 £m
Contracted rents before temporary rent concessions	**29.2**	29.2

At 30 June 2021 the Group owned 123 Travelodge hotels in England, Wales and Scotland, let to Travelodge Hotels Limited which is the main operating company within the Travelodge group trading in the UK, Ireland and Spain. Travelodge is the UK's second largest budget hotel brand, with 592 hotels and over 45,100 rooms as at 30 June 2021.

As a response to liquidity issues created by the forced closure of nearly all of their hotels, Travelodge concluded a Company Voluntary Arrangement (CVA) in June 2020. As a consequence of the CVA, £14.5 million of rent was foregone by the Group in the 2020 financial year but the extent of the rent reduction has reduced significantly in the current financial year. The contractually scheduled rent reduction for the 2021 financial year is £8.8 million, of which £4.4 million is attributable to the six months to 30 June 2021. Rents are due to return to the levels originally contracted from January 2022. Travelodge rents are currently receivable monthly in advance as part of the concession granted and all rent demanded under the terms of the CVA has been received when due.

Travelodge is a major, established brand with very high levels of brand recognition and a strong pre-pandemic five year performance track record. In addition to the rent reductions secured by Travelodge through their CVA, the company raised £40 million of equity from its shareholders and completed a £65 million private debt placement in December 2020 to further support liquidity. Travelodge's publicly traded bonds which have been in issue throughout the pandemic period are trading at within 5% of their pre-pandemic levels at the start of 2020, with a yield to maturity of 6.8% on 3 September 2021.

One of the attractions of investment specifically in budget hotels rather than the wider hotel market is their relative resilience in recessionary times, and our expectation of a stronger recovery in this sector of the hotels market has been borne out by industry data showing a widening outperformance by budget hotels over the rest of the sector since UK hotels were permitted to fully reopen in July 2021. The most recent financial statements published by Travelodge cover the six months to 30 June 2021, which is before the date in which the Covid-19 operating restrictions for hotels were fully lifted. However, they also reported strong recovery in trading since restrictions were fully lifted, as the most recent month for which trading has been reported, the four week period in which 19 July's "Freedom Day" fell, saw revenues return to within 5% of the same period in 2019. Trading is also improving at the EBITDA level, with each of the three most recent weeks reported by them seeing revenue per available room retuning to levels above those for the same period in 2019. While uncertainties remain for budget hotel businesses in the UK, including Travelodge, a clear trend towards improvement is shown in their most recent public reports.

The average term to expiry of the Travelodge leases is 20.9 years from 30 June 2021 with no break clauses. The leases are on full repairing and insuring terms and Travelodge is also responsible for the cost of any headlease payments and other amounts owing to the freeholders of the 52 leasehold properties. There are upwards only uncapped RPI-linked rent reviews every five years throughout the term of each lease, with reviews falling due over a staggered pattern across the portfolio. 23% of the passing rent is subject to review in 2021, all of which falls in the second half of the year, 38% in 2022, 10% in 2023, 5% in 2024 and 24% in 2025. Reviews arising during the CVA concession period, which runs to January 2022, continue to be calculated and documented but are temporarily reduced in line with the terms of the CVA and any remaining uplifted rent becomes receivable at the end of the concession period.

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.

Any rent concessions agreed have been implemented with the consent of the relevant lenders. In certain cases this included covenant waivers during the concession period which are no longer necessary given the significant recovery in rents payable.

The Group's total gross debt decreased by £6.6 million in the period: £3.6 million from scheduled loan repayments and £3.0 million from foreign currency translation movements on the Group's Euro denominated debt. Net debt decreased by £1.3 million, including the impact of the application of £4.3 million to topping up dividends paid above Adjusted EPRA EPS in the period.

The Group's Net Loan To Value ratio decreased from 36.4% to 35.6% over the period.

	Secured amounts £m	Unsecured amounts £m	**Group total £m**
Gross debt	**921.7**	-	**921.7**
Secured cash	**(25.4)**	-	**(25.4)**
Free cash *	**(2.8)**	(186.3)	**(189.1)**
Net debt	**893.5**	(186.3)	**707.2**
Property valuation			**1,985.7**
Net LTV			**35.6%**

* 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.

The terms of the facilities have not changed in the period.

	Principal £m	**Number of properties securing loan**	**Maximum annual interest rate**	**Interest rate protection**	**Annual cash amortisation**	**Maturity**
Merlin Leisure	375.6 *	6	5.7%	Fixed	£3.8m †	Oct 2022
Budget Hotels 2	65.4	70	3.3%	80% fixed 20% capped	None	April 2023
Arena, Brewery, Pubs	60.0	19	3.2%	83% fixed 17% capped	None	June 2023
Budget Hotels 1	59.0	53	2.7%	Fixed	None	Oct 2023
Healthcare 1	63.7	2	4.3%	Fixed	£0.3m	Sept 2025
Healthcare 2	298.0	10	5.3%	Fixed	£3.2m	Oct 2025
Total	**921.7**	**160**	**4.9%**			

* £314.4 million of senior and mezzanine Sterling loans secured on UK assets and €71.2 million of senior and mezzanine Euro denominated loans secured on German assets (translated at the period end exchange rate of €1:£0.86) 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 €0.6 million on the Euro facility.

The Board manages interest rate risk by either fixing or capping rates over the term of each loan. As at 30 June 2021, 97.5% of the Group's borrowings were at fixed rates. The weighted average interest rate payable in the period remained the same as in 2020 at 4.9% per annum.

BUSINESS REVIEW

Investment Adviser's Report continued

Financing (continued)

There have been no defaults in any facility during the period or since the balance sheet date. The headroom on financial covenants at the balance sheet date remains substantial and is analysed in the Financial Review on the following pages.

The Board has launched the detailed work on the refinancing of the Merlin leisure facility with the objective of closing that refinancing before the results for the year to 31 December 2021 are released next year and ahead of the October 2022 maturity date. While it remains too early to state with certainty what terms will be achieved on refinancing, our ambition remains to deliver a robust structure with good covenant protection and to deliver earnings accretion to shareholders by way of lower interest costs to increase dividends payable. The Board keeps under review the prospects for a wider refinancing of the Group's assets with a view to delivering earnings accretion where possible, alongside careful risk management in structuring debt security and covenant headroom.

Financial review

Key Performance Indicators

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

	Six months to 30 June 2021	Year to 31 Dec 2020	Six months to 30 June 2020
Financial measures:			
Total Accounting Return	**5.0%**	(8.0)%	(8.1)%
Total Shareholder Return	**29.1%**	(27.3)%	(35.9)%
Adjusted EPRA EPS	**6.1p**	3.5p	5.1p
Net LTV Ratio	**35.6%**	36.4%	35.3%
Uncommitted Cash	**£183.6m**	£192.0m	£219.6m
Other measures:			
Headroom on debt covenants before any preventative cash cure or other remedial action:			
Valuation decline before tightest LTV default test is triggered	**32%**	32%	33%
Rent decline before tightest interest cover default test is triggered	**31%**	29%	26%

Total impact of existing Rent Smoothing Adjustments and rent concessions

From the time of its listing seven years ago, the Group has had the benefit of a high proportion of income with fixed rental increases over very long lease terms, therefore the requirement 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. Adjusted EPRA earnings is designed to give a clearer calculation of Dividend Cover, on a basis that more closely reflects the Group's actual cash flows, than would be achieved by using EPRA earnings, as that measure would materially overstate Dividend Cover while cash rents are lower than rents required to be recognised in the income statement. As explained at the start of this Investment Adviser's Report we also adjust EPRA Earnings to reflect the cash flow impact of any Covid-19 rent concessions, rather than spreading them over the very long lease terms as required by IFRS reporting standards. 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 condensed financial statements.

The overall composition of Adjusted EPRA earnings is explained later in this report. The impact of the Rent Smoothing Adjustments and the rent concessions on Adjusted EPRA Earnings is as follows:

	Six months to 30 June 2021		Six months to 30 June 2020	
	£m	**Pence per share**	£m	Pence per share
EPRA earnings	**27.8**	**8.6**	26.9	8.3
Rent Smoothing Adjustments:				
on pre-concession rental income	**(4.0)**	**(1.2)**	(4.6)	(1.4)
from Travelodge rent reductions	**(3.6)**	**(1.1)**	(4.6)	(1.4)
from Stonegate rent free period	**-**	**-**	(0.6)	(0.2)
Rent deferrals	**(0.8)**	**(0.2)**	(0.6)	(0.2)
Adjusted EPRA earnings	**19.4**	**6.1**	16.5	5.1

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Dividend policy

The Company's dividend policy established at the time of listing was to distribute Adjusted EPRA earnings by way of a fully covered cash dividend, paid quarterly. This 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.

The dividend policy was varied in August 2019 to reflect the impact of the sale of a portfolio of eight Ramsay hospitals, which reduced Adjusted EPRA EPS and significantly increased the surplus cash balance. This resulted in a decision to use the cash surplus in part to top up dividends to a level that would otherwise have been payable had the hospitals not been sold until such time as the surplus cash was invested, used for debt management or otherwise redeployed for the benefit of shareholders.

The impact of the pandemic on the Group's rental income and on the Board's assessment of risks and uncertainties arising from it resulted in a further review of the dividend policy in early 2020. With the Company's liquidity surplus directed to supporting tenants and ensuring the robustness of the balance sheet during such uncertain times, the Board concluded that the element of the dividend relating to topping up income on the sold hospitals should be discontinued. However, the Board also concluded that it would be appropriate to continue to pay dividends at a level that recognised that the Covid-19 rent concessions granted were temporary, and as a result some of the surplus liquidity was used to fund the dividend in excess of the Group's Adjusted EPRA Earnings.

Consistent with the guidance provided in the 2020 annual report, the basis of dividend payment therefore reverted to the 'core' dividend without the previously applicable hospitals top-up. This equated 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 declared in the third quarter of 2021.

£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**	**Year to 31 Dec 2020**	**Six months to 30 June 2021**
Core dividend	£12.0m	£16.1m	£41.4m	£49.0m	£46.4m	£23.7m
Hospitals top-up dividend	-	-	-	£3.5m	£4.4m	-
Total dividend paid	£12.0m	£16.1m	£41.4m	£52.5m	£50.8m	£23.7m
Pence per share paid						
Core dividend	5.9p	13.6p	13.9p	15.2p	14.4p	7.3p
Hospitals top-up dividend	-	-	-	1.1p	1.3p	-
Total dividend paid	**5.9p**	**13.6p**	**13.9p**	**16.3p**	**15.7p**	**7.3p**

The dividend for the third quarter of 2021 was declared on 22 July 2021 at 3.95p per share, an increase of 8.2% over the rate payable for the prior quarter. While the actual earnings outturn may vary from expectations if there are any acquisitions, disposals, debt refinancing or lease variations, the availability of substantial surplus cash and the near term contracted resumption of rents to their pre pandemic trajectory means that the Board's current expectation is that dividends will continue to be paid at this level for the fourth quarter of 2021 and the first two quarters of 2022.

While the UK's vaccination programme and the reopening of most of the economy has resulted in an easing of the risk environment, uncertainty arising from the pandemic remains elevated. For as long as it does, and in the event of any other material unexpected events arising, 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 and in setting dividend policy.

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 2021		Six months to 30 June 2020	
Movements in Net Asset Value	**£m**	**Pence per share**	£m	Pence per share
NAV at the start of the period	**1,221.5**	**377.0**	1,384.5	428.8
Investment property revaluation*	**36.4**	**11.2**	(142.0)	(43.9)
Rental income * less administrative expenses, finance costs and tax	**27.3**	**8.4**	27.1	8.4
Dividends paid	**(23.7)**	**(7.3)**	(27.2)	(8.4)
Currency translation movements and derivative revaluation	**(1.3)**	**(0.4)**	1.7	0.5
Dilution from shares issued in settlement of previous year's incentive fee	**-**	**-**	-	(1.5)
NAV at the end of the period	**1,260.2**	**388.9**	1,244.1	383.9
Change in NAV	**38.7**	**11.9**	(140.4)	(44.9)
Dividends paid	**23.7**	**7.3**	27.2	8.4
IFRS Total Accounting Return	**62.4**	**19.2**	(113.2)	(36.5)
IFRS Total Accounting Return: percentage		**5.1%**		(8.5)%

* including £7.6 million or 2.3 pence (2020: £9.8 million or 3.0 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 are reconciled to net asset value measured in accordance with IFRS in note 19 to the condensed financial statements.

	Six months to 30 June 2021		Six months to 30 June 2020	
Movements in EPRA NTA	**£m**	**Pence per share**	£m	Pence per share
EPRA NTA at the start of the period	**1,229.2**	**379.3**	1,391.3	429.4
Investment property revaluation*	**44.2**	**13.6**	(132.1)	(40.8)
Rental income* less administrative expenses, finance costs and current tax	**19.9**	**6.1**	17.1	5.3
Dividends paid	**(23.7)**	**(7.3)**	(27.2)	(8.4)
Currency translation movements	**(2.3)**	**(0.6)**	2.9	0.9
EPRA NTA at the end of the period	**1,267.3**	**391.1**	1,252.0	386.4
Change in EPRA NTA	**38.1**	**11.8**	(139.3)	(43.0)
Dividends paid	**23.7**	**7.3**	27.2	8.4
EPRA NTA Total Accounting Return	**61.8**	**19.1**	(112.1)	(34.6)
EPRA NTA Total Accounting Return: percentage		**5.0%**		(8.1)%

* adjusted by £7.6 million or 2.3 pence per share (2020: £9.8 million or 3.0 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.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Total Shareholder Return	**Six months to 30 June 2021** **Pence per share**	Six months to 30 June 2020 Pence per share
Share price at the end of the period	**380.0**	270.0
Share price at the start of the period	**(300.0)**	(434.0)
Increase / (decrease)	**80.0**	(164.0)
Dividends paid	**7.3**	8.4
Total Shareholder Return	**87.3**	(155.6)
Total Shareholder Return: percentage	**29.1%**	(35.9)%

Key performance indicator – Adjusted EPRA earnings
The calculation of basic EPS under IFRS, as reported in the condensed financial statements, is shown below.

	Six months to 30 June 2021		Six months to 30 June 2020	
Basic and diluted EPS (IFRS basis)	**£m**	**Pence per share**	£m	Pence per share
Rental income net of property outgoings	**60.2**	**18.6**	59.8	18.5
Net finance costs	**(24.6)**	**(7.6)**	(24.7)	(7.6)
Administrative expenses	**(7.5)**	**(2.3)**	(8.1)	(2.5)
Tax charge	**(0.2)**	**(0.1)**	(0.1)	-
Earnings before revaluations	**27.9**	**8.6**	26.9	8.4
Investment property revaluations net of tax	**35.7**	**11.0**	(141.9)	(43.9)
Basic and diluted earnings	**63.6**	**19.6**	(115.0)	(35.5)

IFRS earnings include unrealised property revaluation movements, gains and losses on any property disposals and certain other elements such as unrealised valuation movements in interest rate derivatives, which are considered to distort an assessment of underlying long term performance of real estate companies and which are therefore required to be excluded from EPRA earnings. The calculation of EPRA earnings and EPRA Earnings Per Share is presented in note 9 to the condensed financial statements.

