The Local Shopping REIT plc

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 MARCH 2013

(London: 29 May 2013) – The Local Shopping REIT plc ("LSR", the "Company" or the "Group") (LSE: LSR), a real estate investment trust focused on investments in UK local shopping assets, is pleased to announce its results for the six months to 31 March 2013.

Financial highlights

- Recurring profit for the period maintained at £1.7 million or 2.1 pence per share ("pps") (H1 2012: £1.7 million or 2.1 pps)
- The IFRS reported loss before tax for the period was £1.5 million or 1.9 pps (H1 2012: loss of £3.3 million or 4.1 pps)
- As at 31 March 2013, the portfolio of 641 properties was valued at £173.0 million with an annual rental income of £15.8 million, reflecting an equivalent yield of 9.39% (30 September 2012: £177.2 million, 644 properties with an annual rent roll of £15.9 million reflecting a 9.31% equivalent yield)
- NAV £38.2 million or 46 pps based on 82.5 million shares in issue, excluding those held in Treasury (30 September 2012: £41.3 million, 50 pps)
- Adjusted NAV, excluding liabilities arising from derivative financial instruments, is £46.3 million or 56 pps (30 September 2012: £50.4 million, 61 pps)
- Like-for-like rental income declined 0.6% to £15.8 million, with Market Rent showing a smaller decline of 0.4% to £17.1 million, as wider market-driven falls over the period were largely compensated for by successful asset management initiatives
- The Group's cash position remained strong at £5.3 million at the end of the period, including £0.6 million held in substitution accounts for property purchases
- £0.92 million of rental deposits held, representing over 23% of the quarterly rent roll.

Operational highlights

- In line with the Group's policy to sell ex-growth properties, three shops and six flats sold since 30 September 2012 for a total of £1.01 million, at an average of 15.5% above the 30 September 2012 valuation
- A further shop and five flats are under offer for sale for a combined £0.84 million, a 12.6% premium to their 30 September 2012 valuation, while a property in Bolton is subject to a compulsory purchase order where terms have been provisionally agreed for transfer to the acquiring body at £680,000 (including statutory compensation) versus a 30 September 2012 valuation of £500,000
- 54 units let during the period securing annual rent of £455,950, with 18 units under offer as at 31 March 2013 for an additional £211,430 of annual rent
- Average rent free period on lettings completed during the period remains low at just 70 days
- Rent reviews completed on 104 units with an increase to annual rental income of £103,452, representing an average uplift of 7.4% (9.0% above Market Rent)
- Planning consents achieved for residential conversions in Braintree, Clacton and Saffron Walden, with a further 13 flats under construction in Cardiff, Sudbury and Caversham
- Void rate remains stable at 11%, (30 September 2012: 10.9%), of which 2.4% is deliberate.

Grahame Whateley, Chairman of The Local Shopping REIT, commented:
"As these results demonstrate, the Company continues to perform well operationally. The strategic review is ongoing in order to provide an outcome which delivers the most value on behalf of our shareholders and we hope to provide an update on this in due course."

Nick Gregory, LSR's Joint Chief Executive Officer, said:
"Despite a challenging economic context, the structural shift from consumers towards convenience shopping continues and, in line with this, we are experiencing ongoing and steady demand from both independent traders and national retailers for space in our properties. There is investor demand for our asset class but a lack of bank finance for more secondary assets is hindering transactions. However, we believe this situation will improve in the near to mid-term future given recent signs that some lenders are preparing to move higher up the risk curve. We continue to make good progress in selling ex-growth properties with three shops and six flats sold during the period at an average premium of 15.5% over their book value."

Mike Riley, LSR's Joint Chief Executive Officer, added:
"The business continued to perform robustly during the first half and we are able to maintain levels of recurring profits against the backdrop of a weak domestic economy. Our relentless focus on asset management has seen us agree 54 lettings during the period, securing an additional £455,950 of annual rental income. In addition, we have been highly successful in growing income through rent reviews, completing 104 during the period and achieving an average uplift of 7.4%."

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Notes to Editors
The Local Shopping REIT plc (LSR) is the first specialist start-up Real Estate Investment Trust ("REIT") to launch in the UK.

Already a major owner of local retail property, the Company has built a portfolio of local shops in urban and suburban areas, investing in neighbourhood and convenience properties throughout the UK. Typical of the portfolio are shops in local shopping parades and neighbourhood venues for convenience or 'top-up' shopping. As at 31 March 2013 the Company's directly owned portfolio comprised 641 properties, with over 2,000 letting units.

For further information on LSR, please visit www.localshoppingreit.co.uk.

CHAIRMAN'S STATEMENT AND JOINT CHIEF EXECUTIVE OFFICERS' REVIEW

Despite the challenging economic backdrop, the Company continued to deliver a solid operational performance during the first half of the financial year.

Market Context

The weak domestic economy, and poor weather conditions this year, have combined to provide an extremely difficult climate for retailers, in particular those whose business models rely on discretionary spend or can be more easily transacted on the internet. However, within the local shopping market, tenant demand remains steady from both independent traders and national retailers. The major supermarket chains are all looking to increase their representation within the market as the shift in consumer demand towards convenience continues, while independent tenants are attracted to the affordability of local shopping units and their neighbourhood locations. The affordable nature of our units is demonstrated by our stable void rate and the 54 new lettings completed during the period securing an additional annual rent of £455,950. Our average shop rent remains low at only £11.16 per sq ft or £11,889 per annum. This affordability continues to underpin our cash generative business model.

