the Local Shopping REIT plc

Half Year Report

31 March 2014

Stock Code: LSR

What we do . . .

The Local Shopping REIT plc ("LSR") is a Real Estate Investment Trust that provides investors with access to a diversified portfolio of local shopping assets in urban and suburban centres throughout the UK.

Contents

See further information online:
www.localshoppingreit.co.uk

Highlights

Financial Highlights

- Recurring profit* for the period of £0.92m or 1.13 pence per share ("pps") (H1 2013 restated: £1.25m or 1.53 pps).
- Profit for the financial period of £1.75m or 2.15 pps (H1 2013 restated: loss of £1.55m or (1.90) pps).
- Directly owned portfolio valued at 31 March 2014 at £167.6m, reflecting an equivalent yield (excluding the residential element) of 9.33% (30 September 2013: £167.3m, with an equivalent yield of 9.48%).
- Net Asset Value (NAV): £35.38m or 43 pps (30 September 2013: £33.63m or 41 pps).
- Adjusted NAV: £40.4m or 49 pps, excluding liabilities arising from derivative financial instruments (30 September 2013: £39.9m, 48 pps).
- Total net debt of £125.8m, reflecting an LTV (net of cash reserves) of 74.7%.
- Debt free properties valued at £6.76m.
- Rental deposits of £0.89m held, representing 23% of the quarterly rent roll.

Operational Highlights

- At 31 March 2014 portfolio comprised 629 properties, with 2,037 letting units, producing an annual rental income of £15.2m (30 September 2013: 640 properties with 2,037 letting units and rental income of £15.45m).
- Property sales totalling £1.821m, a premium of 18.05% to preceding valuation.
- Like-for-like rent down 1.3% since 30 September 2013, with no movement in like-for-like Market Rent.
- Overall void rate 12.47%, equivalent to Market Rent of £2.07m (30 September 2013: 12.38% and £2.11m).
- 55 properties let during the period at an annual rental income of £535,200. At 31 March 2014, 41 commercial units were under offer at Market Rents totalling £393,700.
- Rent reviews completed on 43 units resulting in aggregate rental income of £734,000 (an uplift of 8.74% to Market Rent).
- 15 lease renewals at a net rental decrease of £1,936 (-1.15%), although £3,185 (1.95%) above Market Rent.
- Consents secured for three commercial changes of use and two conversions to residential. Conversion of redundant upper parts storage unit to a residential flat completed. Since 31 March, consents obtained for three further use changes (one to residential).

*Recurring profit is explained in the Results section below.

Directors' Review

The Company has continued to perform robustly in a challenging environment for the retail sector.

Market Context

Following a stop-start recovery, economic activity is finally gathering pace with growth of 1.9% recorded in 2013, the highest rate since 2007. Private sector output surveys point towards continued expansion with the recovery now starting to filter through to regions and cities where the local economy is primarily driven by private sector.

The unemployment rate fell rapidly over H2 2013 and has reached the Bank of England's previous forward guidance threshold of 7%, at which consideration would be given to raising the base rate. However, low inflation and spare economic capacity appears to be influencing the Monetary Policy Committee to keep interest rates at their present level at least until wages start to increase in real terms. Despite real wages in many parts of the country declining over a prolonged period, much of the recovery has been driven by consumer consumption raising concerns that consumption has been fuelled by debt.

It appears that the Government's 'Help to Buy' housing scheme has been fuelling house price inflation, particularity in London and the South East, and arguably laying the foundations for another bubble. Whilst the rise in house prices may improve consumer confidence, it may ultimately stoke inflation leading to interest rate rises coupled with high levels of consumer and mortgage debt.

In the retail market, the series of failures amongst high profile chains that grabbed headlines in 2013 (for example, Blockbuster, HMV, Ethel Austin and Comet) appears to have ended. Many such casualties appear to have been significantly more prone to competition from internet sales and had been unable to modify their business model. The growth in sales of goods over internet sales, particularly of comparison goods, and especially at Christmas, and the success of retailers with effective multi-channel offering, such as Next and John Lewis, is a testament to this. There remains a high degree of churn as tenants move in and out of premises.