There are certain items within EPRA earnings which create a material disconnect between those earnings and the Group's funds from operations available for the payment of dividends: principally the Rent Smoothing Adjustments, including those arising as a result of the Covid-19 related rent concessions, and incentive fees which are payable in shares. 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 in the per share figures which in turn 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 the Rent Smoothing Adjustments, including those arising from Covid-related rent concessions, from rental income to include rents on a basis that is much closer to cash rents receivable;
- 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 which are excluded from EPRA EPS (last paid in respect of the year to 31 December 2019);
- excluding any significant non-recurring costs or income (there have been no such adjustments since 2016); and
- calculating the weighted average number of shares to reflect the actual dates on which shares were issued.

	Six months to 30 June 2021		Six months to 30 June 2020	
	£m	**Pence per share**	£m	Pence per share
Rental income net of property outgoings	**59.3**	**18.4**	59.0	18.2
Net finance costs	**(23.8)**	**(7.4)**	(23.9)	(7.4)
Administrative expenses	**(7.5)**	**(2.3)**	(8.1)	(2.5)
Tax charge	**(0.2)**	**(0.1)**	(0.1)	-
EPRA earnings	**27.8**	**8.6**	26.9	8.3
Rent Smoothing Adjustments:				
Before any Covid-related rent concessions	**(4.0)**	**(1.2)**	(4.6)	(1.4)
Impact of Covid-related concessions: difference between IFRS and Adjusted EPRA EPS smoothing methodology	**(3.6)**	**(1.1)**	(5.2)	(1.6)
Rent deferrals	**(0.8)**	**(0.2)**	(0.6)	(0.2)
Adjusted EPRA earnings	**19.4**	**6.1**	16.5	5.1

Adjusted EPRA EPS is reconciled to basic EPS in note 9 to the condensed 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 2021		Six months to 30 June 2020	
	£m	**Pence per share**	£m	Pence per share
Like for like earnings:				
Rental income net of outgoings before concessions	**56.1**	**17.5**	55.2	17.0
Net finance costs	**(23.8)**	**(7.4)**	(23.9)	(7.4)
Administrative expenses	**(7.5)**	**(2.3)**	(8.1)	(2.5)
Tax charge	**(0.2)**	**(0.1)**	(0.1)	-
Like for like before rent concessions	**24.6**	**7.7**	23.1	7.1
Rent concessions	**(5.2)**	**(1.6)**	(6.6)	(2.0)
Adjusted EPRA earnings	**19.4**	**6.1**	16.5	5.1

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

	Six months to 30 June 2021		Six months to 30 June 2020	
Property outgoings	**£m**	**Pence per share**	£m	Pence per share
Irrecoverable property costs	**0.2**	**0.1**	0.1	-
Head rents on leasehold properties	**0.1**	**-**	0.3	0.1
Other net property outgoings	**-**	**-**	0.2	-
Costs of negotiating and documenting rent concessions	**-**	**-**	0.5	0.2
Property outgoings in the IFRS income statement and EPRA earnings	**0.3**	**0.1**	1.1	0.3
Financing element of head rent costs reclassified from finance costs and investment property revaluations	**0.9**	**0.3**	0.9	0.3
Recovery of head rent and other costs reclassified from revenue	**(0.8)**	**(0.2)**	(0.9)	(0.3)
Costs of negotiating and documenting rent concessions reclassified from finance costs	**-**	**-**	0.1	0.1
Property outgoings in Adjusted EPRA earnings	**0.4**	**0.2**	1.2	0.4

On an Adjusted EPRA earnings basis, various items are reclassified within the income statement to more accurately reflect the net cost of the Group's property outgoings. The adjusted figure is used in the calculation of the industry standard EPRA Cost Ratio shown in the Supplementary information. This includes the recovery of certain head rent and other costs from the occupational tenants.

Adjusted EPRA Earnings Per Share – administrative expenses

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

	Six months to 30 June 2021		Six months to 30 June 2020	
Administrative expenses	**£m**	**Pence per share**	£m	Pence per share
Advisory fees	**6.5**	**2.0**	7.1	2.2
Other administrative expenses	**0.8**	**0.2**	0.7	0.2
Corporate costs	**0.2**	**0.1**	0.3	0.1
Total administrative expenses	**7.5**	**2.3**	8.1	2.5

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 line item in the table above. The proportion of disallowed VAT on administrative expenses averaged 19% during the period (six months to 30 June 2020: 21%).

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 advisory fee for the period amounted to £6.0 million plus irrecoverable VAT of £0.5 million (six months to 30 June 2020: £6.7 million plus irrecoverable VAT of £0.4 million).

The basis of calculating the advisory fees is explained in note 20 to the condensed financial statements. In summary, the fees are calculated on a reducing scale based on the Group's EPRA NAV (as defined in the EPRA recommendations in place at the time of inception of the management contract), at:

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

In this way, the Investment Adviser is directly exposed to any reduction in the Group's EPRA NAV by way of a reduction in its fee income.

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 EPRA NAV on which the advisory fee is calculated. With effect from 1 April 2020, for the purposes of calculating the advisory fee, EPRA NAV excludes the balance of that surplus cash to the extent that those funds have not been:

- deployed in topping up dividends or otherwise returned to shareholders;
- invested in acquisitions; or
- used for liability management.

The saving for the six months to 30 June 2021 as a result of this amendment is £0.3 million (year to 31 December 2020: £0.8 million). The surplus cash realised on the disposal was £164.0 million and the balance of the surplus at 30 June 2021 was £109.9 million (31 December 2020: £113.9 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, including the costs of independent external property valuations, external trustee and administration costs, tax compliance fees and the fees of the external auditor, which are largely billed directly to subsidiary undertakings.

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

- fees payable to the four Independent Directors amounting to £0.1 million in the period (six months to 30 June 2020: £0.1 million), with the other three Directors being shareholders 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 £0.1 million (six months to 30 June 2020: £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 2021 financial year, the Board has estimated the EPRA NAV of the Group at 31 December 2021 on the basis of the assumptions set out in note 20 to the condensed financial statements. On the basis of that assessment, no fee would be payable for the 2021 financial year and as a result no fee is accrued at 30 June 2021 (30 June 2020: £nil). In order for an incentive fee to be earned in respect of the 2021 financial year, the aggregate of the Group's EPRA NAV growth and dividends paid in the year would need to exceed 124.4 pence per share which is estimated, based on dividends paid and currently expected to be paid in 2021, to be equivalent to an EPRA NTA of 489.3 pence per share at the year end.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Adjusted EPRA EPS: net finance costs

	Six months to 30 June 2021		Six months to 30 June 2020	
	£m	**Pence per share**	£m	Pence per share
Interest on secured debt facilities:	**22.6**	**7.1**	22.9	7.0
Amortisation of costs of arranging facilities (non-cash)	**1.1**	**0.3**	1.2	0.4
Interest charge on headlease liabilities	**0.8**	**0.2**	0.8	0.2
Loan agency fees and other lender costs	**0.1**	**-**	0.2	0.1
Interest income	**-**	**-**	(0.4)	(0.1)
Net finance costs for the period (IFRS and EPRA basis)	**24.6**	**7.6**	24.7	7.6
Reclassification of interest charge on headlease liabilities against revenue *	**(0.8)**	**(0.2)**	(0.8)	(0.2)
Net finance costs for the period (Adjusted EPRA basis)	**23.8**	**7.4**	23.9	7.4

* 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 13% (six months to 30 June 2020: 11%), resulting in a current tax charge of £0.2 million (six months to 30 June 2020: £0.2 million). The balance sheet includes a deferred tax liability of £12.0 million (31 December 2020: £11.9 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 £0.2 million (six months to 30 June 2020: £0.1 million) and a £0.7 million deferred tax charge (six months to 30 June 2020: £0.1 million credit), which results in a total tax charge of £0.9 million (six months to 30 June 2020: £nil). Deferred tax is excluded from Adjusted EPRA EPS as shown in note 9 to the condensed financial statements.

In the EPRA NTA calculation, in accordance with the EPRA Guidance, half of the deferred tax is excluded. This is on the basis that the Company has neither (i) decided never to sell the German assets, as the Board manages its assets in an opportunistic way and would sell the assets if that presented the best option for shareholders; nor (ii) identified a consistent track record of disposal of assets and related capital gains within the strict criteria set out within the EPRA guidance.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Adjusted EPRA EPS – currency translation

94% by value of the Group's property assets are located in the UK (94% at 31 December 2020) and the condensed financial statements are therefore presented in Sterling. 3.9% (31 December 2020: 3.9%) 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 €132.5 million as at 30 June 2021 (31 December 2020: €128.2 million) and the Euro denominated secured debt amounts to €71.2 million (31 December 2020: €71.8 million). The Euro weakened against Sterling over the period by 4.6% and as a result there was a net currency translation loss of £2.0 million (six months to 30 June 2020: £2.6 million gain) on an IFRS basis. Half of the deferred tax liability is excluded from EPRA NTA and as a result of this adjustment a further currency translation loss of £0.3 million arises in the movement in EPRA NTA in relation to the German operations (six months to 30 June 2020: gain of £0.3 million).

Key performance indicator – Net Loan To Value ratio

The Board structures the Group's 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 decreased from 36.4% to 35.6%, which largely reflects the rise in property valuations in the period.

While Net LTV is one indicator of borrowing risk, it does not present a complete picture of risk facing the Company. The Board considers Net LTV in conjunction with a wider assessment of headroom on financial covenants within debt facilities and, as part of that assessment, the security of portfolio rental income in order to evaluate risks that the Company and the Group may be facing.

Key performance indicator – headroom on debt covenants

The Board's management of the Group's capital structure includes assessing the risk of any breach of covenants within secured debt facilities and considering the extent to which these risks can be managed. Covenant calculations are regularly monitored on various scenarios within a realistic range of outcomes, including stress tested and reverse stress tested scenarios. At the inception of new loans, facilities have been structured to ring-fence the extent to which the Group's assets are at risk, ensuring that levels of headroom over financial covenants are appropriate. Subsequently, the Board keeps the Group's liquidity needs under review and aims to maintain a level of Uncommitted Cash which could be applied in avoiding or 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 rental income can be expected to increase annually as a result of the annual minimum fixed rental uplifts on 38% of portfolio income, with a further 3% subject to five yearly uplifts and the additional prospect of increases from the upwards only principally RPI-linked reviews on the rest of the portfolio. Overall, just over two thirds of portfolio rents before any Covid related rent concessions are subject to annual review, with the remainder subject to five yearly reviews. This structure gives rise to predictable improvements in interest cover across the Group in aggregate on the basis of contractual income flows and a naturally deleveraging debt profile on the assumption of constant valuation yields. The Board also has regard to other factors including tenant credit risks.

The Board reviews the headroom on all financial covenants at least quarterly, including stress tested and reverse stress tested scenarios. The headroom on key financial covenants at the first test date following the balance sheet date (which in all cases fell before the end of July 2021) is summarised below, including the fall in valuation (and related Net Initial Yield) or the fall in rent that would trigger a breach of the relevant covenant before any preventative or remedial actions are taken. Defensive actions could include utilising some of the Group's significant Uncommitted Cash of £183.6 million as at 30 June 2021 and which is further explained under the heading 'Key performance indicator - Uncommitted Cash'.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Key performance indicator – headroom on debt covenants (continued)

			Scenarios before any remedial action		
	30 June 2021	**Covenant**	**Net Initial Yield triggering LTV test**	**Valuation fall before LTV test triggered**	**Rent fall before interest cover test triggered**
Merlin facility					
Property security at independent valuation (£m)	**629.2**				
Gross loan outstanding (£m)	**(375.6)**				
Other subgroup net assets (£m)	**10.2**				
Ring fenced equity (£m)	**263.8**				
Ring fenced equity (pence per share)	**81.4**				
LTV default test	n/a	none	n/a	n/a	
Cash trap LTV test: 1% per annum loan amortisation	60%	<80%	7.2%	25%	
Cash trap LTV test: full cash sweep	60%	<85%	7.6%	30%	
Rental fall before interest covered 1:1					31%

The valuation fall required to trigger the LTV cash sweeps has increased since 31 December 2020 (from 23% to 25% for 1% amortisation and from 27% to 30% for the full cash sweep) as a result of the valuation increase in the period and the modest reduction in finance costs by way of £1.9 million of scheduled loan amortisation. Over the six month period to 30 June 2021, the Net Initial Yield required to trigger 1% per annum of additional amortisation has increased from 7.0% to 7.2%, the full cash sweep trigger point has increased from 7.4% to 7.6%, and the headroom on the 1:1 interest cover requirement has increased from 29% to 31%.

			Scenarios before any remedial action		
	30 June 2021	**Covenant**	**Net Initial Yield triggering LTV test**	**Valuation fall before LTV test triggered**	**Rent fall before interest cover test triggered**
Healthcare facility 1					
Property security at independent valuation (£m)	**640.2**				
Gross loan outstanding (£m)	**(298.0)**				
Other subgroup net assets (£m)	**(0.2)**				
Ring fenced equity (£m)	**342.0**				
Ring fenced equity (pence per share)	**105.5**				
Cash trap LTV test: full cash sweep	47%	<74%	6.9%	37%	
LTV test	47%	<80%	7.3%	41%	
Cash trap projected interest cover: full cash sweep	196%	>140%			29%
Projected interest cover test	196%	>120%			39%

Headroom on the LTV tests has increased since 31 December 2020, from 35% (at a 6.8% valuation yield) to 37% (at a 6.9% valuation yield) for the LTV cash sweep test and from 39% (at a 7.1% valuation yield) to 41% (at a 7.3% valuation yield) for the LTV default test. Headroom on the interest cover test has improved from 38% to 39% and on the cash sweep interest cover test from 27% to 29%, as a result of a combination of the fixed 2.8% weighted average rental increase in the period and the modest reduction in finance costs because of £1.6 million of scheduled loan amortisation.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Key performance indicator – headroom on debt covenants (continued)

			Scenarios before any remedial action		
	30 June 2021	**Covenant**	**Net Initial Yield triggering LTV test**	**Valuation fall before LTV test triggered**	**Rent fall before interest cover test triggered**
Healthcare facility 2					
Property security at independent valuation (£m)	**150.1**				
Gross loan outstanding (£m)	**(63.7)**				
Other subgroup net assets (£m)	**0.2**				
Ring fenced equity (£m)	**86.6**				
Ring fenced equity (pence per share)	**26.7**				
LTV test	42%	<80%	8.5%	47%	
Cash trap projected debt service cover test (full cash sweep if triggered)	229%	>150%			34%
Projected debt service cover test	229%	>125%			45%

Headroom on the LTV test has increased since 31 December 2020, from 45% (at an 8.2% valuation yield) to 47% (at an 8.5% valuation yield). Headroom on the interest cover test has improved from 33% to 34% for the cash sweep test and from 44% to 45% on the default test largely from the fixed 2.75% rental increase in the period.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Key performance indicator – headroom on debt covenants (continued)

	30 June 2021	Covenant	Scenarios before any remedial action: Net Initial Yield triggering LTV test	Valuation fall before LTV test triggered	Rent fall before interest cover test triggered
Budget Hotels facility 2					
Property security at independent valuation (£m)	**198.0**				
Gross loan outstanding (£m)	**(65.4)**				
Other subgroup net assets (£m)	**1.4**				
Ring fenced equity (£m)	**134.0**				
Ring fenced equity (pence per share)	**41.4**				
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	33%	<40%	8.5%	17%	
Cash trap LTV test (full cash sweep if triggered)	33%	<45%	9.6%	27%	
LTV test	33%	<50%	10.6%	34%	
Cash trap projected interest cover test (full cash sweep if triggered)	721%	>300%			58%
Projected interest cover test	721%	>250%			65%
Budget Hotels facility 1					
Property security at independent valuation (£m)	**190.4**				
Gross loan outstanding (£m)	**(59.0)**				
Other subgroup net assets (£m)	**3.2**				
Ring fenced equity (£m)	**134.6**				
Ring fenced equity (pence per share)	**41.6**				
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	31%	<40%	9.1%	23%	
Cash trap LTV test (full cash sweep if triggered)	31%	<45%	10.2%	31%	
LTV test	31%	<50%	11.4%	38%	
Cash trap projected interest cover test (full cash sweep if triggered)	967%	>300%			69%
Projected interest cover test	967%	>250%			74%

The two Budget Hotels facilities are ring fenced from one another as while they have the same arranger, they each have a different lender group. However, the comments below relate to both facilities as they are structured in much the same way and the factors affecting the covenants in the period were the same for each facility.