The majority of purchasers of local shopping assets are private investors or small property companies looking to satisfy their requirement for income against a backdrop of extremely low interest rates. However, over recent months, these investors have become increasingly selective and are focussing their purchasing on what they perceive to be lower risk properties – in particular, those in the more affluent parts of the UK or properties let on long leases to strong covenants. The pricing for such properties is at, or close to, historic highs. By contrast, the lack of bank debt available to investors continues to deter them from moving up the risk curve despite the attractive yields on offer. As a result, the pricing of more secondary properties is noticeably discounted. This two tier market is reflected in the valuation of our portfolio, with the equivalent yield of our properties within London, East Anglia and the South East remaining stable (or even falling), while those in other parts of the UK rose - most markedly in the North, Scotland and the North West. We also continue to receive a number of enquiries from tenants within our portfolio who wish to purchase rather than rent, as well as interest in vacant units from owner-occupiers. However, again, the constrained supply of bank finance prevents many potential purchasers from transacting.

Results

Gross rental income for the six months to 31 March 2013 has fallen to £7.6 million compared to £8.0 million in the half year to 31 March 2012. This is due to the reduction in the size of the portfolio and a number of rent concessions granted to retain tenants during these challenging times. In addition, a number of lease re-gears entered into to protect or enhance value resulted in a short term loss of rent over the period. For example, we extended the leases of four units in Scotland let to Thomas Cook by three years in exchange for a one-off rent reduction which cost £60,000.

Property operating expenses have risen mainly due to an increase in the bad debt charge in the period and an increase in the amount of empty rates payable. Administrative charges were abnormally high in the previous year following the fees paid for professional advice regarding the exploration of a potential transaction which was considered by the Company.

The IFRS reported loss before tax for the six month period was £1.5 million (compared with a loss of £3.3 million for the six months to 31 March 2012 and a loss of £9.2 million for the year to 30 September 2012). The main reason for the variation in results is the change in fair value of the portfolio during each period. However, recurring profit for the period remained steady at £1.7 million which represents 2.1 pence per share. The table below summaries the adjustments made between the reported IFRS result and this recurring profit. This is analysed further in note 2 to the half year report:

	31 March 2013 £000	**30 Sept 2012 £000**	**31 March 2012 £000**
IFRS reported result	(1,547)	(9,178)	(3,310)
Movement in the fair value of the portfolio	4,252	12,511	5,845
Movement in the fair value of the interest rate swaps	(877)	(164)	(542)
Profit on disposal of investment properties	(62)	(196)	(325)
Non-recurring (income)/costs	(39)	431	62
Recurring Profit	1,727	3,404	1,730

The calculation remains consistent with previous years. The non-recurring income relates to acquisition fees received from joint ventures which are treated as one off income and excluded from recurring profit.

Dividend

In our results statement to 30 September 2012 we noted the Board would be reviewing the Company's dividend distribution policy when the outcome of the then recently announced strategic review was known. With the strategic review process still on-going the Board has decided not to pay an interim dividend and will review its dividend policy once the strategic review is complete.

Revaluation and Net Asset Value

Our portfolio was revalued at £173.0 million as at 31 March 2013, reflecting an equivalent yield (excluding the residential element) of 9.39% (30 September 2012: £177.2 million, 9.31% equivalent yield). As at 31 March 2013, it comprised 641 properties with an annual rental income of £15.8 million, compared to 644 properties and £15.9 million at 30 September 2012.

Combined Portfolio	
Value	£173.0 million
Initial Yield ("IY")	8.73%
Reversionary Yield ("RY")	9.48%
Equivalent Yield ("EY")*	9.39%
Rent per annum	£15.8 million
Market Rent per annum	£17.1 million

Value Range	No. of Properties	Value £ million	EY*
£0 - £100k	177	12.7	10.09%
£101 - £200k	223	31.9	9.51%
£201 - £500k	159	52.3	9.53%
£501k - £1m	57	37.3	9.37%
£1m - £3m	23	32.2	9.08%
£3m +	2	6.6	8.23%
Total	**641**	**173.0**	**9.39%**

The table above illustrates the range of property values throughout the portfolio. The average property value is £269,874 and the median is £150,000. The residential element of the portfolio has been valued at £17.7 million, typically based on 85% of vacant possession value. The average value of the residential units in our portfolio remains low at just below £56,000.

Existing Portfolio: Like-for-Like

	31 March 2013	30 Sept 2012	Change
Value	£172.5 million	£176.2 million	-2.13%
IY	8.73%	8.47%	+26bp
RY	9.48%	9.18%	+30bp
EY*	9.39%	9.31%	+8bp
Rent pa	£15.8 million	£15.9 million	-0.63%
Market Rent pa	£17.1 million	£17.2 million	-0.36%

*Equivalent Yield excludes the residential element which is valued at a discount to vacant possession value.

The existing portfolio recorded a 2.1% fall in value on a like-for-like basis during the period, with the equivalent yield (excluding the residential element) moving out eight basis points to 9.39% (30 September 2012: 9.31%). Over the period, property let to good covenants on long leases, and those in the more southern parts of the UK, held their value and in some cases saw a small inward yield shift, underpinned by demand from cash rich private investors. Elsewhere, investor demand was patchy with very little debt available to potential investors. The resulting fall in values in these underperforming regions was the main cause of the decline in the overall portfolio valuation (Scotland, the North and the North West were the worst performing regions in valuation terms within the LSR portfolio, while London, East Anglia and the South East were the best). This can be seen in the table below:

IPD Region	31 March 2013 EY*	30 Sept 12 EY*	Change
E Anglia	9.07%	9.24%	-17bp
London	7.67%	7.71%	-4bp
SE	8.96%	8.96%	0bp
SW	9.38%	9.35%	+3bp
W. Mids	9.20%	9.14%	+6bp
Wales	10.09%	9.98%	+11bp
Y&H	10.00%	9.80%	+20bp
E Midlands	9.08%	8.83%	+25bp
North	10.74%	10.46%	+28bp
Scotland	9.85%	9.53%	+32bp
NW	10.09%	9.48%	+61bp

*Equivalent Yield excludes the residential element which is valued at a discount to vacant possession value.