Both local and national retailers suffered from the severe flooding and other adverse weather conditions that hit many UK regions during the winter of 2013-14 and many local economies are still suffering from the continued economic impact that has resulted.

Despite these challenges, the independent retail sector is showing signs of improving health, with steady demand in convenience, services (in particular health and beauty) and leisure. There is positive investor sentiment for local retailing in London and the South East, alongside major towns. Whilst other regional markets have continued to show signs of weakness, this appears to be abating to some extent. On a relative basis local retailing has not experienced the same compression in yields as other property market sectors.

Results

The profit before tax on an IFRS basis for the six month period was £1.75 million (or 2.15 pps), compared with a loss (re-stated to exclude discontinued operations) of £1.55 million (-1.90 pps) for the six months to 31 March 2013 and a loss of £6.07 million (-7.46 pps) for the full year to 30 September 2013.

The recurring profit on continuing operations was £0.919 million (or 1.13 pps), compared with £1.25 million (1.53 pps) for the six months to 31 March 2013 (restated) and £2.07 million (2.54 pps) for the year to 30 September 2013.

The portfolio achieved gross rental income for the six months to 31 March 2014 of £7.65 million, slightly ahead of the £7.62 million for the half year to 31 March 2013. Within this, rent reviews were highly subject to local and regional factors and increases were also balanced by a reduction in the number of income-producing units as a result of property sales. We also continued our policy of re-gearing leases and offering rent concessions where this is likely to enhance value.

Property operating expenses, at £1.99 million, showed an increase of £0.58 million against the comparable period, due in the main to two significant items. Firstly, as we have previously noted and in common with other UK property investors, the business is now experiencing the full effects of the immediate imposition of Business Rates on vacant properties and the curtailment of previous mitigation schemes. This accounted for £377k of the increase in operating property expenses and alternative mitigation arrangements are now being implemented. Secondly, a rigorous review of significantly aged bad debts resulted in an increase in the bad debt charge of £249k for the period compared with the same period in 2013. This is considered to be an isolated item and has been excluded from the recurring profit calculation.

Financing costs rose during the period, £346k higher than the six months to 31 March 2013. This reflected the revised banking arrangements, which are described in detail under the section on Financing below.

A major factor in the IFRS result was the movement in fair value of the property portfolio, which was valued at £167.6 million at 31 March 2014, a reduction of £5.4 million on the 31 March 2013 valuation and a reduction of £1.3 million on the 30 September 2013 figure. The movement during the period reflected a combination of improved values on a like-for-like basis and the reduction in portfolio value resulting from property sales. Like for like values are commented on in more detail in the Combined Portfolio section below. In line with the investment policy adopted last year, two of the Group's property holding companies are currently being marketed for sale and the valuations of the properties comprised in these companies are categorised as held for sale in the consolidated balance sheet.

Administrative expenses fell by £273k in comparison with the period to 31 March 2013. This reflects savings in office and staff costs following the appointment of INTERNOS Global Investors Limited ("INTERNOS") as the Company's asset manager, net of the fee payable to INTERNOS.

Other contributory factors included the positive movement in the fair value of interest rate swaps, which showed an improvement of £378k over the comparable period, and the profit on the sale of properties which exceeded the comparable period by £155k.

The table below summarises the adjustments made between the reported IFRS result and this recurring profit.

	31 March 2014 £000	31 March 2013 restated £000	30 Sept 2013 £000
Profit/(loss) before tax (IFRS)	**1,751**	(1,547)	(6,071)
Profit on discontinued operations	**–**	(479)	(345)
Profit/(loss) before tax on continuing operations	**1,751**	(2,026)	(6,416)
Reduction in the fair value of the portfolio	**318**	4,252	8,778
Increase in the fair value of the interest rate swaps held	**(1,255)**	(877)	(2,753)
Profit on disposal of investment properties	**(218)**	(62)	(114)
Non-recurring (income)/costs & net resolution of aged balances	**323**	(39)	2,575
Recurring profit on continuing operations	**919**	1,248	2,070

The calculation remains consistent with previous periods.