Headroom on the LTV covenants is broadly unchanged since 31 December 2020 as there have been no significant valuation movements in either portfolio. Headroom on the income covenants has improved from 610% to 721% and from 792% to 967% in the two facilities as the rents receivable in 2021 are significantly higher than in 2020, which was the period of the deepest CVA reductions, and the projected rent now includes periods after the end of the CVA reductions in January 2022.

Covenant waivers were granted on one of the facilities to accommodate the rent reductions in the CVA, but these have now expired, being no longer required following the rental increases during the period. All covenant tests have reverted to their previous levels.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Key performance indicator – headroom on debt covenants (continued)

			Scenarios before any remedial action		
	30 June 2021	**Covenant**	**Topped Up Net Initial Yield triggering LTV test**	**Valuation fall before LTV test triggered**	**Rent fall before interest cover test triggered**
Leisure facility: Arena, Brewery, Pubs					
Property security at independent valuation (£m)	**177.7**				
Gross loan outstanding (£m)	**(60.0)**				
Other subgroup net assets (£m)	**2.6**				
Ring fenced equity (£m)	**120.3**				
Ring fenced equity (pence per share)	**37.1**				
Partial cash trap LTV cash (50% cash sweep)	34%	<40%	7.0%	16%	
Cash trap LTV test (full cash sweep if triggered)	34%	<45%	7.9%	25%	
LTV test	34%	<50%	8.8%	32%	
Projected interest cover test	342%	>150%			56%

The LTV headroom on this facility is broadly unchanged since 31 December 2020 as there has been no significant net portfolio valuation movement. The headroom on the income test has tightened slightly from 57% to 56% following exclusion from the income forecast at the test date of rents from a tenant with rent arrears outstanding at that date.

Significant headroom was built into each facility at the outset, to act as a "shock absorber" in the event that tenant difficulty or property investment market disruption puts pressure on those debt covenants. In the cases of the Leisure and Budget Hotels facilities where the financial effects of the pandemic have manifested themselves, in the case of all but one test in one facility the headroom over covenant levels has now increased since those reported for 31 December 2020 as the rent concessions gradually expire and income and valuations start to revert to their pre pandemic levels. 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. Any covenant waivers that were required to accommodate the concessions are no longer needed and so are no longer in effect.

Key performance indicator – Uncommitted Cash

Uncommitted Cash is cash freely available to the Group, after allowing for any amounts payable out of free cash.

	30 June 2021 £m	31 December 2020 £m	30 June 2020 £m
Free cash	**189.1**	196.6	226.4
Tax and social security	**(3.9)**	(1.7)	(0.5)
Accruals, trade and other payables and corporation tax	**(1.6)**	(2.9)	(2.6)
Interest payable *	**-**	-	(3.7)
Uncommitted Cash	**183.6**	192.0	219.6

* interest payable is only excluded from Uncommitted Cash to the extent that secured cash within the specific facility is not available to cover the liability, which was the case at 30 June 2020 as a result of the deferral of the Merlin rent immediately prior to that date.

BUSINESS REVIEW

Investment Adviser's Report continued

Financial review (continued)

Key performance indicator – Uncommitted Cash (continued)

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 level of Uncommitted Cash retained is assessed regularly in light of property market and wider economic conditions and outlook together with an assessment of specific covenant headroom levels in individual debt facilities. The Board's assessment is that while pandemic risks have eased since the last reporting period, uncertainty is still at higher than historic levels therefore the retention of a significant liquidity buffer as at 30 June 2021 continued to be appropriate.

Movements in Uncommitted Cash	**£m**
At 31 December 2020	**192.0**
Dividend support while rent concessions unwind	**(4.3)**
Scheduled loan amortisation	**(3.6)**
Other	**(0.5)**
At 30 June 2021	**183.6**

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.

Rent reductions and deferrals granted in the period have reduced the cash flow from operating activities by £4.4 million and £0.8 million respectively (six months to 30 June 2020: £5.3 million of rent reductions and £8.9 million of rent deferrals). No material concession costs arose in the period (six months to 30 June 2020: £0.5 million).

	Six months to 30 June 2021		Six months to 30 June 2020	
	£m	**Pence per share**	£m	Pence per share
Cash from operating activities	**45.9**	**14.2**	25.8	8.0
Net interest and finance costs paid	**(23.6)**	**(7.3)**	(23.6)	(7.3)
Tax paid	**(0.2)**	**(0.1)**	(0.3)	(0.1)
	22.1	**6.8**	1.9	0.6
Dividends paid	**(23.7)**	**(7.3)**	(27.2)	(8.4)
	(1.6)	**(0.5)**	(25.3)	(7.8)
Scheduled repayments of secured debt	**(3.6)**	**(1.1)**	(1.7)	(0.5)
Disposal of non-core pub	**0.1**	**-**	-	-
Disposals of non-core budget hotels net of debt repayment	**-**	**-**	1.2	0.4
Acquisition of fixed assets	**-**	**-**	(0.2)	(0.1)
Cash flow in the period	**(5.1)**	**(1.6)**	(26.0)	(8.0)
Cash at the start of the period	**219.7**	**67.8**	267.1	82.7
Currency translation movements	**(0.1)**	**-**	-	-
Dilution from incentive fee share issue	**-**	**-**	-	(0.3)
Cash at the end of the period	**214.5**	**66.2**	241.1	74.4

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 2021.

Nick Leslau
Chairman, Prestbury Investment Partners Limited
8 September 2021

BUSINESS REVIEW

Principal Risks and Uncertainties

The Board's responsibilities for risk management include assessing the principal risks faced by the Group and how they may be mitigated, including considering matters that may threaten the performance of the Group, its business model or its viability.

The Audit Committee and the Board review the Group's risk register at least annually and more often as necessary. Given the elevated risks following the onset of the Covid-19 pandemic, the risk register, which was most recently reviewed in March 2021 in connection with the publication of the 2020 annual report, has been reviewed again in conjunction with the approval of this interim report.

Material changes to the Group risk register

Pandemic disruption was added to the overarching risks (which comprised Brexit risk and Climate risk) at the first review after the pandemic was declared, and the risk rating of each of the principal risks was increased at that time because all are impacted by the consequences of the pandemic and the response of governments and public health bodies to it. This remains the case in the current schedule of risks. While the risk appears to be easing materially with high vaccination rates and full permission for UK businesses to reopen from July 2021, risks and uncertainties arising from the pandemic, while lower than six months ago, are still elevated.

Consultation on further developments in environmental regulations for landlords has been launched since the risk register was last reviewed. While the consultation remains open and the ultimate outcome is therefore uncertain, we consider that this risk is elevated and have raised its rating. We have also elevated the refinancing risk, not because debt market conditions have worsened – if anything they are better than at the time of the previous review – but because the date of the next debt maturity in October 2022 is now within some 13 months of the date of issue of this report. The risk assessments are otherwise unchanged.

Overarching risks

There are overarching risks which the Board considers to be relevant to most of the individual risk areas identified in the Group risk register. These are not classified as separate risks in their own right but as general risks affecting many of the specific risk factors faced by the Group, which are kept under review.

i) Global economic and social disruption including pandemic risk

The Board and Management Team of the Company and those of the Group's major tenants have operated through a number of 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 and other pandemic related restrictions has been felt by our tenants in the Leisure and Budget Hotels sectors, this has been mitigated from the Company's perspective through its significant weighting in healthcare assets which account for 33% of the Group's passing rents before Covid-related concessions and through flexibility in the capital structure which allowed the Company to provide support in the way of rent concessions to assist the tenants in managing the impact of the pandemic. The Company's Uncommitted Cash balance remains available to deploy in response to further threats arising. While the path of the virus, of consumer and government or regulatory responses in the face of it and of any further economic impacts cannot be known, the experience of the Board and Management Team members is being brought to bear on every aspect of the risks faced by the Company as a result of the current pandemic. The Covid-19 experience also serves to remind us that pandemic risk is not limited to this one virus so despite the easing of the impact of Covid-19 at the time of this report, this risk remains one of our overarching risks.

ii) Climate risk, including the risks and costs of decarbonisation

We assess the overarching climate risk as a distinct risk from the regulatory risks posed by specific environmental standards applicable to the Company, dealt with separately in the risk register. The Company is externally managed with no offices run by it and so has no directly produced emissions to report. The general risk of disruption from climate change is not one where the Company can take steps to make a material impact on its own behalf. However, in assessing the strength of the credit quality of our tenants and of potential tenants, we take climate risk into account. Climate risk assessments also form an integral part of the way that we consider how any assets being assessed for acquisition meet the criteria set out in the Company's business model and the Board has committed to sign up to the UN Principles of Responsible Investment to guide this process. We report on our own policies and those of our major tenants in the ESG section of the Strategic Review in our annual report and in the ESG Centre on the Company's website.

iii) Brexit risk

Towards the end of 2020 a trade deal was agreed with the EU, just prior to the end of the Brexit transition period, reducing Brexit risk by removing the risk of a disorderly exit on World Trade Organisation terms. As a result, Brexit risk was removed from the overarching risk list presented in the 2020 annual report. However, as we noted at the time, the change in trading conditions is relatively recent and continues to evolve, therefore the Board continues to monitor Brexit risk to ensure that the assessment remains appropriate, particularly as it may impact on our tenants, and it remains on our "watchlist".

BUSINESS REVIEW

Principal Risks and Uncertainties continued

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 and the prior year, the Group derived its income from ten tenant groups, two of which have the benefit of guarantees from substantial parent companies. The three largest tenant groups account for 88% of passing rent before concessions as at the balance sheet date (31 December 2020: 88%). Although the Board considers the tenant and guarantor groups to be financially strong in ordinary circumstances, certain tenants experienced liquidity stresses during the pandemic and 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 Budget Hotels tenants, which suffered an abrupt and almost complete closure of their operations as a result of the pandemic, created heightened tenant risk in 2020. The reopening of their businesses over the course of 2021 has brought some easing of risk and this trend is expected to continue. The risk remains elevated while the pandemic continues and there is still the possibility of a reintroduction of restrictions in the UK, and for as long as the UK Government moratorium on the enforcement of rent collection remains in place.	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.	33% (31 December 2020: 32%) of passing rent before concessions at the balance sheet date is contractually backed by large listed companies and a further 35% (31 December 2020: 35%) 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 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 Group's key performance indicators include the levels of covenant headroom and of Uncommitted Cash, both of which are relevant to monitoring and if necessary mitigating this risk. 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. These factors include (but are not limited to) economic conditions, specific property sub-market conditions and potentially climate risk. This risk increased in 2020 because of a relative lack of liquidity in the Leisure and Budget Hotels sectors which was reflected in a 'material valuation uncertainty' in the independent external valuations of those properties as at 30 June and 31 December 2020. The risk has reduced in 2021 as those valuations are no longer subject to material uncertainty.	Investment properties make up the majority of the Group's assets, so material changes in their value will have a significant impact on 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 Group uses experienced independent external valuers whose work is reviewed by suitably qualified members of the Management Team and, separately, the Audit Committee before being considered by the Board in the context of the 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 Group's key performance indicators include the levels of covenant headroom and Uncommitted Cash, both of which are relevant to monitoring and if necessary mitigating this risk. The Board reserves Uncommitted Cash outside ring-fenced debt structures which would be available to cure certain covenant breaches.

BUSINESS REVIEW
Principal Risks and Uncertainties continued

Risk and change in assessment since prior year	Impact on the Group	Mitigation
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. The Group had the support of its lenders in agreeing those consents or waivers that were required to accommodate the support provided to its tenants throughout the pandemic and holds a significant Uncommitted Cash balance which is intended to give it the ability to cure breaches of financial covenants should they occur. The risk has reduced in 2021 as covenant headroom is returning to pre-pandemic levels, but 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, affecting Group earnings and cash flows. If a financial covenant breach is the result of the 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 loan repayment cannot be made the Group 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 repayment 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 each secured subgroup. 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 Hotels 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 and reverse 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 Uncommitted Cash outside ring-fenced debt structures which would be available to cure certain covenant breaches. The Group's key performance indicators include the levels of Net Loan to Value, covenant headroom and Uncommitted Cash, all of which are relevant to monitoring and if necessary mitigating this risk.

BUSINESS REVIEW

Principal Risks and Uncertainties continued

Risk and change in assessment since prior year	Impact on the Group	Mitigation
Refinancing One of the Group's debt facilities, with principal outstanding of £375.6 million at 30 June 2021, is due for repayment in October 2022. The refinancing of that debt will depend on the Group's access to financing prior to maturity, and on conditions at that time both in the debt market and, in order to support valuations, in the investment property market. This risk ranking has been raised in 2021 as the maturity date of the existing loan approaches.	Debt finance might not be available on acceptable terms or might not be available to the full extent of the amounts due for repayment. An inability to repay the debt in full could mean a reduction in the value of shareholders' equity through a forced sale of assets, a reduction in the Group's balance of Uncommitted Cash, or could result in default interest rates being applied, increasing the cost of debt service to the Group. Debt finance might only be available at a higher interest cost than the current rate, adversely, impacting Adjusted EPRA EPS and reducing distributable reserves, or on more restrictive terms which might reduce free cash flow available for dividends.	The financing market for alternative assets such as this leisure portfolio is considered to have deepened since the current facility was entered into in 2015 and, generally speaking, the cost of funds and market financing rates have reduced over that time. At the current independent portfolio valuation, there is significant LTV headroom over loan principal and the Group also holds, at 30 June 2021, very significant Uncommitted Cash which could be applied in part repayment of the facility. The Board has commenced work on the process of refinancing this facility and has a reasonable expectation of concluding those negotiations before the maturity date.
Environmental regulations The Group is subject to environmental laws and regulations relating to its properties. Although our environmental strategy continues to be actively developed, this risk ranking has increased, given that there is currently a Government consultation on proposed new environmental requirements relating to properties. While the allocation of risk between landlords and tenants requires greater clarity, it is possible that the consultation could result in obligations on landlords.	Regulations could be onerous to comply with, or could adversely affect the Group's ability to sell, lease, finance or redevelop its property assets. Violations could result in reputational damage and/or regulatory compliance penalties.	The vast majority of the Group's assets are let on long FRI leases where the tenants are responsible for compliance with statutory requirements, including environmental laws and regulations. As such any costs associated with environmental compliance are borne by the tenant. Ultimately, therefore, this risk is currently a tenant credit risk. The Board is assessing the potential impact that the emerging regulations, currently under consultation, would have. Proposals to address any such risks arising form part of the ESG policy that has been adopted by the Company and which will be further developed with input from specialist external advisers. We note that this is an area of evolving regulation and practice so the Board keeps an active watch on developments, including through the ESG Committee which has been established for this purpose.