During the six month period like-for-like rental income held up relatively well, falling only 0.6%, with Market Rent showing a smaller decline of 0.4%, as wider market-driven falls over the period were largely compensated for by successful asset management initiatives.

As a result of the decline in the value of the portfolio, the NAV has fallen 7.7% to £38.2 million or £0.46 per share, based on 82.5 million shares in issue, excluding those held in Treasury (30 September 2012: £41.3 million, £0.50 per share). The adjusted NAV of the Company as at 31 March 2013, excluding liabilities arising from derivative financial instruments, is £46.3 million or £0.56 per share (30 September 2012: £50.4 million, £0.61 per share).

The Group held £5.3 million of cash at the end of the period, of which £0.6 million was held in substitution accounts to use for property purchases.

Acquisitions and Sales

The current market is providing a healthy pipeline of interesting and accretive investment opportunities. However during the period our acquisition efforts were focussed on buying properties within our partnerships with Pramerica and Schroders, and no properties were purchased within the wholly owned portfolio.

In line with our on-going policy to sell ex-growth properties, we have sold three shops and six flats since 30 September 2012 for a total of £1.01 million, at an average of 15.5% above their 30 September 2012 valuation. In addition, a further shop and five flats are under offer for sale for a combined £0.84 million, a 12.6% premium to their 30 September 2012 valuation. In addition a property in Bolton is subject to a compulsory purchase order and terms have been provisionally agreed to transfer this to the acquiring body for £680,000 (including statutory compensation), against a 30 September 2012 valuation of £500,000.

As a result of these sales, the Company now has a wholly owned portfolio of 641 properties with over 2,000 letting units, generating an annualised rental income of £15.76 million.

Asset Management

Despite the difficult economic backdrop, demand for our smaller units remains steady. In order to make sure we best exploit this demand, the Company continues to adopt a flexible approach to leasing. When letting units to independent traders in the current challenging retail climate we believe it is important to concentrate on maximising overall cashflow rather than worrying about headline rents. As a result, we prefer to deal with letting incentives by way of stepped rents rather than offering extended rent free periods or capital contributions in an attempt to support rental values which are ultimately unsustainable.

During the period this approach has led to the successful letting of 54 units at a combined rent of £455,950 per annum. Eleven of these lettings incorporated stepped rent increases at an initial rent of £115,200 per annum rising to £141,000 per annum over the first three years of their leases, compared with a Market Rent of £141,900 per annum. The remaining 43 units were let at a small (0.6%) premium to Market Rent. Our average rent free period on lettings completed during the period remains low at just 70 days. The letting pipeline also remains healthy with 18 retail units under offer as at 31 March 2013 at a combined rental of £211,430 per annum.

Encouraging progress was made in growing rents through rent reviews, where we completed rent reviews on 104 units and were able to increase rental income by £103,452 per annum, representing an average uplift of 7.4% (9.0% above Market Rent). This included a £48,375 (40.0%) uplift on the review of a 17,200 sq ft Tesco store in St Helens, demonstrating the strong potential for rental growth for well-located convenience stores and smaller supermarkets. We also renewed 22 leases in line with Market Rent, thereby maintaining rental income at the previous levels.

In order to maximise the rental potential of our assets we continue to look at ways we can improve under-used and poorly configured properties. We do this by applying our specialist asset management skills to combine or merge units, secure change of use planning consents or convert upper floors into residential units. Since 30 September 2012 we have secured planning consents to convert first floor ancillary retail accommodation in Braintree into a flat, convert ground floor offices in Clacton into two flats and convert vacant offices above a shop in Saffron Walden into two flats. In line with our current policy, we will implement these consents and build out flats where we can achieve an acceptable rental yield following conversion. During the period we completed the conversion and refurbishment of a large flat in Paignton into two smaller units which were subsequently let at £5,400 per annum each (the previous Market Rent for the single flat was £3,640 per annum). As at 31 March 2013 a further six flats were under construction in Cardiff (2 x three bed), Sudbury (3 x two bed) and Caversham (1 x two bed maisonette). During the period we also obtained a change of use consent on a retail unit in Forfar from class A1 (shops) to A2 (financial) which will improve its future letting prospects once the existing lease comes to an end.

Void Rate

Despite the difficult retail climate, our asset management initiatives and successful management of tenant default scenarios has allowed us to maintain a stable overall void rate during the period at 11.0% (30 September 2012: 10.9%). Within this, the core commercial void is up marginally at 7.9% (30 September 2012: 7.7%), while residential voids were stable at 0.7% and deliberate voids fell slightly to 2.4% (30 September 2012: 2.5%).

	31 Mar 2013	**31 Jan 2013**	**30 Sep 2012**	**31 Jul 2012**	**31 Mar 2012**
Vacant – Commercial	7.9%	7.3%	7.7%	7.8%	7.6%
Vacant – Deliberate	2.4%	2.4%	2.5%	2.4%	2.2%
Vacant – Residential	0.7%	0.8%	0.7%	0.8%	0.8%
Total	11.0%	10.5%	10.9%	11.0%	10.6%

Unsurprisingly, the current tough retail climate, difficult even for those retailers less reliant on discretionary spend, has taken its toll and within our portfolio there have inevitably been some cases of tenant default. We continue to take a robust approach to debt recovery and generally prefer to take back units where tenants are in financial difficulty so we can re-let and improve the quality of our cash flow. Our ongoing success in letting vacant space has provided us with further confidence to take back units before tenant arrears begin to build significantly. As a result of this more pro-active approach to repossessing units where tenants are in arrears, bad debt write-offs and provisions were up during the period to just in excess of £500,000 (compared to £374,524 for the six months to 31 March 2012 and £684,352 for the year to 30 September 2012). Encouragingly the aging profile of rental arrears did not deteriorate during the period.