Directors' Review continued

Dividend

In line with the Company's current dividend distribution policy no interim dividend will be paid. The Board will continue to review the dividend policy in line with progress with the investment strategy.

Revaluation

Our portfolio was revalued at £167.6 million as at 31 March 2014, reflecting an equivalent yield (excluding the residential element) of 9.33% (30 September 2013: £168.9m, 9.48% equivalent yield). As at 31 March 2014, it comprised 629 properties with an annual rental income, net of head rents payable, of £15.2m, compared to 644 properties and £15.9 million at 30 September 2013. Whilst the overall number of letting units remained the same, at 2,037, this was the net result following property sales, the termination of intermediate leases and the sub-division of units to provide more viable letting space. As stated above, two of the Group's property holding companies are currently being marketed for sale. The valuation of the properties held within these companies is identified separately in Note 6 to the financial statements.

Combined Portfolio

Value	£167.6m
Initial Yield ("IY")	8.70%
Reversionary Yield ("RY")	9.59%
Equivalent Yield ("EY")	9.33%
Rent per annum*	£15.2m
Market Rent per annum*	£16.5m

*Net of head rents payable

Value Range	No. of Properties	Value £m	EY
£0 - £100k	193	14.0	10.21%
£101k - £200k	201	28.6	9.54%
£201k - £500k	161	52.2	9.77%
£501k - £1m	50	34.8	9.30%
£1m - £3m	21	28.3	8.72%
£3m +	3	9.7	7.72%
Total	**629**	**167.6**	**9.38%**

All yields quoted exclude the residential element which is valued at a discount to vacant possession value.

The table above illustrates the range of property values throughout the portfolio. The average property value is £266,376 and the median is £150,000. The residential element of the portfolio has been valued at £18.1m, typically based on 85% of vacant possession value. The average value of the residential units in our portfolio remains low at £57,000.

Existing Portfolio — Like-for-like

	31 March 2014	30 Sept 2013	Change
Value	**£167.6m**	£167.3m	0.1%
IY	**8.70%**	8.72%	–2bps
RY	**9.53%**	9.70%	–17bps
EY	**9.33%**	9.48%	–15bps
Rent pa*	**£15.2m**	£15.4m	–1.3%
Market Rent pa*	**£16.5m**	£16.4m	0.5%

All yields quoted exclude the residential element which is valued at a discount to vacant possession value.

*Net of head rents payable

The existing portfolio recorded a 0.1% rise in value on a like-for-like basis during the period, with the equivalent yield (excluding the residential element) moving in by 15 basis points to 9.33% (30 September 2013: 9.48%).

The yield pattern remains highly subject to regional factors. The period saw significant inward yield shifts in London and south-eastern parts of the UK and the east midlands. Elements of the portfolio in the North West reversed their outward yield shift in 2013. Values remained under pressure in Scotland, the North East and Wales where debt availability remains tight.

Region	31 March 2014 EY	30 Sept 2013 EY	Change bbs
East Anglia	8.60%	9.26%	–66
London	6.83%	7.46%	–63
South East	8.83%	9.04%	–21
South West	9.30%	9.33%	–3
West Midlands	9.45%	9.37%	+8
Wales	10.50%	10.15%	+35
Yorks & Humberside	9.93%	9.92%	+1
East Midlands	9.09%	9.33%	–24
North	11.31%	11.14%	+17
Scotland	10.25%	10.03%	+22
North West	9.39%	9.72%	–33

All yields quoted exclude the residential element which is valued at a discount to vacant possession value.

During the six month period like-for-like rental income declined by 1.3%, with Market Rent remaining static.

Net Asset Value ("NAV")

During the period NAV rose by 5.30% to £35.38 million or £0.43 per share, based on 82.5 million shares in issue, excluding those held in Treasury (30 September 2013: £33.6 million, £0.41 per share).

The adjusted NAV of the Company as at 31 March 2013, excluding liabilities arising from derivative financial instruments, is £40.4 million or £0.49 per share (30 September 2013: £39.9 million, £0.48 per share).