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 2021 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 UK adopted International Accounting Standards ("UK IFRS"). 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 UK.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed financial statements in the interim report for the six months to 30 June 2021 are not prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the European Union, and the rules of the London Stock Exchange for companies trading securities on AIM.

Use of our report

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

BDO LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

8 September 2021

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 2021 £m**	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
Revenue	3,4	**60.5**	121.7	60.9
Property outgoings	5	**(0.3)**	(1.5)	(1.1)
Gross profit		**60.2**	120.2	59.8
Administrative expenses	6	**(7.5)**	(17.0)	(8.1)
Investment property revaluation	10	**36.4**	(166.7)	(142.0)
Operating profit / (loss)		**89.1**	(63.5)	(90.3)
Finance income		**-**	0.4	0.4
Finance costs	7	**(24.6)**	(50.3)	(25.0)
Profit / (loss) before tax		**64.5**	(113.4)	(114.9)
Tax charge	8	**(0.9)**	(0.3)	(0.1)
Profit / (loss) for the period	9	**63.6**	(113.7)	(115.0)

		Pence per share	Pence per share	Pence per share
Earnings per share				
Basic and diluted	9	**19.6**	(35.1)	(35.5)

All amounts relate to continuing activities.

Group Statement of Other Comprehensive Income

	Notes	**Unaudited Six months to 30 June 2021 £m**	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
Profit / (loss) for the period		**63.6**	(113.7)	(115.0)
Items that may subsequently be reclassified to profit or loss:				
Currency translation movements		**(1.8)**	2.1	2.5
Fair value movements in interest rate derivatives	7	**0.6**	(0.6)	(0.8)
Other comprehensive (loss) / income		**(1.2)**	1.5	1.7
Total comprehensive income / (loss)		**62.4**	(112.2)	(113.3)

The notes on pages 41 to 60 form part of this interim report.

CONDENSED FINANCIAL STATEMENTS

Group Statement of Changes in Equity

	Share capital £m	Share premium reserve £m	Other reserves £m	Retained earnings £m	**Total equity £m**
Six months to 30 June 2021 (unaudited)					
At 1 January 2021	32.4	523.2	3.7	662.2	**1,221.5**
Profit for the period	-	-	-	63.6	**63.6**
Other comprehensive loss	-	-	(1.2)	-	**(1.2)**
Total comprehensive income	-	-	(1.2)	63.6	**62.4**
Interim dividends of 7.3 pence per share	-	-	-	(23.7)	**(23.7)**
At 30 June 2021	32.4	523.2	2.5	702.1	**1,260.2**
Year to 31 December 2020 (audited)					
At 1 January 2020	32.3	518.4	7.1	826.7	**1,384.5**
Loss for the year	-	-	-	(113.7)	**(113.7)**
Other comprehensive income	-	-	1.5	-	**1.5**
Total comprehensive loss	-	-	1.5	(113.7)	**(112.2)**
Issue of shares	0.1	4.8	(4.9)	-	**-**
Interim dividends of 15.7 pence per share	-	-	-	(50.8)	**(50.8)**
At 31 December 2020	32.4	523.2	3.7	662.2	**1,221.5**
Six months to 30 June 2020 (unaudited)					
At 1 January 2020	32.3	518.4	7.1	826.7	**1,384.5**
Loss for the period	-	-	-	(115.0)	**(115.0)**
Other comprehensive income	-	-	1.7	-	**1.7**
Total comprehensive loss	-	-	1.7	(115.0)	**(113.3)**
Issue of shares	0.1	4.8	(4.9)	-	**-**
Interim dividends of 8.4 pence per share	-	-	-	(27.1)	**(27.1)**
At 30 June 2020	32.4	523.2	3.9	684.6	**1,244.1**

The notes on pages 41 to 60 form part of this interim report.

CONDENSED FINANCIAL STATEMENTS

Group Balance Sheet

	Notes	**Unaudited 30 June 2021 £m**	Audited 31 December 2020 £m	Unaudited 30 June 2020 £m
Non-current assets				
Investment properties	3,10	**2,014.3**	1,975.6	1,986.8
Headlease rent deposits		**2.8**	2.8	2.8
Property, plant and equipment		**0.2**	0.2	0.2
		2,017.3	1,978.6	1,989.8
Current assets				
Cash and cash equivalents	11	**214.5**	219.7	241.1
Trade and other receivables	12	**20.0**	20.0	10.0
		234.5	239.7	251.1
Total assets		**2,251.8**	2,218.3	2,240.9
Current liabilities				
Trade and other payables	13	**(33.6)**	(32.9)	(31.1)
Secured debt	14	**(5.0)**	(5.0)	(4.1)
Interest rate derivatives	15	**(0.5)**	(0.5)	(0.5)
Current tax liability		**(0.1)**	(0.1)	(0.1)
		(39.2)	(38.5)	(35.8)
Non-current liabilities				
Secured debt	14	**(911.2)**	(916.6)	(919.6)
Head rent obligations under finance leases	10	**(28.6)**	(28.7)	(28.1)
Deferred tax liability	16	**(12.0)**	(11.9)	(11.9)
Interest rate derivatives	15	**(0.6)**	(1.1)	(1.4)
		(952.4)	(958.3)	(961.0)
Total liabilities		**(991.6)**	(996.8)	(996.8)
Net assets		**1,260.2**	1,221.5	1,244.1
Share capital	17	**32.4**	32.4	32.4
Share premium reserve	18	**523.2**	523.2	523.2
Other reserves	18	**2.5**	3.7	3.9
Retained earnings	18	**702.1**	662.2	684.6
Total equity		**1,260.2**	1,221.5	1,244.1

		Pence per share	Pence per share	Pence per share
Basic and diluted NAV per share	19	**388.9**	377.0	383.9
EPRA NTA per share	19	**391.1**	379.3	386.4

The notes on pages 41 to 60 form part of this interim report.

CONDENSED FINANCIAL STATEMENTS

Group Cash Flow Statement

	Notes	**Unaudited Six months to 30 June 2021 £m**	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
Operating activities				
Profit / (loss) before tax		**64.5**	(113.4)	(115.0)
Investment property revaluation	10	**(44.3)**	142.5	132.0
Finance income		**-**	(0.4)	(0.4)
Finance costs	7	**24.6**	50.3	25.1
Cash flows from operating activities before changes in working capital		**44.8**	79.0	41.7
Changes in working capital:				
Trade and other receivables		**0.1**	(18.8)	(8.7)
Trade and other payables		**1.0**	(5.5)	(7.2)
Cash generated from operations		**45.9**	54.7	25.8
Tax paid		**(0.2)**	(0.4)	(0.3)
Cash flows from operating activities		**45.7**	54.3	25.5
Investing activities				
Disposal of investment properties		**0.1**	2.6	2.6
Interest received		**-**	0.4	0.4
Acquisition of property, plant and equipment		**-**	(0.2)	(0.2)
Cash flows from investing activities		**0.1**	2.8	2.8
Financing activities				
Dividends paid		**(23.7)**	(50.8)	(27.2)
Interest and finance costs paid		**(23.6)**	(47.9)	(24.0)
Scheduled repayments of secured debt		**(3.6)**	(4.4)	(1.7)
Repayment of secured debt from proceeds of disposal of investment properties		**-**	(1.5)	(1.5)
Cash flows from financing activities		**(50.9)**	(104.6)	(54.4)
Decrease in cash and cash equivalents		**(5.1)**	(47.5)	(26.1)
Cash and cash equivalents at the beginning of the period		**219.7**	267.1	267.1
Currency translation movements		**(0.1)**	0.1	0.1
Cash and cash equivalents at the end of the period	11	**214.5**	219.7	241.1

The notes on pages 41 to 60 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 2021, with comparative figures relating to the year to 31 December 2020 and the six months to 30 June 2020. It 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 and listed on the AIM Market of the London Stock Exchange. The address of the registered office and principal place of business is Cavendish House, 18 Cavendish Square, London W1G 0PJ.

Further information about the Group can be found on its website, www.SecureIncomeREIT.co.uk. Contact details for the Company and key advisors are included in the Company Information at the end of this report.

2. Basis of preparation and accounting policies

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 January 2021. There was no impact on or change in accounting policies from the transition.

At the time of approving the condensed financial statements, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of approval of the condensed financial statements, and therefore continue to adopt the going concern basis of accounting. In conducting their review of the appropriateness of the going concern basis, the Directors had regard to a range of realistic base case and stress tested scenarios for the Group's cash flows for the period under review and the principal risks and uncertainties identified in their review of the Group's risk register, together with their assessments of the prospects of significant tenants, the headroom available on debt covenants and the liquidity available to the Group to deal with income or valuation debt covenant issues.

The financial information contained in this report has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the UK. The accounting policies adopted in this report are consistent with those applied in the Group's statutory accounts for the year to 31 December 2020 and are expected to be consistently applied in the financial statements for the year to 31 December 2021.

No new or revised standard as at the date of this report is expected to be relevant to the Group for the year ending 31 December 2021 or to have a material effect the Group's financial statements in the 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 2020: €1:£0.89; six months to 30 June 2020: €1:£0.87) and period end balances converted to Sterling at the 30 June 2021 exchange rate of €1:£0.86 (31 December 2020: €1:£0.90; 30 June 2020: €1:£0.91).

The condensed financial statements for the period are unaudited and the financial information for the year to 31 December 2020 contained therein does not constitute statutory accounts for the purposes of the Companies Act 2006. The annual report and financial statements for 2020 have been filed at Companies House. The Independent Auditor's report on the annual report and financial statements for 2020 was unqualified, and did not contain a statement under sections 498 (2) or 498 (3) of the Companies Act 2006. It included an emphasis of matter in relation to a material valuation uncertainty over the independent valuation of certain of the Group's investment properties as at 31 December 2020 (as explained in note 10 to the annual report). No such material valuation uncertainty applies to the independent valuation of any of the Group's investment properties as at 30 June 2021.

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 at each reporting date using recognised valuation techniques and the principles of IFRS 13 "Fair Value Measurement".

The principal areas of judgement are revenue recognition and the assessment of any incentive fee likely to be payable for the year.

- Consistent with the prior year, 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 has been considered. The review is under arbitration and the nature of the assets mean that there is little comparative information on which to base an assessment. The Directors consider that it is not possible at present to make a reasonably certain estimate of any uplift that might result, and the financial statements therefore do not reflect any additional revenue arising as a result of this rent review. This position has not changed from that disclosed in the 2020 financial statements.
- The Board has assessed whether it is appropriate to make a 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 using methodology 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 Company's chief operating decision maker is its Board.

At 30 June 2021, the Group owned 160 properties (31 December 2020 and 30 June 2020: 161), originally acquired in five separate portfolios. Although certain information about these properties 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 and the other key performance indicators, all of which are reported on a Group basis. The Board has therefore concluded that the Group has operated in, and was managed as, one operating segment of property investment in both the current period and prior year.

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

	Unaudited Six months to 30 June 2021 £m	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
Revenue			
UK	**56.4**	113.2	56.7
Germany	**4.1**	8.5	4.2
	60.5	121.7	60.9
Investment properties			
UK	**1,900.6**	1,860.3	1,870.3
Germany	**113.7**	115.3	116.5
	2,014.3	1,975.6	1,986.8

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3. Operating segments (continued)

Revenue including Rent Smoothing Adjustments	**Unaudited Six months to 30 June 2021 £m**	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
Ramsay Healthcare UK Operations Limited, guaranteed by Ramsay Health Care Limited	**18.5**	37.2	18.5
Travelodge Hotels Limited	**14.6**	29.4	14.9
Merlin Attractions Operations Limited, guaranteed by Merlin Entertainments Limited	**14.2**	28.3	14.0
Other tenants (each less than 10% of revenue)	**13.2**	26.8	13.5
Reported revenue (note 4)	**60.5**	121.7	60.9
Revenue excluding Rent Smoothing Adjustments			
Ramsay Healthcare UK Operations Limited, guaranteed by Ramsay Health Care Limited	**17.3**	34.1	17.0
Merlin Attractions Operations Limited, guaranteed by Merlin Entertainments Limited	**14.2**	14.0	13.4
Travelodge Hotels Limited	**10.0**	14.1	10.3
Other tenants (each less than 10% of revenue)	**9.6**	16.1	8.7
Revenue on Adjusted EPRA Earnings basis	**51.1**	78.3	49.4

4. Revenue

	Unaudited Six months to 30 June 2021 £m	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
Rent receivable	**52.1**	96.4	50.2
Rent Smoothing Adjustments:			
Smoothing of original contractual uplifts	**4.0**	8.9	4.7
Smoothing of Covid-19 rent concessions	**3.6**	14.8	5.1
Recovery of head rent and service charge costs from occupational tenants (note 5)	**0.8**	1.6	0.9
	60.5	121.7	60.9

The Rent Smoothing Adjustments arise through the Group's accounting policy in respect of leases, which requires the recognition of rental income on a straight line basis over the lease term, including rent uplifts throughout the term in certain circumstances. Uplifts that must be smoothed over the lease term are those for the 41% of contracted rent as at 30 June 2021 (31 December 2020: 41%; 30 June 2020: 42%) that increases by a fixed percentage at each review date and the 6% of contracted rent as at 30 June 2021 (31 December 2020 and 30 June 2020: 6%) that is subject to minimum RPI-linked uplifts.

The temporary rent reductions agreed to assist tenants as a result of the Covid-19 pandemic also impact on this calculation, with 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. In addition, £0.8 million of rent on the Leisure and Budget Hotels portfolio has been excluded from revenue in the period on an Adjusted EPRA earnings because, although it had been recognised in the income statement, it had not yet been received in cash as it has been deferred to fall due in instalments commencing in September 2021. In the prior year, £17.7 million of rent on the Leisure portfolio was also treated in this way, as receipt of the cash was deferred from June and September 2020 to September 2021.