When we let units to independent tenants, or deal with lease assignments, it is our policy to seek rent deposits of between three to six months. As at 31 March 2013, we held deposits totalling approximately £923,000 (31 March 2012: £937,000), or over 23% of our quarterly rent roll. This provides us with a measure of protection against tenant default which is not generally available when letting units to national retailers.

Financing

The Group has four loan facilities of which three are fully drawn. Each of them is repayable in a single instalment in 2016. As at 31 March 2013, borrowings totalled £135.6 million (30 September 2012: £136.9 million), reflecting an LTV of 74.7%, with a further £28.5 million of undrawn facility as follows:

Loan	Facility £ million	Loan Outstanding £ million	Undrawn £ million	LTV Covenant
Barclays Fixed Rate Loan	69.2	69.2	0.0	No
HSBC Fully Drawn Term Loan	46.5	46.5	0.0	No
HSBC Term Loan	10.5	10.5	0.0	Yes – 85%
HSBC Revolving Credit Facility	35.0	9.4	25.6	Yes – 85%
		135.6	25.6	

The average cost of debt, including margin, is 5.4%. An undrawn commitment fee of 60 basis points is payable on the £25.6 million undrawn facilities. The Group holds £14.3 million of property which does not have any debt secured against it.

Joint Ventures and External Management Mandates

As at 31 March 2013 the annual rent roll of distressed properties under management on behalf of lenders was £2.9 million.

<u>Pramerica Joint Venture</u>

Since 30 September 2012 we have completed the purchase of properties in Frodsham, Birmingham and Nailsworth for a combined £6.22 million. This brings the purchase price of deals completed to date to £42.55 million. These three purchases concluded the acquisition phase of the joint venture and we are now focussing our efforts on implementing the asset management initiatives we have identified to add value to the portfolio.

<u>Joint venture with an established UK financial institution</u>

Following the sale of a tyre service depot in September 2012, the portfolio now comprises three convenience retail properties trading as Co-operative supermarkets with a combined purchase price of £2.32 million.

<u>Schroders Partnership</u>

During the period the fund purchased two properties for a combined £2.67 million. Since the half year end we have purchased a further property for £2.08 million which brings the combined purchase price of completed acquisitions to £9.52 million. A further eight properties with a combined purchase price of £16.67 million are under offer. Please see the Strategic Review paragraph below for further details.

Principal Risks and Uncertainties for the Remaining Six Months of the Financial Year

The directors believe it is appropriate to prepare the Half Year Statement on a Going Concern basis given the more stable outlook for capital values, the bank facilities available, the uncharged properties owned by the Group and the cash held at the period end.

The risks facing the Group for the remaining six months of the financial year are consistent with those described in detail in the Annual Report for the year ended 30 September 2012 (available on the Company's website:

www.localshoppingreit.co.uk). The principal risks are around property values and returns, financial instruments, financing and trade receivables:

- Given the weakness of the economy and the resulting uncertain backdrop to property valuations, the independent valuation to be completed at 30 September 2013 may be affected (positively or negatively) which will have a consequential effect on the Company's Net Asset Value;
- The Group does not consider financing to be a risk given the long term nature of the outstanding debt, the significant majority of which is economically hedged, and the level of committed, undrawn facilities available. However, the Board is mindful of the gearing levels and the debt maturities in 2016, and this was one of the factors behind the Board's decision to announce a strategic review in November 2012 in order to look at all options ahead of any refinancing;
- The Group does not speculate in derivative financial instruments and only uses them to hedge its exposure to fluctuations in interest rates. However, movements in interest rates do affect the fair value of the derivative financial instruments recorded on the Consolidated Balance Sheet which can significantly affect the Net Asset Value of the Group;
- The Group is exposed to the risk of non-payment of trade receivables by its tenants. In the current economic climate the risk of default continues to be significant. The Group has over 2,000 tenants across 641 properties spread throughout the UK. There is no significant concentration of credit risk due to the large number of small balances owed by a wide range of tenants who operate across all retail sectors. The level of arrears continues to be monitored monthly by the Group and more frequently on a tenant by tenant basis by the asset managers.

Outlook

The economic backdrop remains challenging with weak growth, substantial on-going cuts to public expenditure, continuing weakness in the Eurozone and fragile consumer confidence. This clearly provides a very difficult trading environment for retailers – and in particular for those whose models rely on discretionary spend. However, technological, demographic and economic factors are changing the way consumers shop. The opportunity to shop more often for non-discretionary purchases allows consumers to more effectively manage their budgets, reduce travel and fuel costs and reduce waste. Our properties are well placed to benefit from this increasing demand for convenience. Tenant demand for our units from both national operators (in particular, supermarkets for their convenience store formats) and independent traders remains robust, demonstrated by our stable void rate and volume of lettings.

The outlook for the investment market has been relatively flat since late 2012. However over recent months there has noticeably been increased activity within auction rooms which provides a helpful proxy for the level of investor demand for properties within the LSR portfolio. A combination of realistic auction pricing and investor demand is leading to improved sales rates. However, the market remains highly polarised. Private investors are focussing their buying efforts on good locations (particularly London and the South East) and properties let to strong covenants on long leases with prices for such properties at or close to record highs. However the market for property which falls short of this requirement is weak and prices remain highly discounted. Any sustained increase in investor activity will have to wait until the lending market returns to some degree of normality. In the short term there appears little prospect of a meaningful increase in the availability of bank lending to our sector, and in particular for the more secondary assets. As a result we believe the outlook is one of continuing polarisation within the investment market for local shopping properties.

Strategic Review

LSR was established with the aim of becoming a market leading owner of local retail property in the UK. While the Company has been successful in its operational activities since its IPO in 2007, the Board believes that, given its current rating, due in part to its size and capital structure, and the challenge of creating a scaleable business during a period of considerable property and financial market volatility, it is in the interest of shareholders as a whole to review options open to the Company.