The Group held £7.27 million of cash at the end of the period,details of which are given in Note 14 to the financial statements.

Acquisitions and Sales

Under the new investment strategy adopted by the Company in July 2013, we will not acquire properties other than to support or enhance the value of existing properties within the portfolio. No properties were acquired during the period.

During the period eight entire properties were sold, three of which included residential flats, together with a further two flats. The aggregate gross sale price was £1.821 million, a premium of 18.05% to their preceding valuation.

Further properties were under offer at 31 March 2014 at prices totalling £4.56 million, representing a premium against their preceding aggregate valuations of 15.92%. Of these, two commercial units and two flats have since been sold, at a combined premium to preceding valuation of 20.88%, with contracts exchanged on a further two properties at a premium to preceding valuation of 12.90%.

As mentioned above, we are currently seeking offers for two of the Group's property portfolios.

Asset Management

We continue with our flexible approach to leasing, which has served us well during the well-publicised period of difficulty for the retail sector. We continue to prefer stepped rents to offering lengthy rent-free periods in return for high headline rents. The generation of healthy net cashflow is a key pillar of our business and we closely monitor expenses and take a robust approach to debts.

During the period we completed lettings on 55 units at a combined rent of £535,200 per annum against aggregate Market Rent of £554,193. Of these ten incorporated stepped rent increases whereby the aggregate initial rent of £80,500 per annum will rise to £104,100 per annum over the first three years of their leases, compared with a Market Rent of £106,500 per annum. The other 45 units were let at a 1.74% premium to Market Rent.

Directors' Review continued

Our average rent free period on lettings completed during the period remains low at 90 days. Letting activity was robust at the period end, with 41 units under offer at a combined rent of £393,700.

Rental growth also continued through rent reviews, which were completed on 43 units resulting in aggregate rental income of £734,084 against combined Market Rents of £675,082 (an uplift of 8.74% to Market Rent). We also secured 15 lease renewals with existing tenants. These resulted in a small net rental decrease of £1,936 (-1.15%), although this was £3,185 (1.95%) ahead of Market Rent.

On a like-for-like basis total rental income declined by 1.3% since 30 September 2013, with no movement in like-for-like Market Rent.

We continue to be active in identifying ways of improving income generation from our property assets. During the period consents were secured for three commercial changes of use and two conversions to residential. The conversion of a redundant first floor storage unit to a residential flat was completed during the period. Since 31 March, consents have been obtained for three further use changes (one to residential). We are also progressing ideas for similar value-adding initiatives in situations where recent changes in legislation have done away with the need for planning approval.

Void Rate

The environment for retailers continues to be challenging in many regions. However, our overall void rate remained relatively stable at 12.47% of portfolio Market Rent, equivalent to Market Rent of £2.07 million (30 September 2013: 12.38% and £2.11 million). The void rate comprised 11.31% attributable to commercial properties and 1.16% attributable to residential units (30 September 2013: 11.64% and 0.74%).

We continue to take a robust approach to rent defaults, preferring to take back units for re-letting as soon as practicable. During the period we made a further provision against aged debts which is not expected to be repeated. Despite this the bad debt charge reduced during the period compared with the same period in 2012-13. The aging profile of rental arrears was in line with that of the comparator period.

When we let units to independent tenants, or deal with lease assignments, it is our policy to seek rent deposits wherever appropriate. As at 31 March 2014, we held deposits in respect of commercial tenants totalling £889,000 (31 March 2013: £923,000), or 23.5% 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. Further deposits, typically equating to one month's rent, are held by our managing agents and the Deposit Protection Service in respect of residential tenancies.

Financing

The Group operates using the loan facilities set out below, which are designed to enable the Group to execute its sales strategy at best value whilst minimising hedge break costs.