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

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Notes to the Interim Report continued

4. Revenue (continued)

Revenue on an Adjusted EPRA earnings basis also excludes back rent received in 2018 from a rent review on the healthcare portfolio, which is being recognised in revenue over the remaining lease term, and the amounts recovered from occupational tenants for head rent and service charge costs, which are reclassified against the equivalent costs in property outgoings. As a result of these adjustments, revenue reconciles between the IFRS basis and Adjusted EPRA Earnings basis as follows:

	Unaudited Six months to 30 June 2021 £m	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
IFRS revenue	**60.5**	121.7	60.9
Rent Smoothing Adjustments:			
Relating to original contractual uplifts	**(4.0)**	(8.9)	(4.7)
Relating to Covid-19 rent concessions	**(3.6)**	(14.8)	(5.1)
Rent deferrals	**(0.8)**	(17.7)	(0.6)
Recovery of head rent and service charge costs reclassified to property outgoings (note 5)	**(0.8)**	(1.6)	(0.9)
Adjustment for back rent	**(0.2)**	(0.4)	(0.2)
Revenue on Adjusted EPRA Earnings basis	**51.1**	78.3	49.4

5. Property outgoings

Property outgoings	**Unaudited Six months to 30 June 2021 £m**	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
Property outgoings in the income statement	**0.3**	1.5	1.1
Financing element of head rent included in finance costs (note 7)	**0.8**	1.7	0.8
Movement in headlease liabilities included in property revaluations (note 10)	**0.1**	0.1	0.1
Total property outgoings	**1.2**	3.3	2.0
Recovery of head rents and other costs from occupational tenants, included in revenue (note 4)	**(0.8)**	(1.6)	(0.9)
Net property outgoings	**0.4**	1.7	1.1

Property outgoings net of tenant recoveries	**Unaudited Six months to 30 June 2021 £m**	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
Head rents net of amounts recovered from occupational tenants	**0.2**	0.6	0.3
Irrecoverable property costs	**0.1**	0.3	0.2
Managing agent costs and other net property outgoings	**0.1**	0.2	0.1
Cost of documenting rent concessions	**-**	0.6	0.5
	0.4	1.7	1.1

Amounts shown above include any irrecoverable VAT.

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6. Administrative expenses

	Unaudited Six months to 30 June 2021 £m	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
Advisory fee (note 20)	**6.4**	13.7	7.1
Other administrative expenses	**0.9**	2.8	0.7
Corporate costs	**0.2**	0.5	0.3
	7.5	17.0	8.1

Amounts shown above include any irrecoverable VAT.

7. Finance costs

	Unaudited Six months to 30 June 2021 £m	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
Cash costs:			
Interest on secured debt	**22.1**	45.6	22.7
Interest charge on headlease liabilities (note 5)	**0.8**	1.7	0.8
Loan agency fees and other lender costs	**0.1**	0.3	0.3
Non-cash movements:			
Amortisation of loan arrangement costs	**1.1**	2.3	1.1
Amortisation of interest rate derivatives, transferred from other reserves	**0.5**	0.3	0.1
Fair value adjustment of interest rate derivatives	**-**	0.1	-
Finance costs recognised in the income statement	**24.6**	50.3	25.0
Fair value adjustment of interest rate derivatives	**(0.1)**	0.9	0.9
Amortisation of interest rate derivatives, transferred to the income statement	**(0.5)**	(0.3)	(0.1)
Finance (income) / costs recognised in other comprehensive (loss) / income	**(0.6)**	0.6	0.8

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8. Tax

Tax charge in the period	**Unaudited Six months to 30 June 2021 £m**	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
Current tax - Germany			
Corporation tax charge	**0.2**	0.4	0.2
Adjustments in respect of prior periods	**-**	(0.1)	(0.1)
Deferred tax - Germany			
Deferred tax charge / (credit)	**0.7**	-	(0.1)
	0.9	0.3	-

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

	Unaudited Six months to 30 June 2021 £m	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
Profit / (loss) before tax	**64.5**	(113.3)	(115.0)
Tax charge / (credit) at the standard rate of corporation tax in the UK of 19%	**12.3**	(21.5)	(21.8)
Effects of:			
Investment property revaluation not taxable	**(7.0)**	29.9	26.0
Qualifying property rental business not taxable under UK REIT rules	**(4.9)**	(8.9)	(5.4)
Unutilised losses carried forward	**0.2**	0.2	0.8
German current tax charge	**0.2**	0.4	0.2
Finance costs disallowed under corporate interest restriction rules	**0.1**	0.3	0.2
Adjustments in respect of prior periods	**-**	(0.1)	-
Tax charge for the period	**0.9**	0.3	-

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

The Group is subject to German corporation tax on its German property rental business at an effective rate of 13% (year to 31 December 2020 and six months to 30 June 2020: 11%), resulting in a tax charge of £0.2 million (year to 31 December 2020: £0.3 million; six months to 30 June 2020: £0.2 million). A deferred tax liability of £12.0 million (31 December 2020 and 30 June 2020: £11.9 million) is recognised for the German capital gains tax that would potentially be payable on the sale of the relevant investment properties.

The subsidiary company which conducts the Group's German operations is periodically subject to routine tax audits. Such an audit is underway for the years from 2014 to 2018 but the Board does not consider that this will result in any material additional tax liability arising.

CONDENSED FINANCIAL STATEMENTS

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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.

	Unaudited Six months to 30 June 2021 £m	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
Profit / (loss) for the period	**63.6**	(113.6)	(115.0)

	Number	Number	Number
Weighted average shares in issue	**324,035,146**	324,035,146	324,035,146

	Pence per share	Pence per share	Pence per share
Basic EPS	**19.6**	(35.1)	(35.5)

In calculating the weighted average number of shares in issue for basic EPS:

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

Diluted EPS

The weighted average number of shares used in the calculation of diluted EPS is required to include any shares to be issued in respect of an incentive fee as if those shares had been in issue throughout the whole of the period over which the fee was earned, although in fact they will not have been issued until the following period. Since no incentive fee has been recognised for either the current period or the prior year, there are no shares to be issued and diluted EPS is therefore the same as basic EPS.

EPRA EPS and Adjusted EPRA EPS

EPRA, the European Public Real Estate Association, publishes guidelines for calculating adjusted earnings designed to represent core operational activities. EPRA EPS is calculated in accordance with the EPRA Guidance currently in force.

An Adjusted EPRA earnings calculation has also been presented. This adjusted measure was designed to reflect the fact that, as a Group with unusually long leases and a high proportion of fixed or minimum rental increases to spread over the lease terms, the Company's Dividend Cover would be artificially high if calculated on the basis of EPRA EPS. Adjusted EPRA EPS removes the effect of the Rent Smoothing Adjustments, including the impact of Covid-19 rent concessions. It also excludes any non-recurring costs or income which do not relate to the Group's routine operations, such as costs incurred for share placings, though there have been no such costs since 2016. 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, which are excluded from EPRA EPS.

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

9. Earnings per share (continued)

EPRA and Adjusted EPRA earnings are calculated as:

	Unaudited Six months to 30 June 2021 £m	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
Profit / (loss) for the period in IFRS earnings	**63.6**	(113.6)	(115.0)
EPRA adjustments:			
Investment property revaluation (note 10)	**(36.5)**	166.5	142.0
Deferred tax on German investment property revaluations (note 8)	**0.7**	-	(0.1)
EPRA earnings	**27.8**	52.9	26.9
Other adjustments:			
Rent Smoothing Adjustments (note 10)	**(7.6)**	(23.7)	(9.8)
Rent deferrals	**(0.8)**	(17.7)	(0.6)
Adjusted EPRA earnings	**19.4**	11.5	16.5

In calculating Adjusted EPRA EPS, the weighted average number of shares is calculated using the actual date on which any shares are issued during the year so as not to create a mismatch between the basis of calculation of Adjusted EPRA EPS and the dividends per share paid in the year. 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 2021 Number	Audited Year to 31 December 2020 Number	Unaudited Six months to 30 June 2020 Number
Shares in issue throughout the period	**324,035,146**	322,850,595	322,850,595
Pro rata adjustment for shares issued in March 2020 in settlement of 2019 incentive fee	**-**	925,633	663,869
Adjusted EPRA EPS: weighted average shares in issue	**324,035,146**	323,776,228	323,514,464

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

	Unaudited Six months to 30 June 2021 Pence per share	Audited Year to 31 December 2020 Pence per share	Unaudited Six months to 30 June 2020 Pence per share
EPRA EPS	**8.6**	16.3	8.3
Adjusted EPRA EPS	**6.1**	3.5	5.1

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10. Investment properties

	Unaudited Six months to 30 June 2021 £m	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
Freehold investment properties			
At the start of the period	**1,705.8**	1,802.4	1,802.4
Revaluation movement	**40.7**	(102.9)	(97.4)
Currency translation movement	**(5.4)**	6.3	7.6
Disposals	**(0.1)**	-	-
At the end of the period	**1,741.0**	1,705.8	1,712.6
Leasehold investment properties			
At the start of the period	**269.8**	308.9	308.9
Revaluation movement	**3.5**	(39.6)	(34.6)
Revaluation movement in headlease liabilities	**(0.1)**	(0.1)	(0.1)
Increase in headlease liabilities	**-**	0.6	-
At the end of the period	**273.2**	269.8	274.2
Total investment properties			
At the start of the period	**1,975.6**	2,111.3	2,111.3
Revaluation movement	**44.3**	(142.5)	(132.0)
Currency translation movement	**(5.4)**	6.3	7.6
Revaluation movement in headlease liabilities	**(0.1)**	(0.1)	(0.1)
Disposals	**(0.1)**	-	-
Increase in headlease liabilities	**-**	0.6	-
At the end of the period	**2,014.3**	1,975.6	1,986.8

The properties were valued as at 30 June 2021 at £1,985.7 million (31 December 2020: £1,946.9 million; 30 June 2020: £1,958.7 million) by CBRE Limited or Christie & Co in their capacity as independent external valuers. Of the total fair value, £113.7 million (31 December 2020: £115.3 million; 30 June 2020: £116.5 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 31 December 2020 and 30 June 2020. While the Royal Institution of Chartered Surveyors mandated that valuations in certain sectors should be subject to "material valuation uncertainty" as at 31 December 2020 and 30 June 2020, this proviso was applied on a sector basis. The 31 December 2020 and 30 June 2020 valuations of the healthcare assets, which accounted for 39% of the Group's property assets by value at those dates, did not carry such a proviso. None of the 30 June 2021 valuations in any sector were subject to material valuation uncertainty.

The historic cost of the Group's investment properties, translated at historic foreign exchange rates, as at 30 June 2021 was £1,479.2 million (31 December 2020 and 30 June 2020: £1,479.6 million).

All of the investment properties are held within six (31 December 2020 and 30 June 2020: six) ring-fenced security pools as security under fixed charges in respect of separate secured debt facilities.

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10. Investment properties (continued)

Under the Group's accounting policy, in line with IFRS, the carrying value of leasehold properties 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 2021 £m	Audited 31 December 2020 £m	Unaudited 30 June 2020 £m
Carrying value	**2,014.3**	1,975.6	1,986.8
Gross-up of headlease liabilities	**(28.6)**	(28.7)	(28.1)
Independent external valuation	**1,985.7**	1,946.9	1,958.7

Included within the carrying value of investment properties at 30 June 2021 is £187.1 million (31 December 2020: £181.4 million; 30 June 2020: £167.8 million) in respect of Rent Smoothing Adjustments (described in note 4 and in the Supplementary Information following these condensed financial statements), representing the amount of the net mismatch between rent included in the income statement and cash rents actually receivable. This net receivable increases over broadly the first half of each lease term in the case of fixed or minimum uplifts, or over the period of the temporary rent reductions agreed with tenants in light of Covid-19. The balance 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 rent review on the healthcare portfolio, which is recognised in revenue over the remaining lease term despite the cash having been received in 2018, together with movements on the headlease liabilities.

	Unaudited Six months to 30 June 2021 £m	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
Revaluation movement	**44.3**	(142.5)	(132.0)
Rent Smoothing Adjustments (note 4)	**(7.6)**	(23.7)	(9.8)
Adjustment for back rent received	**(0.2)**	(0.4)	(0.1)
Movement in headlease liabilities	**(0.1)**	(0.1)	(0.1)
Revaluation movement in the income statement	**36.4**	(166.7)	(142.0)

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 and conditions 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' assessments 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 assesses the valuation process, including meetings with the independent external valuers and evaluating their expertise and independence, and reports the results of these assessments to the Board.

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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 year.

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

	Fair value		Inputs	
Portfolio	**£m**	**Key unobservable input**	**Range**	**Blended yield**
At 30 June 2021:				
Healthcare	790.4	Net Initial Yield	3.9% - 4.5%	4.5%
		Running Yield by January 2022	3.9% - 4.5%	4.5%
Leisure - UK	703.2	Net Initial Yield	4.8% - 7.0%	5.5%
		Running Yield by January 2022	4.8% - 7.7%	5.7%
		Future RPI assumption per annum	2.5%	
Budget Hotels	407.0	Topped Up Net Initial Yield	5.3% - 15.2%	7.0%
		Running Yield by January 2022	5.8% - 17.0%	7.2%
		Future RPI assumption per annum	2.5%	
Leisure - Germany	113.7	Topped Up Net Initial Yield	5.6%	5.6%
		Running Yield by January 2022	5.8%	5.8%
Total at 30 June 2021	**2,014.3**			
At 31 December 2020:				
Healthcare	769.1	Net Initial Yield	3.9% - 4.5%	4.5%
		Running Yield by January 2022	4.0% - 4.6%	4.6%
Leisure - UK	687.7	Net Initial Yield	4.8% - 7.3%	5.5%
		Running Yield by January 2022	4.8% - 7.4%	5.7%
		Future RPI assumption per annum	2.5%	
Budget Hotels	403.5	Topped Up Net Initial Yield	5.3% - 13.9%	7.1%
		Running Yield by January 2022	5.8% - 15.5%	7.2%
		Future RPI assumption per annum	2.5%	
Leisure - Germany	115.3	Net Initial Yield	5.8%	5.8%
		Running Yield by January 2022	5.9%	5.9%
Total at 31 December 2020	**1,975.6**			
At 30 June 2020:				
Healthcare	769.1	Net Initial Yield	3.9% - 4.5%	4.5%
		Running Yield by January 2022	4.0% - 4.6%	4.6%
Leisure - UK	697.7	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	403.5	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	116.5	Net Initial Yield	5.6%	5.6%
		Running Yield by January 2022	5.9%	5.9%
Total at 30 June 2020	**1,986.8**			

The principal sensitivity of measurement to variations in the significant unobservable outputs is that decreases in Net Initial Yield, decreases in Running Yield and increases in RPI will increase the fair value (and vice versa).

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10. Investment properties (continued)

Other than headlease payments, the majority of which are recoverable from tenants, the Group did not have any contractual investment property commitments at any balance sheet date. With the exception of a property where a negligible proportion of the Group's income arises from an operating agreement, all property liabilities including repairs and maintenance are tenant liabilities, except at Manchester Arena where such costs relating to the structure and common areas are liabilities of the Group in the first instance. These costs total £1.2 million per annum as at 30 June 2021, of which 89% is currently recoverable from tenants leaving a negligible net cost of £0.1 million per annum to be borne by the Group.

11. Cash and cash equivalents

	Unaudited 30 June 2021 £m	Audited 31 December 2020 £m	Unaudited 30 June 2020 £m
Free cash and cash equivalents	**189.1**	196.6	226.4
Secured cash	**25.4**	23.1	14.7
	214.5	219.7	241.1

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.

12. Trade and other receivables

	Unaudited 30 June 2021 £m	Audited 31 December 2020 £m	Unaudited 30 June 2020 £m
Trade receivables	**0.1**	0.6	0.2
Accrued income – deferred rents	**19.1**	18.4	8.9
Prepayments	**0.6**	0.6	0.8
Other receivables	**0.2**	0.4	-
	20.0	20.0	9.9

Having been reviewed for any expected credit losses, no material impairment was considered necessary for trade receivables, accrued income or other receivables.