The Board therefore announced on 12 November 2012 that it was launching a strategic review of the Company to consider how value can be maximised for shareholders. This review is being conducted by a committee comprising the Board's non-executive directors. While this process is on-going, the LSR team remains committed to optimising the value of and income from its existing assets.

As stated in the unaudited full year results announcement, as a result of suspending its commitment to further fund the joint ventures during this process, the Company breached the terms of the partnership agreement with Schroders. The consequences of the breach are that the Company no longer has any rights in relation to the fund other than repayment of its loan to the fund which will only be made as part of any final distribution once Schroders has been repaid all loans it has provided to the fund and all related costs have been paid. For clarity, the Company has a total of £909,090 invested (£909,045 by way of a loan) in the Schroders joint venture and has suspended any further funding. The company continues to manage the assets on behalf of the joint venture.

Formal sale process and offer period

As previously announced on 12 November 2012, any discussions in relation to a merger with a third party or a sale of the Company, undertaken as part of the strategic review of the Company, have taken place within the context of a "formal sale process" as defined in the Code, and, as a result, the Company is in an "Offer Period" as defined in the City Code on Takeovers and Mergers (the Code).

The strategic review process is progressing and the Board will update shareholders in due course.

J.G. Whateley	N.J. Gregory	M.E. Riley
Chairman	Joint Chief Executive	Joint Chief Executive
29 May 2013		

Condensed Consolidated Income Statement
for the 6 months ended 31 March 2013

	Note	**Unaudited** **6 months ended 31 March 2013 £000**	6 months ended 31 March 2012 £000	**Audited** Year ended 30 September 2012 £000
Gross rental income		**7,624**	7,999	15,809
Property operating expenses		**(1,404)**	(1,312)	(2,545)
Net rental income		**6,220**	6,687	13,264
Profit on disposal of investment properties		**63**	325	84
Loss on change in fair value of investment properties	*6*	**(4,274)**	(5,845)	(12,165)
Administrative expenses		**(1,285)**	(1,401)	(3,319)
Net other income		**469**	158	520
Share of results from jointly controlled entities	*7*	**120**	(5)	(207)
Operating profit/(loss) before net financing costs		**1,313**	(81)	(1,823)
Financing income*	*3*	**2**	1	3
Financing expenses*	*3*	**(3,742)**	(3,788)	(7,574)
Movement in fair value of derivatives	*3*	**880**	558	216
Loss before taxation		**(1,547)**	(3,310)	(9,178)
Tax	*4*	**-**	-	-
Loss for the financial period attributable to equity holders of the Company		**(1,547)**	(3,310)	(9,178)
Basic and diluted loss per share	*10*	**(1.9)p**	(4.1)p	(11.3)p

* Excluding movements in the fair value of financial derivatives

Condensed Consolidated Statement of Comprehensive Income
for the 6 months ended 31 March 2013

	Unaudited **6 months ended 31 March 2013 £000**	6 months ended 31 March 2012 £000	**Audited** Year ended 30 September 2012 £000
Loss for the period	**(1,547)**	(3,310)	(9,178)
Total comprehensive income for the period	**(1,547)**	(3,310)	(9,178)
Attributable to:			
Equity holders of the parent company	**(1,547)**	(3,310)	(9,178)

Condensed Consolidated Balance Sheet
As at 31 March 2013

	Note	Unaudited **31 March 2013 £000**	Unaudited 31 March 2012 £000	Audited 30 September 2012 £000
Non current assets				
Property, plant and equipment		**107**	143	126
Investment properties	*6*	**173,911**	183,951	178,109
Investments in jointly controlled entities	*7*	**3,825**	2,890	4,070
Other investments	*8*	**909**	-	909
Total non-current assets		**178,752**	186,984	183,214
Current assets				
Trade and other receivables		**3,794**	3,456	4,698
Cash		**5,306**	6,651	5,496
Total current assets		**9,100**	10,107	10,194
Total assets		**187,852**	197,091	193,408
Non current liabilities				
Interest bearing loans and borrowings	*9*	**(135,161)**	(133,316)	(136,380)
Finance lease liabilities		**(922)**	(922)	(922)
Derivative financial instruments	*12*	**(5,583)**	(6,310)	(6,595)
Total non-current liabilities		**(141,666)**	(140,548)	(143,897)
Current liabilities				
Interest bearing loans and borrowings	*9*	-	-	-
Trade and other payables		**(5,457)**	(5,332)	(5,739)
Derivative financial instruments	*12*	**(2,579)**	(2,390)	(2,447)
Total current liabilities		**(8,036)**	(7,722)	(8,186)
Total liabilities		**(149,702)**	(148,270)	(152,083)
Net assets		**38,150**	48,821	41,325
Equity				
Issued capital		**18,334**	18,334	18,334
Reserves		**3,773**	3,773	3,773
Capital redemption reserve		**1,764**	1,764	1,764
Retained earnings		**14,279**	24,950	17,454
Total attributable to equity holders of the Company		**38,150**	48,821	41,325