Loan	Facility £m	Net Amount Outstanding £m	LTV Covenant	Amortisation	Termination Date
Indus (Eclipse 2007-1) plc	69.2m	67.8 m (Note: net of 1.38m held on amortisation escrow a/c)	None	£300k per quarter held in amortisation escrow account	16 January 2017
HSBC – Term Loan 1	46.1m	46.1m	91.5% – NOS 4/6 combined	1.8% pa of outstanding loan	30 April 2018
HSBC – Term Loan 2	19.6m	19.6m	91.5% – NOS 4/6 combined	1.8% pa of outstanding loan	30 April 2018
Total	**£134.9m**	**£133.5**			

At 31 March 2014 the net debt outstanding was £133.5 million (30 September 2013: £135.6m).

The facility provided by Indus (Eclipse 2007-1) plc ("Indus") (a securitisation initiated by Barclays Bank plc) is subject to an amortisation payment of £0.3 million per quarter into an escrow account over which the lender's agent has sole signing rights. At 31 March 2014, £1.38 million had been transferred to this account. Although these amounts have not yet been used to repay the facilities, the Net Amount Outstanding figure in the table assumes that they netted off against the loan in order to provide a fair reflection of the amount outstanding.

Of the balances shown in the table, the Indus loan of £67.8m (less prepaid fees of £0.1m) has been included in group assets and liabilities held for sale.

The two facilities provided by HSBC Bank plc ("HSBC") are subject to cross-collateralisation of the corresponding property portfolios. A fixed margin of 2% applies to both facilities. An additional margin will accrue from 1 January 2015 and become payable on repayment of the loans (this accrues at the rate of 1%. per annum from 1 January 2015, 1.5 %. from 1 January 2016 and then 2%. thereafter from 1 January 2017). Amortisation instalments are paid on each interest payment date, calculated as 0.45% of the aggregate loan balance outstanding.

All of the loans have actual and forecast interest cover tests which must be complied with under the terms of the facilities. The interest cover is tested at various times throughout the year. At each testing date during the period each loan was determined to be compliant.

The average cost of debt, including margin, is 5.9%. At 31 March 2014 the Group held £6.76 million of property which does not have any debt secured against it together with cash of £7.27 million, reflecting a loan to value ratio (net of cash reserves) of 74.7%.

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

The directors consider it appropriate to prepare the Half Year Statement on a Going Concern basis given the Group's diverse tenant base, the improving outlook for capital values, the bank facilities available, the uncharged properties owned by the Group, the cash held at the period end and the potential proceeds arising from property sales.

Directors' Review continued

The risks facing the Group for the remaining six months of the financial year remain consistent with those described in detail in the Annual Report for the year ended 30 September 2013 (available on the Company's website: www.localshoppingreit.co.uk). These centre on:

- Changes in the macroeconomic environment
- Higher than anticipated property maintenance costs
- Changes to legal environment, planning law or local planning policy
- Regulatory requirements in connection with property portfolio
- Information technology systems and data security
- Financial market conditions
- Capital management and liquidity

The Group does not consider financing to be a risk given the long term nature of the outstanding debt, the hedging facilities in place and the level of debt-free properties in the portfolio.

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 the fair value of the derivative financial instruments do affect the income statement and consequently the Net Asset Value recorded on the Consolidated Balance Sheet.

The Group is exposed to the risk of non-payment of trade receivables by its tenants. Despite recent improvements in the domestic economy this risk continues to be significant. With circa 2,000 tenants operating across all retail occupations spread throughout the UK, the Directors consider that there is no significant concentration of credit risk. The level of arrears is monitored continually by the Group's asset managers and subject to monthly review at executive level.

Outlook

The national trend for the retail sector has shown positive signs in recent months, including a notable improvement in the performance of shops selling household goods. There has been a notable decline in the number of household name retailers going into administration since Christmas (although our portfolio has been less exposed than others to this risk). Market commentators appear to agree on the likelihood of this trend continuing into the latter part of 2014, fuelled by continued upward employment trends and low interest rates and a resurgent housing market. The investment market for local shopping assets remains healthy, with auctions and private treaty sales reporting strong volumes and results for well-let assets in better locations.