13. Trade and other payables

	Unaudited 30 June 2021 £m	Audited 31 December 2020 £m	Unaudited 30 June 2020 £m
Trade payables	**0.2**	1.0	1.1
Rent received in advance and other deferred income	**20.2**	19.6	20.1
Interest payable	**7.8**	8.0	7.9
Tax and social security	**3.9**	2.0	0.5
Accruals and other payables	**1.5**	2.3	1.5
	33.6	32.9	31.1

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

14. Secured debt

Amounts falling due within one year	Unaudited 30 June 2021 £m	Audited 31 December 2020 £m	Unaudited 30 June 2020 £m
Fixed rate secured debt	**7.3**	7.3	6.4
Unamortised finance costs	**(2.3)**	(2.3)	(2.3)
	5.0	5.0	4.1

Amounts falling due in more than one year			
Fixed rate secured debt	**841.2**	847.7	852.0
Floating rate secured debt	**73.3**	73.3	73.3
Unamortised finance costs	**(3.3)**	(4.4)	(5.7)
	911.2	916.6	919.6

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. During the period and the prior year, certain financial covenants were amended or waived to accommodate the temporary Covid-19 rent concessions on the Leisure and Budget Hotels portfolios described in the Investment Adviser's Report on page 6. There were no defaults or breaches of any loan covenants during the current period or any prior year.

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 2021 the fair value of the Group's secured debt was £948.6 million (31 December 2020: £969.2 million; 30 June 2020: £976.8 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 each balance sheet date by Chatham Financial Europe 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 period or prior year.

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

15. Interest rate derivatives

The notional amounts of the Group's interest rate derivatives comprise:

	Unaudited 30 June 2021 £m	Audited 31 December 2020 £m	Unaudited 30 June 2020 £m
Interest rate swaps (weighted average rate 1.3%)	**50.0**	50.0	50.0
Interest rate caps (weighted average rate 1.5%):			
In effective hedges	**23.3**	23.3	23.3
Classified as held for trading	**3.2**	3.2	3.2
	76.5	76.5	76.5

The fair value of those interest rate derivatives and the movement in fair value during the period was as follows:

	Unaudited 30 June 2021 £m	Audited 31 December 2020 £m	Unaudited 30 June 2020 £m
Interest rate swaps:			
Falling due within one year	**(0.5)**	(0.6)	(0.5)
Falling due in more than one year	**(0.6)**	(1.1)	(1.4)
	(1.1)	(1.7)	(1.9)
Interest rate caps:			
Falling due in more than one year	**-**	-	-
	(1.1)	(1.7)	(1.9)

	Unaudited Six months to 30 June 2021 £m	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
At the start of the period	**(1.7)**	(1.0)	(1.0)
Charge to the income statement (note 7)	**-**	(0.1)	-
Credit / (charge) to other comprehensive income (note 7)	**0.6**	(0.6)	(0.9)
At the end of the period	**(1.1)**	(1.7)	(1.9)

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 floating 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. 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 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.

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

15. Interest rate derivatives (continued)

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 of the floating rate loans described in note 14. Following a rebalancing of the hedging arrangements on £3.2 million 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 £6,000 (31 December 2020: £6,000; 30 June 2020: £7,000), are expected to be 100% effective throughout their lives. The remaining interest rate caps, which have a fair value of £1,000 (31 December 2020: £1,000; 30 June 2020: £2,000), have been classified as held for trading.

The floating rate loans and interest rate derivatives are contractually linked to LIBOR, a market rate which is expected to become unavailable from the end of 2021. The Investment Adviser is working with the Group's lenders and derivative counterparties to transition to an alternative benchmark rate, currently expected to be Sterling Overnight Index Average ("SONIA"). The transition is not expected to have a material impact on the results or financial position of the Group.

16. Deferred tax

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

	Unaudited Six months to 30 June 2021 £m	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
At the start of the period	**11.9**	11.3	11.3
Charge / (credit) to the income statement (note 8)	**0.7**	-	(0.1)
(Credit) / charge to other comprehensive income	**(0.6)**	0.6	0.7
At the end of the period	**12.0**	11.9	11.9

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 2021 Number	Audited Year to 31 December 2020 Number	Unaudited Six months to 30 June 2020 Number
At the start of the period	**324,035,146**	322,850,595	322,850,595
Issue of ordinary shares in settlement of 2019 incentive fee	**-**	1,184,551	1,184,551
At the end of the period	**324,035,146**	324,035,146	324,035,146

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 aggregate of:

- 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 £m	Cash flow hedging instruments £m	Shares to be issued £m	**Total £m**
Period to 30 June 2021 (unaudited)				
At the start of the period	5.4	(1.7)	-	**3.7**
Currency translation movements	(1.8)	-	-	**(1.8)**
Movement in fair value of derivatives	-	0.6	-	**0.6**
Other comprehensive loss	(1.8)	0.6	-	**(1.2)**
At the end of the period	3.6	(1.1)	-	**2.5**
Year to 31 December 2020 (audited)				
At the start of the year	3.3	(1.1)	4.9	**7.1**
Currency translation movements	2.1	-	-	**2.1**
Movement in fair value of derivatives	-	(0.6)	-	**(0.6)**
Other comprehensive income	2.1	(0.6)	-	**1.5**
Shares issued in the year	-	-	(4.9)	**(4.9)**
At the end of the year	5.4	(1.7)	-	**3.7**
Period to 30 June 2020 (unaudited)				
At the start of the period	3.3	(1.1)	4.9	**7.1**
Currency translation movements	2.5	-	-	**2.5**
Movement in fair value of derivatives	-	(0.8)	-	**(0.8)**
Other comprehensive income	2.5	(0.8)	-	**1.7**
Shares issued in the period	-	-	(4.9)	**(4.9)**
At the end of the period	5.8	(1.9)	-	**3.9**

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.

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 most meaningful measure of long term performance, which is the measure adopted by the majority of UK REITs establishing it as the industry standard benchmark. 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.

	Unaudited 30 June 2021		Audited 31 December 2020		Unaudited 30 June 2020	
Basic NAV and EPRA NTA	**£m**	**Pence per share**	£m	Pence per share	£m	Pence per share
Basic and diluted NAV	**1,260.2**	**388.9**	1,221.5	377.0	1,244.1	383.9
EPRA adjustments:						
Adjustment for deferred tax on German investment property revaluations	**6.0**	**1.9**	6.0	1.8	6.0	1.8
Fair value of interest rate derivatives	**1.1**	**0.3**	1.7	0.5	1.9	0.7
EPRA NTA	**1,267.3**	**391.1**	1,229.2	379.3	1,252.0	386.4

20. Related party transactions and balances

a) Interests in shares

In aggregate, the Management Team and entities related to them are beneficially interested in 40,164,756 shares in the capital of the Company as at 30 June 2021, which amounts to a 12.4% interest.

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

	Unaudited 30 June 2021		Audited 31 December 2020		Unaudited 30 June 2020	
	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	5.66%	18,342,009	5.66%
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%**	127,226	0.04%	127,226	0.04%
Ian Marcus	**95,871**	**0.03%**	95,871	0.03%	95,871	0.03%
Jonathan Lane	**57,471**	**0.02%**	57,471	0.02%	57,471	0.02%
Leslie Ferrar	**26,286**	**0.01%**	26,286	0.01%	26,286	0.01%

* comprising 16,850,300 shares held by an entity in which he has a 95% indirect interest and 1,491,709 shares held in a company which he wholly owns.

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

20. Related party transactions and balances (continued)

a) Interests in shares (continued)

Prestbury Incentives Limited and Prestbury Investment Partners Limited are owned and controlled by the Management Team, as Nick Leslau, Mike Brown and Sandy Gumm are shareholders and directors of both Prestbury Investment Partners Limited and the parent undertaking of Prestbury Incentives Limited. In addition to the personal holdings disclosed above, those companies hold shares in the Company as follows:

	Unaudited 30 June 2021		Audited 31 December 2020		Unaudited 30 June 2020	
	Number of shares	**Percentage of issued share capital**	Number of shares	Percentage of issued share capital	Number of shares	Percentage of issued share capital
Prestbury Incentives Limited	**19,262,042**	**5.94%**	19,262,042	5.94%	19,262,042	5.94%
Prestbury Investment Partners Limited	**1,184,551**	**0.37%**	1,184,551	0.37%	1,184,551	0.37%
	20,446,593	**6.31%**	20,446,593	6.31%	20,446,593	6.31%

b) 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 2021 £m	Audited Year to 31 December 2020 £m	Unaudited Six months to 30 June 2020 £m
Prestbury Incentives Limited †	**1.4**	3.0	1.6
Nick Leslau *	**1.3**	2.9	1.5
Mike Brown	**0.1**	0.2	0.1
Prestbury Investment Partners Limited †	**0.1**	0.1	0.1
Other directors	**-**	0.1	-
	2.9	6.3	3.3

† Nick Leslau, Mike Brown and Sandy Gumm are shareholders and directors of both Prestbury Investment Partners Limited and the parent undertaking of Prestbury Incentives Limited, together with the other members of the Management Team, Tim Evans and Ben Walford. Other senior members of the Prestbury team also have equity interests in those companies.

* 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.

c) Directors' fees

Fees totalling £200,000 per annum are 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 payable in the period (year to 31 December 2020: £200,000; six months to 30 June 2020: £100,000). No fees were outstanding at any balance sheet date.

d) Advisory fees payable - relationship between Company and Investment Advisor

The Investment Advisory Agreement sets out the terms of the relationship between the Company and the Investment Adviser, including services to be provided and the calculation of the advisory fee and any 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 Company or 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. Nick Leslau, Mike Brown and Sandy Gumm, who are Directors of the Company, are also directors and shareholders in the Investment Adviser.

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

20. Related party transactions and balances (continued)

e) Advisory fees payable - basis of calculation of fees

EPRA introduced new methods of calculation of EPRA net asset value with effect from 1 January 2020. In considering that change, the Remuneration Committee concluded that, in order for the calculation of the advisory and incentive fees to remain consistent with the way that those fees had been calculated since the Company's listing and as set out in the Investment Advisory Agreement, the fees would continue to be calculated on the basis of the EPRA NAV methodology in place at the time of the agreement. That basis is set out in the EPRA Guidance previously issued in 2016, referred to in these financial statements as "2016 basis EPRA NAV".

In addition, following a proposal made by the Investment Adviser, with effect from 1 April 2020 the advisory fee was reduced to the extent that the Group's net assets include surplus cash realised on the disposal of a portfolio of hospitals in August 2019 and that surplus cash remains available for deployment. The balance of the surplus cash at 1 April 2020 was £158.3 million and at 30 June 2021 was £109.9 million. The 2016 basis EPRA NAV used for the fee calculations reconciles to EPRA NTA as follows:

	Unaudited 30 June 2021		Audited 31 December 2020		Unaudited 30 June 2020	
	£m	**Pence per share**	£m	Pence per share	£m	Pence per share
EPRA NTA	**1,267.3**	**391.1**	1,229.2	379.3	1,252.0	386.4
Adjustment to deferred tax on German investment property revaluations	**6.0**	**1.8**	6.0	1.9	6.0	1.8
NAV for purposes of incentive fee calculation (2016 basis EPRA NAV)	**1,273.3**	**392.9**	1,235.2	381.2	1,258.0	388.2
Adjustment for surplus cash	**(109.9)**	**(33.9)**	(114.0)	(35.2)	(149.4)	(46.1)
NAV for purposes of advisory fee calculations	**1,163.4**	**359.0**	1,121.2	346.0	1,108.6	342.1

Advisory fees payable to the Investment Adviser are calculated as:

- 1.25% per annum on NAV for the purposes of fee calculations up to £500 million, plus
- 1.0% per annum on NAV for the purposes of fee calculations between £500 million and £1 billion, plus
- 0.75% per annum on NAV for the purposes of fee calculations between £1 billion and £1.5 billion, plus
- 0.5% per annum on NAV for the purposes of fee calculations over £1.5 billion.

During the period, advisory fees of £6.0 million (year to 31 December 2020: £12.8 million; six months to 30 June 2020: £6.7 million) plus VAT were payable in cash, of which £nil (31 December 2020: £nil; 30 June 2020; £0.1 million) was outstanding as at the balance sheet date and included in trade and other payables. The impact of adopting 2016 basis EPRA NAV is that fees payable in the period were £22,000 (year to 31 December 2020: £44,000; six months to 30 June 2020: £22,000) higher than they would have been under EPRA NTA.

CONDENSED FINANCIAL STATEMENTS

Notes to the Interim Report continued

20. Related party transactions and balances (continued)

f) 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 year.

The fee entitlement is calculated annually on the basis of the Group's audited financial statements, with any fee payable settled in shares in the Company (subject to certain limited exceptions none of which have yet applied). 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 the 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 2016 basis EPRA NAV plus 10% per annum. In this way, the incentive fee is never rebased upwards as a result of a year of low or negative growth, maintaining strong alignment of management and shareholder interests. 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 is subject to a cap of 5% of 2016 basis EPRA NAV, save for a fee payable in the event of a change of control of the Company which is uncapped.

A high water mark of 431.1 pence per share was established at 31 December 2019 when a fee was last earned. The 2016 basis EPRA NAV was 381.2 pence per share at the start of the year, therefore TAR will have to exceed 124.4 pence per share for the year ending 31 December 2021 for a fee to be earned; given the Board's current expectations of dividends to be declared over the remainder of 2021, that means 2016 basis EPRA NAV will have to exceed 491.1 pence per share (£1,591.4 million) at 31 December 2021 before any incentive fee becomes payable. This compares with 2016 basis EPRA NAV of 392.9 pence per share (£1,273.3 million) as at 30 June 2021.

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 2021, assuming that:

- there are no acquisitions, disposals or lease variations in the second half of 2021;
- there is no change to the investment property valuations as at 30 June 2021;
- 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 2021 independent investment property valuations; and
- distributions over the remainder of the year are paid in line with the Board's current expectations, with the special assumption that there are no further widespread lockdowns or other pandemic related events that vary the Board's assessment of the likelihood of declaring a dividend for the fourth quarter.

This estimate does not constitute a forecast, but 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 would be payable for the 2021 year and as a result no fee is accrued at 30 June 2021 (30 June 2020: £nil).

21. Events after the balance sheet date

On 22 July 2021, the Company declared a distribution of £12.8 million as an interim dividend of 3.95 pence per share, which was paid on 3 September 2021.