Condensed Consolidated Statement of Cash Flows

for the 6 months ended 31 March 2013

	Note	**Unaudited**		**Audited**
	Note	**6 months ended 31 March 2013**	6 months ended 31 March 2012	Year ended 30 September 2012
`		**£000**	£000	£000
Operating activities				
Loss for the financial period		**(1,547)**	(3,310)	(9,178)
Adjustments for:				
Loss on change in fair value of investment properties	*6*	**4,274**	5,845	12,165
Net financing costs	*3*	**2,860**	3,229	7,355
Profit on disposal of investment properties		**(63)**	(325)	(84)
Depreciation		**19**	20	40
Share of results of jointly controlled entities		**(120)**	5	207
		5,423	5,464	10,505
Decrease/(increase) in trade and other receivables		**902**	296	(925)
Decrease in trade and other payables		**(246)**	(453)	(80)
		6,079	5,307	9,500
Interest paid		**(3,705)**	(3,596)	(7,286)
Interest received		**2**	1	3
Net cash flows from operating activities		**2,376**	1,712	2,217
Investing activities				
Proceeds from sale of investment properties		**985**	1,641	2,174
Acquisition of and improvements to investment properties		**(998)**	(985)	(2,251)
Acquisition of property, plant and equipment		**-**	(2)	(5)
Investment in jointly controlled entities	*7*	**(316)**	(1,067)	(2,454)
Repayment of investment in jointly controlled entities	*7*	**681**	-	-
Investment in other investments		**-**	-	(909)
Cash flows from investing activities		**352**	(413)	(3,445)
Net cash flows from operating activities and investing activities		**2,728**	1,299	(1,228)
Financing activities				
Repayment of borrowings		**(1,290)**	(300)	(300)
New borrowings		**-**	2,900	5,900
Dividends paid		**(1,628)**	(1,709)	(3,337)
Cash flows from financing activities		**(2,918)**	891	2,263
Net (decrease)/increase in cash		**(190)**	2,190	1,035
Cash at beginning of period		**5,496**	4,461	4,461
Cash at end of period		**5,306**	6,651	5,496

Condensed Consolidated Statement of Changes in Equity
for the 6 months ended 31 March 2013

	Share capital	Reserves	Capital redemption reserve	Retained earnings	Total
	£000	£000	£000	£000	£000
At 30 September 2011	18,334	3,773	1,764	29,969	53,840
Total comprehensive income for the period					
Profit for the period	-	-	-	(3,310)	(3,310)
Transactions with owners, recorded directly in equity					
Dividends	-	-	-	(1,709)	(1,709)
Share based payments	-	-	-	-	-
Total contributions by and distributions to owners	-	-	-	(1,709)	(1,709)
At 31 March 2012	18,334	3,773	1,764	24,950	48,821
Total comprehensive income for the period					
Loss for the period	-	-	-	(5,868)	(5,868)
Transactions with owners, recorded directly in equity					
Dividends	-	-	-	(1,628)	(1,628)
Share based payments	-	-	-	-	-
Total contributions by and distributions to owners	-	-	-	(1,628)	(1,628)
At 30 September 2012	18,334	3,773	1,764	17,454	41,325
Total comprehensive income for the period					
Loss for the period	-	-	-	(1,547)	(1,547)
Transactions with owners, recorded directly in equity					
Dividends	-	-	-	(1,628)	(1,628)
Share based payments	-	-	-	-	-
Total contributions by and distributions to Owners	-	-	-	(1,628)	(1,628)
At 31 March 2013	**18,334**	**3,773**	**1,764**	**14,279**	**38,150**

Notes to the Half Year Report
for the 6 months ended 31 March 2013

Accounting policies

1 Basis of preparation

The condensed set of financial statements has been prepared in accordance with IAS 34 “Interim Financial Reporting” as adopted by the EU.

The annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. As required by the Disclosure and Transparency Rules of the Financial Services Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the company’s published consolidated financial statements for the year ended 30 September 2012 (with which they should be read in conjunction).

The comparative figures for the financial year ended 30 September 2012 are not the Company’s statutory accounts for that financial year. Those accounts have been reported on by the Company’s auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2 Segmental reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports that are regularly reported to the chief operating decision maker to allocate resources to the segments and to assess their performance.

Since the establishment of the jointly controlled entities and other investments the Group has identified two operating and reporting segments which are reported to the Board of Directors on a quarterly basis, The Board of Directors are considered to be the chief operating decision makers.

The financial information presented quarterly to the Board is the recurring profit achieved by each segment. The segments identified are: the properties directly owned by the Group and the asset management income earned, together with the share of results due to the group from the joint ventures.

The following table reconciles the result stated in the Income Statement to the recurring profit from each segment, which is presented to the Board.

	6 months ended 31 March 2013			6 months ended 31 March 2012			Year ended 30 September 2012		
	Wholly owned portfolio	**Asset management**	**Total**	Wholly owned portfolio	Asset management	Total	Wholly owned portfolio	Asset management	Total
	£000	**£000**	**£000**	£000	£000	£000	£000	£000	£000
Recurring profit	**1,218**	**509**	**1,727**	1,535	195	1,730	3,270	134	3,404
Movement in the fair value of the portfolio	**(4,274)**	**22**	**(4,252)**	(5,845)	-	(5,845)	(12,165)	(346)	(12,511)
Movement in the fair value of the interest rate swaps	**880**	**(3)**	**877**	558	(16)	542	216	(52)	164
Profit/(loss) on sale of investment properties	**63**	**(1)**	**62**	325	-	325	84	112	196
Non-recurring income	**-**	**47**	**47**	-	-	-	-	141	141
Non-recurring expenditure	**-**	**(8)**	**(8)**	(71)	9	(62)	(506)	(66)	(572)
IFRS reported result	**(2,113)**	**566**	**(1,547)**	(3,498)	188	(3,310)	(9,101)	(77)	(9,178)

3 Net financing costs

	6 months ended 31 March 2013	6 months ended 31 March 2012	Year ended 30 September 2012
	£000	£000	£000
Interest receivable	**2**	1	3
Financing income excluding fair value movements	**2**	1	3
Fair value gains on derivative financial instruments (see note 12)	**880**	558	216
	882	559	219
Bank loan interest	**(3,642)**	(3,651)	(7,338)
Amortisation of loan arrangement fees	**(72)**	(109)	(181)
Head rents treated as finance leases	**(28)**	(28)	(55)
Financing expenses excluding fair value movements	**(3,742)**	(3,788)	(7,574)
Fair value losses on derivative financial instruments	**-**	-	-
Financing expenses	**(3,742)**	(3,788)	(7,574)
Net financing costs	**(2,860)**	(3,229)	(7,355)

4 Taxation

From 11 May 2007, the Group elected to join the UK REIT regime. As a result, the Group is exempt from corporation tax on the profits and gains from its investment business from this date, provided it continues to meet certain conditions. Non-qualifying profits and gains of the Group (the residual business) continue to be subject to corporation tax. The directors consider that all the rental income post 11 May 2007 originates from the Group's tax exempt business.