ADDITIONAL INFORMATION
Supplementary Information

Shareholder Return – TAR and TSR

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

TAR – EPRA NTA performance

	Six months to 30 June 2021 Pence	Year to 31 December 2020 Pence	Six months to 30 June 2020 Pence
EPRA NTA per share:			
at the start of the period	**379.3**	429.4	429.4
at the end of the period	**391.1**	379.3	386.4
Increase / (decrease) in EPRA NTA per share	**11.8**	(50.1)	(43.0)
Dividends per share	**7.3**	15.7	8.4
Increase / (decrease) in EPRA NTA plus dividends per share	**19.1**	(34.4)	(34.6)
TAR	**5.0%**	(8.0)%	(8.1)%

TSR – share price performance

	Six months to 30 June 2021 Pence	Year to 31 December 2020 Pence	Six months to 30 June 2020 Pence
Mid-market closing share price:			
at the start of the period	**300.0**	434.0	434.0
at the end of the period	**380.0**	300.0	270.0
Increase / (decrease) in share price	**80.0**	(134.0)	(164.0)
Dividends per share	**7.3**	15.7	8.4
Increase / (decrease) in share price plus dividends per share	**87.3**	(118.3)	(155.6)
TSR	**29.1%**	(27.3)%	(35.9)%

ADDITIONAL INFORMATION

Supplementary Information continued

EPRA measures

	30 June 2021	31 December 2020	30 June 2020
EPRA Net Tangible Assets ("EPRA NTA") per share	**391.1**	379.3p	386.4p
EPRA Net Reinstatement Value per share	**434.3**	421.7p	429.0p
EPRA Net Disposal Value per share	**380.6**	364.3p	370.0p
EPRA Net Initial Yield	**4.95%**	4.44%	4.28%
EPRA Topped Up Net Initial Yield	**5.36%**	5.40%	5.31%
EPRA Vacancy Rate	**0%**	0%	0%

	Six months to 30 June 2021	Year to 31 December 2020	Six months to 30 June 2020
EPRA EPS	**8.6p**	16.3p	8.3p
EPRA Capital Expenditure	**£0.1m**	£0.5m	£0.2m
EPRA Cost Ratio excluding direct vacancy costs	**12.6%**	14.8%	14.6%
EPRA Cost Ratio including direct vacancy costs	**12.9%**	15.1%	14.8%

Adjusted EPRA measures

	Six months to 30 June 2021	Year to 31 December 2020	Six months to 30 June 2020
Adjusted EPRA EPS *	**6.1p**	3.5p	5.1p
Adjusted EPRA Cost Ratio excluding direct vacancy costs	**14.4%**	18.4%	17.5%
Adjusted EPRA Cost Ratio including direct vacancy costs	**14.8%**	18.7%	17.6%

* calculation explained in note 9 to the financial statements

ADDITIONAL INFORMATION

Supplementary Information continued

EPRA NTA

	30 June 2021		31 December 2020		30 June 2020	
	£m	**Pence per share**	£m	Pence per share	£m	Pence per share
Basic NAV	**1,260.2**	**388.9**	1,221.5	377.0	1,244.1	383.9
EPRA adjustments:						
Adjustment for deferred tax on investment property revaluations *	**6.0**	**1.9**	6.0	1.8	6.0	1.8
Fair value of derivatives	**1.1**	**0.3**	1.7	0.5	1.9	0.7
EPRA NTA	**1,267.3**	**391.1**	1,229.2	379.3	1,252.0	386.4

* in accordance with the EPRA Guidance, half of the deferred tax is adjusted for in the EPRA NTA calculation

EPRA Net Reinstatement Value

The EPRA Net Reinstatement Value is calculated on the assumption that the Group never sells assets and is intended to represent the value that would be required to rebuild the portfolio.

	30 June 2021		31 December 2020		30 June 2020	
	£m	**Pence per share**	£m	Pence per share	£m	Pence per share
Basic NAV	**1,260.2**	**388.9**	1,221.5	377.0	1,244.1	383.9
EPRA adjustments:						
Adjustment for real estate transfer taxes	**134.0**	**41.4**	131.5	40.5	132.3	40.8
Deferred tax on investment property revaluations	**12.0**	**3.7**	11.9	3.7	11.9	3.6
Fair value of interest rate derivatives	**1.1**	**0.3**	1.7	0.5	1.9	0.7
EPRA Net Reinstatement Value	**1,407.3**	**434.3**	1,336.6	421.7	1,390.2	429.0

ADDITIONAL INFORMATION

Supplementary Information continued

EPRA Net Disposal Value per share

The EPRA Net Disposal Value Represents the Group's value under a disposal scenario, with the fair values of financial instruments, including fixed rate debt, shown to the full extent of their liability, calculated as follows:

	30 June 2021		31 December 2020		30 June 2020	
	£m	**Pence per share**	£m	Pence per share	£m	Pence per share
Basic NAV	**1,260.2**	**388.9**	1,221.5	377.0	1,244.1	383.9
EPRA adjustments:						
Fair value of fixed rate debt	**(26.8)**	**(8.3)**	(40.9)	(12.7)	(45.2)	(13.9)
EPRA Net Disposal Value	**1,233.4**	**380.6**	1,180.6	364.3	1,198.9	370.0

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 2021 £m	31 December 2020 £m	30 June 2020 £m
Investment property, all of which is completed and wholly owned, at external valuation	**1,985.7**	1,946.9	1,958.7
Allowance for estimated purchasers' costs	**134.0**	131.5	132.2
Grossed up completed property portfolio valuation	**2,119.7**	2,078.4	2,090.9
Annualised cash passing rental income	**105.9**	98.3	90.4
Annualised non-recoverable property outgoings	**(1.0)**	(1.0)	(0.9)
Annualised net rents	**104.9**	97.3	89.5
Notional rent increase on expiry of rent concessions, rent free periods and other lease incentives	**8.8**	15.0	21.5
Topped-up annualised net rents	**113.7**	112.3	111.0
EPRA Net Initial Yield	**4.95%**	4.68%	4.28%
EPRA Topped Up Net Initial Yield	**5.36%**	5.40%	5.31%

The EPRA Net Initial Yields reflect temporary rent concessions on the Budget Hotels and Pubs portfolios arising as a result of the Covid-19 pandemic.

EPRA Vacancy Rate

	30 June 2021 £000	31 December 2020 £000	30 June 2020 £000
ERV of vacant space	**40**	40	40
ERV of portfolio	**114,770**	111,536	113,281
EPRA Vacancy Rate	**0%**	0%	0%

ADDITIONAL INFORMATION

Supplementary Information continued

EPRA and Adjusted EPRA EPS

	Six months to 30 June 2021 £m	Year to 31 December 2020 £m	Six months to 30 June 2020 £m
Basic earnings attributable to shareholders	**63.6**	(113.6)	(115.0)
EPRA adjustments:			
Investment property revaluation	**(36.5)**	166.5	142.0
Deferred tax charge / (credit)	**0.7**	-	(0.1)
EPRA earnings	**27.8**	52.9	26.9
Non-EPRA adjustments:			
Rent Smoothing Adjustments	**(7.6)**	(23.7)	(9.8)
Rent deferrals	**(0.8)**	(17.7)	(0.6)
Adjusted EPRA earnings	**19.4**	11.5	16.5

Weighted average number of shares in issue	**Six months to 30 June 2021 Number**	Year to 31 December 2020 Number	Six months to 30 June 2020 Number
EPRA EPS	**324,035,146**	324,035,146	324,035,146
Adjustment for weighting of shares issued during the period *	**-**	(258,918)	(520,682)
Adjusted EPRA EPS	**324,035,146**	323,776,228	323,514,464

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

	Six months to 30 June 2021 Pence per share	Year to 31 December 2020 Pence per share	Six months to 30 June 2020 Pence per share
EPRA EPS	**8.6**	16.3	8.3
Adjusted EPRA EPS	**6.1**	3.5	5.1

ADDITIONAL INFORMATION

Supplementary Information continued

EPRA Capital Expenditure

Wholly owned property	**Six months to 30 June 2021 £m**	Year to 31 December 2020 £m	Six months to 30 June 2020 £m
Acquisitions	**-**	-	-
Development	**-**	-	-
Expenditure on completed investment property held throughout the year:			-
Creation of additional lettable area	**-**	-	-
Enhancing existing space	**-**	-	-
Other	**0.1**	0.5	0.2
EPRA Capital Expenditure	**0.1**	0.5	0.2

The Group does not have any joint ventures or other partial interests in investment property so any EPRA capital expenditure relates to wholly owned properties. 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 in the first instance. The EPRA Capital Expenditure in the current period represents £0.1 million (year to 31 December 2020: £0.2 million; six months to 30 June 2020: £0.2 million) for capital works at Manchester Arena within the service charge that is not recoverable from tenants. The remaining expenditure in the prior year comprises £0.3 million for the acquisition of car park equipment.

ADDITIONAL INFORMATION

Supplementary Information continued

EPRA Cost Ratios

	Six months to 30 June 2021 £m	Year to 31 December 2020 £m	Six months to 30 June 2020 £m
Revenue (note 4)	**60.5**	121.7	60.9
Tenant contributions to property outgoings (note 4)	**(0.8)**	(1.7)	(0.9)
EPRA gross rental income	**59.7**	120.0	60.0
Non-recoverable property operating expenses (note 5) *	**0.4**	1.7	1.1
Less headlease costs included in non-recoverable property operating expenses (note 5)	**(0.2)**	(0.6)	(0.3)
Administrative expenses (note 6)	**7.5**	17.0	8.1
EPRA costs including direct vacancy costs	**7.7**	18.1	8.9
Direct vacancy costs	**(0.2)**	(0.3)	(0.1)
EPRA costs excluding direct vacancy costs	**7.5**	17.8	8.8
EPRA Cost Ratio including direct vacancy costs	**12.9%**	15.1%	14.8%
EPRA Cost Ratio excluding direct vacancy costs	**12.6%**	14.8%	14.6%

* included within £1.2 million (year to 31 December 2020: £3.3 million; six months to 30 June 2020 £2.0 million) of property costs payable by the Group are £0.8 million (31 December 2020: £1.7 million; 30 June 2020 £0.9 million) of headlease and other costs that are recoverable from the tenants.

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 £nil (year to 31 December 2020: £54,000; six months to 30 June 2020 £53,000) were capitalised, and £3,000 (year to 31 December 2020: £4,000; six months to 30 June 2020: £2,000) was released from capitalised costs and charged to the income statement. Costs of £16,000 (year to 31 December 2020: £568,000; six months to 30 June 2020 £534,000) for negotiating and documenting Covid-19 rent concessions, and rent review and other letting costs of £19,000 (year to 31 December 2020 and six months to 30 June 2020: £35,000) are included in non-recoverable property operating expenses. A further £3,000 (year to 31 December 2020 and six months to 30 June 2020: £106,000) relating to the amendment of loan facilities as a result the Covid-19 rent concessions is included in finance costs. The Group otherwise has no capitalised overheads or other operating expenses and does not capitalise interest.

Adjusted EPRA Cost Ratios

The Group also calculates an Adjusted EPRA Cost Ratio excluding revenue recognised ahead of cash receipt as a result of Rent Smoothing Adjustments (described in note 4) to present what the Board considers to be a measure of cost efficiency more directly relevant to its business model.

	Six months to 30 June 2021 £m	Year to 31 December 2020 £m	Six months to 30 June 2020 £m
EPRA gross rental income	**59.7**	120.0	60.0
Rent Smoothing Adjustments	**(7.6)**	(23.6)	(9.8)
Adjusted EPRA gross rental income excluding non-cash items	**52.1**	96.4	50.2
EPRA costs including direct vacancy costs	**7.7**	18.1	8.9
Direct vacancy costs	**(0.2)**	(0.3)	(0.1)
EPRA costs excluding direct vacancy costs	**7.5**	17.8	8.8
Adjusted EPRA Cost Ratio including direct vacancy costs	**14.8%**	18.7%	17.6%
Adjusted EPRA Cost Ratio excluding direct vacancy costs	**14.4%**	18.4%	17.5%

ADDITIONAL INFORMATION

Supplementary Information continued

Like for like rental growth by portfolio

Passing rent	Leisure £m	Healthcare £m	Budget Hotels £m	**Total £m**
At 1 January 2021	47.5	36.6	29.2	**113.3**
Movement in Euro exchange rate	(0.3)	-	-	**(0.3)**
Like for like passing rent	47.2	36.6	29.2	**113.0**
Rental uplifts	0.7	1.0	-	**1.7**
At 30 June 2021	47.9	37.6	29.2	**114.7**
Increase in like for like passing rent	1.6%	2.8%	-	**1.5%**
Portfolio valuation at 30 June 2021	806.9	790.4	388.4	**1,985.7**

Passing rent	Leisure £m	Healthcare £m	Budget Hotels £m	**Total £m**
At 1 January 2020	46.8	35.6	28.3	**110.7**
Movement in Euro exchange rate	0.4	-	-	**0.4**
Like for like passing rent	47.2	35.6	28.3	**111.1**
Rental uplifts	0.3	1.0	0.9	**2.2**
At 31 December 2020	47.5	36.6	29.2	**113.3**
Increase in like for like passing rent	0.8%	2.8%	2.9%	**2.0%**
Portfolio valuation at 31 December 2020	793.0	769.1	384.8	**1,946.9**

Passing rent	Leisure £m	Healthcare £m	Budget Hotels £m	**Total £m**
At 1 January 2020	46.8	35.6	28.3	**110.7**
Movement in Euro exchange rate	0.4	-	-	**0.4**
Like for like passing rent	47.2	35.6	28.3	**111.1**
Rental uplifts	(0.3)	1.0	-	**0.7**
At 30 June 2020	46.9	36.6	28.3	**111.8**
Increase in like for like passing rent	(0.8)%	2.8%	-	**1.0%**
Portfolio valuation at 30 June 2020	804.8	769.1	384.8	**1,958.7**

Like for like figures exclude foreign currency translation movements and any properties not held throughout the period.

ADDITIONAL INFORMATION

Supplementary Information continued

Like for like rental growth by country

Passing rent	UK £m	Germany £m	**Total portfolio** **£m**
At 1 January 2021	106.2	7.1	**113.3**
Movement in Euro exchange rate	-	(0.3)	**(0.3)**
Like for like passing rent	106.2	6.8	**113.0**
Rental uplifts	1.7	-	**1.7**
At 30 June 2021	107.9	6.8	**114.7**
Increase in like for like passing rent	1.6%	-	**1.5%**
Portfolio valuation at 30 June 2021	1,872.0	113.7	**1,985.7**

Passing rent	UK £m	Germany £m	**Total portfolio** **£m**
At 1 January 2020	104.2	6.5	**110.7**
Movement in Euro exchange rate	-	0.4	**0.4**
Like for like passing rent	104.2	6.9	**111.1**
Rental uplifts	2.0	0.2	**2.2**
At 31 December 2020	106.2	7.1	**113.3**
Increase in like for like passing rent	1.9%	3.3%	**2.0%**
Portfolio valuation at 31 December 2020	1,831.6	115.3	**1,946.9**

Passing rent	UK £m	Germany £m	**Total portfolio** **£m**
At 1 January 2020	104.2	6.5	**110.7**
Movement in Euro exchange rate	-	0.4	**0.4**
Like for like passing rent	104.2	6.9	**111.1**
Rental uplifts	0.7	-	**0.7**
At 30 June 2020	104.9	6.9	**111.8**
Increase in like for like passing rent	1.0%	-	**1.0%**
Portfolio valuation at 30 June 2020	1,842.2	116.5	**1,958.7**

Like for like figures exclude foreign currency translation movements and any properties not held throughout the period.

ADDITIONAL INFORMATION

Supplementary Information continued

Rent Smoothing Adjustments

The Group's revenue recognition 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 relate to the 41% of contracted portfolio rents (before rent concessions) that are subject to fixed uplifts, the 6% of contracted portfolio rents with minimum uplifts on RPI-linked reviews, and the temporary Covid-19 rent concessions agreed with the tenants of the Budget Hotels and Pubs portfolios in 2020 which represent lease modifications under IFRS 16.