On entering the UK REIT regime, a conversion charge equal to 2% of the gross market value of properties involved in the property rental business, at that date, became due which was paid in full.

Due to the availability of losses no provision for corporation tax has been made in these accounts. The deferred tax asset not recognised relating to these losses can be carried forward indefinitely. It is not anticipated that these losses will be utilised in the foreseeable future.

5 Dividends

	Dividend per share	**Total payment £000**	**Classification of dividend**
31 December 2012	2.0 pence	1,628	PID
30 June 2012	2.0 pence	1,628	PID
31 December 2011	2.1 pence	1,709	Non-PID
30 June 2011	1.9 pence	1,546	PID
30 December 2010	1.9 pence	1,546	PID

6 Investment properties

	Total
	£000
At 1 October 2012	178,109
Additions	998
Disposals	(922)
Fair value adjustments	(4,274)
At 31 March 2013	**173,911**

The investment properties have all been revalued to their fair value at 31 March 2013.

All properties acquired since 1 October 2012, together with a sample selected by the valuers of 25% of the portfolio have been valued by Allsop LLP, a firm of independent Chartered Surveyors. The valuations were undertaken in accordance with the Royal Institute of Chartered Surveyors Valuation Standards 2011 on the basis of Market Value. Market Value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing, wherein the parties had each acted knowledgably, prudently and without compulsion.

The remainder of the portfolio has been valued on the basis of Market Value by the directors who have an appropriate recognised professional qualification and recent experience in the location and category of property being valued.

No investment properties have been identified that meet the criteria of assets held for resale at 31 March 2013.

A reconciliation of the portfolio valuation at 31 March 2013 to the total value for investment properties given in the Consolidated Balance Sheet is as follows:

	31 March 2013	31 March 2012	30 September 2012
	£000	£000	£000
Portfolio valuation	**172,989**	183,029	177,187
Head leases treated as investment properties held under finance leases in accordance with IAS 17	**922**	922	922
Total per Consolidated Balance Sheet	**173,911**	183,951	178,109

7 Investments in jointly controlled entities

The Group has the following investments in jointly controlled entities:

	Ownership		
	31 March 2013	31 March 2012	30 September 2012
Local Parade Investments LLP	**20%**	20%	20%
Gracechurch Commercial Investments Limited	**50%**	50%	50%

The Group is party to two joint venture agreements.

On 26 November 2010 an agreement was entered into with Local Parade Investments LLP, a newly incorporated entity. The initial investment made was £20. The principal activity of the entity was the acquisition and management of retail parades.

On 28 September 2011 an agreement was entered into with Gracechurch Commercial Investments Limited, a newly incorporated entity. The initial investment made was £500,000. The principal activity of the entity is to acquire properties for investment purposes.

	31 March 2013	31 March 2012	30 September 2012
	£000	£000	£000
Cost			
At beginning of period	**4,070**	1,823	1,823
Equity investments	**-**	-	-
Loan advances	**316**	1072	2,454
Loans repaid	**(681)**	-	-
Share of results, net of tax	**120**	(5)	(207)
Distributions received	**-**	-	-
At end of period	**3,825**	2,890	4,070

The summarised financial information in respect of the Group's share of the jointly controlled entities is shown below, for information only.

	31 March 2013	31 March 2012	30 September 2012
	£000	£000	£000
Non-current assets	**9,901**	5,918	8,222
Current assets	**1,192**	646	1,139
Non-current liabilities	**(6,746)**	(3,318)	(4,806)
Current liabilities	**(522)**	(356)	(485)
	3,825	2,890	4,070

7 Investments in jointly controlled entities *(continued)*

	31 March 2013	31 March 2012	30 September 2012
	£000	£000	£000
Represented by:			
Capital	**500**	500	500
Loans	**3,467**	2,450	3.832
Share of results brought forward	**(262)**	(55)	(55)
Share of results, net of tax	**120**	(5)	(207)
Group's share of net assets	**3,825**	2,890	4,070

	31 March 2013	31 March 2012	30 September 2012
	£000	£000	£000
Net rental income	**398**	210	501
Property expenses	**(83)**	(52)	(117)
Administrative expenses	**(21)**	(20)	(55)
Change in fair value of properties	**22**	-	(346)
Net interest payable	**(191)**	(110)	(223)
Movement in fair value of financial derivatives	**(4)**	(16)	(52)
(Loss)/profit on disposal of investment properties	**(1)**	-	112
Tax	**-**	(17)	(27)
	120	(5)	(207)

8 Other investments

On 8 March 2012, the Group entered into a partnership and property advisory agreement with Local Retail Fund GP Limited, a newly incorporated entity. The initial investment made was £45. The principal activity of the entity is the acquisition and management of a diversified portfolio of local retail property in the UK.

	Total £000
Fair value	
At 1 October 2011	-
Additions	909
At 30 September 2012	909
Additions	-
At 31 March 2013	909
Impairment charge	
At 31 March 2013	-
Net book value	
At 31 March 2013	909
At 30 September 2012	909
At 30 September 2011	-

As stated in the 2012 Annual Report as a result of suspending its commitment to further fund the joint ventures during the strategic review process, the Company breached the terms of the partnership agreement with Schroders. The consequences of the breach are the Company no longer has any rights in relation to the fund other than repayment of its loan to the fund which will only be made as part of any final distribution once Schroders has been repaid all loans it has provided to the fund and all related costs have been paid. The Company continues to manage the assets on behalf of the joint venture.

9 Interest-bearing loans and borrowings

	31 March 2013	31 March 2012	30 September 2012
	£000	£000	£000
Non-current liabilities			
Secured bank loans	**135,639**	133,929	136,929
Loan arrangement fees	**(478)**	(613)	(549)
	135,161	133,316	136,380
Current liabilities			
Current portion of secured bank loans	**-**	-	-

All bank borrowings are secured by fixed charges over certain of the Group's property assets and floating charges over the companies which own the assets charged.

All loans are repayable in one instalment in 2016.

10 Loss per share

Basic loss per share

The calculation of basic loss per share was based on the loss attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

Loss attributable to ordinary shares

	6 months ended 31 March 2013	6 months ended 31 March 2012	Year ended 30 September 2012
	£000	£000	£000
Loss for the financial period	**(1,547)**	(3,310)	(9,178)

Weighted average number of shares

	6 months ended 31 March 2013	6 months ended 31 March 2012	Year ended 30 September 2012
	Number 000	Number 000	Number 000
Issued ordinary shares	**91,670**	91,670	91,670
Shares held by EBT	**(1,096)**	(1,110)	(1,103)
Treasury shares	**(9,164)**	(9,164)	(9,164)
Weighted average number of ordinary shares	**81,410**	81,396	81,403

Diluted earnings per share

There is no difference between the basic and diluted loss per share.

11 Net asset value (NAV)

The number of shares used to calculate net asset value per share is as follows:

	31 March 2013	31 March 2012	30 September 2012
	Number 000	Number 000	Number 000
Number of shares in issue	**91,670**	91,670	91,670
Less: shares held in Treasury	**(9,164)**	(9,164)	(9,164)
	82,506	82,506	82,506

	31 March 2013	31 March 2012	30 September 2012
	£000	£000	£000
Net assets per Consolidated Balance Sheet	**38,150**	48,821	41,325
Net asset value per share	**£0.46**	£0.59	£0.50

Adjusted net asset value per share

	31 March 2013	31 March 2012	30 September 2012
	£000	£000	£000
Net assets per Consolidated Balance Sheet	**38,150**	48,821	41,325
Fair value of derivative financial instruments	**8,162**	8,700	9,042
	46,312	57,521	50,367
Adjusted net asset value per share	**£0.56**	£0.70	£0.61

12 Derivative financial instruments

Derivative financial instruments held by the Group are interest rate swaps used to manage the Group's interest rate exposure. These are shown in the Consolidated Balance Sheet as follows:

	Fair value at 1 October 2012 £000	Movements in Income Statement £000	**Fair Value at 31 March 2013 £000**
Non current liabilities	(6,595)	1,012	**(5,583)**
Current liabilities	(2,447)	(132)	**(2,579)**
Net liabilities	(9,042)		**(8,162)**
Amount credited to Consolidated Income Statement		880	

The Group's interest rate swaps in place at 31 March 2013, 30 September 2012 and 31 March 2012 did not qualify as effective swaps for hedge accounting under the criteria set out in IAS 39.

A summary of the swaps and their maturity dates are as follows:

Notional value of swap £000	Effective date	Maturity date	Rate payable on fixed leg %	Value at 30 September 2012 £000	Movements in Income Statement £000	**Value at 31 March 2013 £000**
22,978	16 Ju1 07	31 Jan 17	4.85	(3,622)	324	**(3,298)**
3,000	22 Nov 06	30 Apr 13	5.15	(80)	67	**(13)**
12,000	06 Sep 06	30 Apr 13	5.06	(315)	266	**(49)**
6,000	08 Dec 06	30 Apr 13	5.13	(160)	135	**(25)**
1,500	09 Aug 06	30 Apr 13	5.20	(41)	35	**(6)**
22,500	30 Apr 13	20 Jul 16	5.05	(3,093)	(129)	**(3,222)**
6,000	25 Oct 06	30 Apr 13	5.29	(165)	139	**(26)**
1,500	30 Apr 10	30 Apr 13	5.20	(40)	34	**(6)**
3,000	11 Oct 06	30 Apr 13	5.21	(83)	70	**(13)**
10,500	30 Apr 13	29 Jul 16	5.05	(1,443)	(61)	**(1,504)**
				(9,042)	880	**(8,162)**

The derivative financial instruments included in the above tables are stated at their fair value based on quotations from the Group's bank.

The Group does not speculate in financial instruments, it only uses them to limit its exposure to interest rate fluctuations. The Group's policy is to hedge between 60% and 100% of its interest rate exposure. At 31 March 2013: 91%, *(30 September 2012: 91% and 31 March 2012: 94%)* of the Group's debt was fixed.

Fair value

	31 March 2013 £000	31 March 2012 £000	30 September 2012 £000
Fixed rate loan			
Carrying value of loan	**69,085**	69,053	69,070
Mark to market adjustment	**10,989**	11,236	11,695
Fair value	**80,074**	80,289	80,765

13 Related parties

There have been no transactions with related parties which have materially affected the financial position or performance of the Group during the current or previous period nor have there been any changes in related party transactions which could have a material effect on the financial position or performance of the company during the first six months of the current financial year.

14 Capital commitments

At 31 March 2013 the group had contracted capital expenditure for which no provision has been made within these financial statements of £317,000 *(30 September 2012: £292,000 and 31 March 2012: £340,000)*.

Responsibility statement

We confirm to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the EU: and

(b) the Half Year Report includes a fair review of the information required by

- DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

- DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last Annual Report that could do so.

Signed on behalf of the Board who approved the half yearly financial report on 28 May 2013.

ME Riley
Joint CEO

NJ Gregory
Joint CEO

Independent review report to The Local Shopping REIT plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half yearly financial report for the six months ended 31 March 2013, which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Cash Flow Statement and the related explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRS's as adopted by the EU. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with IAS 34: "Interim Financial Reporting" as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half yearly financial 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 Auditing Practices Board for use in the UK. 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 Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 31 March 2013 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

John Leech (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants

28 May 2013