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 date or the date of acquisition, 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. Since this adjustment initially 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 2021 is as follows:

	Receivable at 30 June 2021 £m	Maximum receivable £m	Date of maximum receivable
Fixed/minimum uplifts recognised ahead of cash receipt:			
Healthcare – Ramsay hospitals	**110.1**	111.8	March 2023
German leisure *	**36.8**	40.3	June 2026
Healthcare – Lisson Grove hospital	**12.8**	20.6	March 2035
The Brewery	**5.0**	23.5	June 2041
Manchester Arena	**3.4**	8.9	June 2032
Pubs	**0.6**	2.0	March 2030
	168.7	207.1	
Covid-19 related rent concessions:			
Budget Hotels	**17.3**	21.1	Dec 2021
Pubs	**1.1**	1.1	Sept 2020
	187.1	229.3	

* at the period end Euro conversion rate of €1:£0.86.

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 change in rental income that was recognised in the current period and is expected for each of the next three financial years (with the German adjustment translated at the 2021 average Euro conversion rate of €1:£0.87) is as follows:

	Fixed or minimum RPI-linked uplifts £m	Covid-19 rent concessions £m	**Six months to 30 June £m**
2021	7.3	7.3	**14.6**
2022	5.7	(1.2)	**4.5**
2023	4.3	(1.2)	**3.1**
2024	2.9	(1.2)	**1.7**

ADDITIONAL INFORMATION
Important notes

Forward looking information
This document includes forward looking statements which are subject to risks and uncertainties. You are cautioned that forward looking statements are not guarantees of future performance and that if risks and uncertainties materialise, or if the assumptions underlying any of these statements prove incorrect, the actual results of operations and financial condition of the Group may differ materially from those made in, or suggested by, the forward looking statements. Other than in accordance with its legal or regulatory obligations, the Company undertakes no obligation to review, update or confirm expectations or estimates or to release publicly any revisions to any forward looking statements to reflect events that occur or circumstances that arise after 8 September 2021.

Rounding of financial statements
The condensed financial statements, including comparative amounts, and certain other figures in this document are presented in millions of pounds, rounded to one decimal place. Accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them as a result of rounding.

ADDITIONAL INFORMATION

Property Portfolio as at 8 September 2021

Property	Portfolio	Region	Address
Values over £100 million			
Alton Towers theme park	Leisure	Rest of England	Alton, Staffordshire ST10 4DB
Rivers hospital	Healthcare	Rest of England	High Wych Road, Sawbridgeworth CM21 0HH
Springfield hospital	Healthcare	Rest of England	Lawn Lane, Springfield, Chelmsford CM1 7GU
Thorpe Park theme park	Leisure	Rest of England	Staines Road, Chertsey KT16 8PN
Values between £50-100 million			
Alton Towers hotel	Leisure	Rest of England	Alton, Staffordshire ST10 4DB
Fitzwilliam hospital	Healthcare	Rest of England	Milton Way, South Bretton, Peterborough PE3 9AQ
Heide Park theme park	Leisure	Germany	29614 Soltau, Lower Saxony, Germany
Manchester Arena, adjacent offices, parking and ancillary space	Leisure	Rest of England	Victoria Station, Manchester M3 1AR
Nightingale hospital	Healthcare	London	11-19 Lisson Grove, Marylebone, London NW1 6SH
Oaks hospital	Healthcare	Rest of England	120 Mile End Road, Colchester CO4 5XR
Pinehill hospital	Healthcare	Rest of England	Benslow Lane, Hitchin SG4 9QZ
Warwick Castle	Leisure	Rest of England	Warwick CV34 4QU
Yorkshire clinic	Healthcare	Rest of England	Bradford Road, Bingley BD16 1TW
Values between £25-50 million			
The Brewery	Leisure	London	52 Chiswell Street, London EC1Y 4SD
Duchy hospital	Healthcare	Rest of England	Peventinnie Lane, Treliske, Truro TR1 3UP
Fulwood hospital	Healthcare	Rest of England	Midgery Lane, Fulwood, Preston PR2 9SZ
Heide Park hotel	Leisure	Germany	29614 Soltau, Lower Saxony, Germany
West Midlands hospital	Healthcare	Rest of England	Coleman Hill, Halesowen B63 2AH
Woodlands hospital	Healthcare	Rest of England	Rothwell Road, Kettering NN16 8XF
Values between £10-25 million			
Bath Central Travelodge	Budget Hotels	Rest of England	York Buildings, Bath BA1 2EB
Edinburgh Central Travelodge	Budget Hotels	Scotland	33 St Mary's Street, Edinburgh EH1 1TA
London Wimbledon Travelodge	Budget Hotels	London	Epsom Road, Morden SM4 5PH
Manchester Central Travelodge	Budget Hotels	Rest of England	11 Blackfriars Street, Salford, Manchester M3 5AL
Oaklands hospital	Healthcare	Rest of England	19 Lancaster Road, Salford, Manchester M6 8AQ
Oxford Peartree Travelodge	Budget Hotels	Rest of England	Woodstock Road, Yarnton, Kidlington, Oxford OX2 8JZ
Values between £5-10 million			
Birmingham Central Travelodge	Budget Hotels	Rest of England	230 Broad Street, Birmingham B15 1AY
Cambridge Fourwentways Travelodge	Budget Hotels	Rest of England	Abington, Cambridge CB21 6AP
Dartford Travelodge	Budget Hotels	London	Charles Street, Dartford DA2 9AP
Exeter M5 Travelodge	Budget Hotels	Rest of England	Moto Service Area, M5 Motorway, Exeter EX2 7HF
Glasgow Central Travelodge	Budget Hotels	Scotland	5-11 Hill Street, Glasgow G3 6RP
Heathrow Heston M4 Westbound Travelodge	Budget Hotels	London	Moto Service Area, M4 Motorway, Phoenix Way, Heston, Hounslow TW5 9NB
London Park Royal Travelodge	Budget Hotels	London	614 Western Avenue, London W3 0TE
Milton Keynes Central Travelodge	Budget Hotels	Rest of England	199 Grafton Gate, Milton Keynes MK9 1AL
Nottingham Riverside Travelodge	Budget Hotels	Rest of England	Nottingham Riverside Retail Park, Tottle Road, Queen’s Drive, Nottingham NG2 1RT
Northampton Upton Way Travelodge	Budget Hotels	Rest of England	Upton Way, Northampton NN5 4EG
Reading Central Travelodge	Budget Hotels	Rest of England	60 Oxford Road, Reading RG1 7LT

ADDITIONAL INFORMATION

Property Portfolio as at 8 September 2021 continued

Property	Portfolio	Region	Address
Values between £2-5 million			
Aberdeen Bucksburn Travelodge	Budget Hotels	Scotland	Inverurie Road, Bucksburn, Aberdeen AB21 9LZ
Alfreton Travelodge	Budget Hotels	Rest of England	Old Swanwick, Colliery Road, Alfreton, Swanwick DE55 1JH
Arundel Fontwell Travelodge	Budget Hotels	Rest of England	Arundel Road, Fontwell, Arundel BN18 0SB
Basildon Travelodge	Budget Hotels	Rest of England	Festival Leisure Park, Basildon SS14 3WB
Basingstoke Travelodge	Budget Hotels	Rest of England	Winchester Road, Basingstoke RG22 6HN
Bedford Arms, Southampton	Leisure	Rest of England	23 Bedford Place, Southampton SO15 2DB
Bedford Marston Moretaine Travelodge	Budget Hotels	Rest of England	Beancroft Road, Marston Moretaine, Bedford MK43 0QZ
Birmingham Sutton Coldfield Travelodge	Budget Hotels	Rest of England	Boldmere Road, Sutton Coldfield B73 5UP
Blue Bell Hotel, Middlesbrough	Leisure	Rest of England	Acklam Road, Middlesbrough TS5 7HL
Bracknell Travelodge	Budget Hotels	Rest of England	London Road, Binfield, Bracknell RG42 4AA
Bradford Travelodge	Budget Hotels	Rest of England	Midpoint, Thornbury, Bradford BD3 7AY
Brentwood East Horndon Travelodge	Budget Hotels	Rest of England	A127, East Horndon, Brentwood CM13 3LL
Bristol Cribbs Causeway Travelodge	Budget Hotels	Rest of England	Cribbs Causeway, Bristol BS10 7TL
Bristol Severn View M48 Travelodge	Budget Hotels	Rest of England	Moto Service Area, M48 Motorway, Severn Bridge, Bristol BS35 4BH
Canterbury Whitstable Travelodge	Budget Hotels	Rest of England	Thanet Way, Faversham ME13 9EL
Chippenham Leigh Delamere M4 Eastbound Travelodge	Budget Hotels	Rest of England	Moto Service Area, Leigh Delamere, Chippenham SN14 6LB
Dorking Travelodge	Budget Hotels	Rest of England	Reigate Road, Dorking RH4 1QB
Ely Travelodge	Budget Hotels	Rest of England	Witchford Road, Ely CB6 3NN
Frimley Travelodge	Budget Hotels	Rest of England	114 Portsmouth Road, Camberley GU15 1HS
Glasgow Paisley Road Travelodge	Budget Hotels	Scotland	251 Paisley Road, Glasgow, G5 8RA
Great Yarmouth Acle Travelodge	Budget Hotels	Rest of England	A47 Roundabout, Acle Bypass, Acle, Norwich NR13 3BE
Haydock St. Helens Travelodge	Budget Hotels	Rest of England	Piele Road, Haydock, St Helens WA11 9TL
Heathrow Heston M4 Eastbound Travelodge	Budget Hotels	London	Moto Service Area, M4 Motorway, Phoenix Way, Heston, Hounslow TW5 9NB
Hellingly Eastbourne Travelodge	Budget Hotels	Rest of England	Boship Roundabout, Hellingly, Hailsham BN27 4DP
Hogshead, Wolverhampton	Leisure	Rest of England	186 Stafford Street, Wolverhampton WV1 1NA
Ilminster Travelodge	Budget Hotels	Rest of England	A303 Southfield Roundabout, Horton Cross, Ilminster TA19 9PT
Inverness Travelodge	Budget Hotels	Scotland	Stonyfield, A96 Inverness Road, Inverness IV2 7PA
Kettering Thrapston Travelodge	Budget Hotels	Rest of England	Junction 13, A14 Eastbound, Thrapston NN14 4UR
Leeds Central Travelodge	Budget Hotels	Rest of England	Blayd's Court, Blayd's Yard Swinegate, Leeds LS1 4AD
Lincoln Thorpe on the Hill Travelodge	Budget Hotels	Rest of England	A46 Newark/Lincoln Road, Thorpe on the Hill LN6 9AJ
Liverpool Docks Travelodge	Budget Hotels	Rest of England	Brunswick Dock, Sefton Street, Liverpool L3 4BN
Medway M2 Travelodge	Budget Hotels	Rest of England	Moto Service Area, M2 Motorway, Rainham, Gillingham ME8 8PQ
Milton Keynes Old Stratford Travelodge	Budget Hotels	Rest of England	Towcester Road, Old Stratford, Milton Keynes MK19 6AQ
Newbury Tot Hill Travelodge	Budget Hotels	Rest of England	Tot Hill Services, A34 Newbury Bypass, Burghclere, Newbury RG20 9BX
Oxford Wheatley Travelodge	Budget Hotels	Rest of England	London Road, Wheatley, Oxford OX33 1JL
Perth Crieff Road Travelodge	Budget Hotels	Scotland	Crieff Road, Perth PH1 3JJ
Plymouth Derriford Travelodge	Budget Hotels	Rest of England	8-9 Howeson Lane, Plymouth PL6 8BD

ADDITIONAL INFORMATION

Property Portfolio as at 8 September 2021 continued

Property	Portfolio	Region	Address
Values between £2-5 million (continued)			
Reading M4 Eastbound Travelodge	Budget Hotels	Rest of England	Moto Service Area, Burghfield, Reading RG30 3UQ
Reading M4 Westbound Travelodge	Budget Hotels	Rest of England	Moto Service Area, Burghfield, Reading RG30 3UQ
Reading Whitley Travelodge	Budget Hotels	Rest of England	387 Basingstoke Road, Whitley, Reading RG2 0JE
Saltash Travelodge	Budget Hotels	Rest of England	Callington Road, Carkell, Saltash PL12 6LF
Slug & Lettuce, Farnham	Leisure	Rest of England	9–11 East Street, Farnham, GU9 7RX
Southampton Eastleigh Travelodge	Budget Hotels	Rest of England	Ham Farm, Twyford Road, Eastleigh SO50 4LF
Southampton Travelodge	Budget Hotels	Rest of England	144 Lodge Road, Southampton SO14 6QR
Stoke Talke Travelodge	Budget Hotels	Rest of England	Newcastle Road, Talke, Stoke-on-Trent ST7 1UP
Stratford Alcester Travelodge	Budget Hotels	Rest of England	Oversley Mill, Alcester B49 6PQ
Swansea M4 Travelodge	Budget Hotels	Wales	Moto Service Area, M4 Motorway, Penllergaer, Swansea SA4 9GT
Towcester Silverstone Travelodge	Budget Hotels	Rest of England	A43 Towcester Bypass, Towcester NN12 6TQ
Warminster Travelodge	Budget Hotels	Rest of England	A36/A350 Bypass, Bath Road, Warminster BA12 7RU
Warrington Travelodge	Budget Hotels	Rest of England	Kendrick Street, Warrington WA1 1UZ
Warrington Lowton Travelodge	Budget Hotels	Rest of England	322 Newton Road, Lowton, Warrington WA3 1HD
Widnes Travelodge	Budget Hotels	Rest of England	Fiddlers Ferry Road, Widnes WA8 0HA
William Gladstone, Liverpool	Leisure	Rest of England	18-20 North John Street, Liverpool L2 9RL
Yates's, Preston	Leisure	Rest of England	144 Church Street, Preston PR1 3AB
Yeovil Podimore Travelodge	Budget Hotels	Rest of England	Podimore Services, A303, Yeovil BA22 8JG
York Hull Road Travelodge	Budget Hotels	Rest of England	Hull Road, York YO10 3LF
York Tadcaster Travelodge	Budget Hotels	Rest of England	A64, Bilbrough, York LS24 8EQ

In addition to the properties listed above, the Group owns a further 56 Budget Hotels (four located in Scotland, one in Wales and the remainder in the Rest of England) and a further 11 pubs in the Leisure portfolio (one located in London, one in Scotland and the remainder in the Rest of England), each of which is valued at less than £2 million.

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	Company Voluntary Arrangement, 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 Cost Ratio	An **EPRA** measure of operating costs as a percentage of revenue, intended to facilitate comparison of the operating efficiency of property companies
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 or loss for the period after tax attributable to shareholders of the Company divided by the weighted average number of shares in issue in the period
ERV	Estimated Rental Value: the independent valuers' opinion of the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property
IFRS	International Financial Reporting Standards
Investment Adviser	Prestbury Investment Partners Limited
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 condensed 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 the value of property on which it is secured
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 adjustments required to recognise any mismatch between rent received in the income statement and cash rent received
Running Yield	The anticipated **Net Initial Yield** at a future date, taking account of any rent reviews or other changes in rent 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 reflect the contracted rent for those properties which are subject to a temporary rent concession at the valuation date
Total Accounting Return	The movement in **EPRA NTA** over a period plus dividends paid in the period, expressed as a percentage of the EPRA NTA 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, also referred to as **WAULT**

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 St Martin's Court, 10 Paternoster Row, London EC4M 7HP 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 Group 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL Registrar's helpline: 0371 664 0300 Calls are charged at the standard geographic rate and will vary by provider. 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