Whilst the overall picture is increasingly positive, we expect the trading environment for individual local shopping and convenience retailers to remain highly subject to regional and local factors. Many local retailers are still seeking to recover from bouts of heavy discounting and price competition that spilled into their market from the supermarket sector during 2013. Others face increasing challenges arising from technological change, particularly internet shopping, home delivery and "click & collect" although these factors appear less marked in local and convenience shopping. Overall we expect sub-sector to continue to perform with the same resilience and opportunism that it has displayed during the recent period of turbulence.

J.G. Whateley
Chairman

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 21 May 2014.

S R Faber
Director

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 2014 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 Conduct Authority ("the UK FCA"). 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 FCA.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with IFRSs 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 2014 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

John Leech
for and on behalf of KPMG LLP

Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

21 May 2014

Condensed Consolidated Income Statement

for the six months ended 31 March 2014

	Note	Unaudited Six months ended 31 March 2014 £000	Restated** Unaudited Six months ended 31 March 2013 £000	Audited Year ended 30 Sept 2013 £000
Gross rental income		**7,646**	7,624	14,649
Property operating expenses		**(1,985)**	(1,404)	(2,579)
Net rental income		**5,661**	6,220	12,070
Profit on disposal of investment properties		**218**	63	114
Loss on change in fair value of investment properties	6	**(318)**	(4,274)	(8,778)
Administrative expenses		**(1,002)**	(1,275)	(4,520)
Net other income		**4**	14	22
Share of results from jointly controlled entities	7	**19**	(5)	(134)
Operating profit/(loss) before net financing costs		**4,582**	743	(1,226)
Financing income*	3	**2**	2	4
Financing expenses*	3	**(4,088)**	(3,742)	(7,947)
Movement in fair value of derivatives	3	**1,255**	880	2,753
Profit/(Loss) before taxation		**1,751**	(2,117)	(6,416)
Tax	4	**–**	–	–
Profit/(Loss) for the financial period from continuing operations		**1,751**	(2,117)	(6,416)
Discontinued operations			–	
Profit for the financial period from discontinued operations	15	**–**	570	345
Profit/(Loss) for the financial period attributable to equity holders of the Company		**1,751**	(1,547)	(6,071)
Basic and diluted profit/(loss) per share for the financial period		**2.2p**	(1.9)p	(7.5)p
Basic and diluted profit/(loss) per share on continuing operations for the period	11	**2.2p**	(2.5)p	(7.9)p

* Excluding movements in the fair value of financial derivatives

** Restated to reflect discontinued operations – see Note 15

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 31 March 2014

	Unaudited Six months ended 31 March 2014 £000	Unaudited Six months ended 31 March 2013 £000	Audited Year ended 30 Sept 2013 £000
Profit/(loss) for the period	**1,751**	(1,547)	(6,071)
Total comprehensive income for the period	**1,751**	(1,547)	(6,071)
Attributable to:			
Equity holders of the parent Company	**1,751**	(1,547)	(6,071)

Condensed Consolidated Balance Sheet

as at 31 March 2014

	Note	Unaudited 31 March 2014 £000	Unaudited 31 March 2013 £000	Audited 30 Sept 2013 £000
Non-current assets				
Property, plant and equipment		–	107	–
Investment properties	6	84,519	173,911	166,107
Investments in jointly controlled entities	7	526	3,825	507
Other investments	8	–	909	–
Total non-current assets		85,045	178,752	166,614
Current assets				
Trade and other receivables		2,156	3,794	4,784
Investment properties held for sale		5,775	–	3,675
Assets of a disposal group held for sale	10	83,354	–	–
Cash		3,753	5,306	6,626
Total current assets		95,038	9,100	15,085
Total assets		180,083	187,852	181,699
Non current liabilities				
Interest bearing loans and borrowings	9	(64,178)	(135,161)	(134,363)
Finance lease liabilities		(672)	(922)	(922)
Derivative financial instruments	13	(2,690)	(5,583)	(3,872)
Total non-current liabilities		(67,540)	(141,666)	(139,157)
Current liabilities				
Interest bearing loans and borrowings	9	(1,173)	–	–
Trade and other payables		(2,961)	(5,457)	(6,499)
Liabilities of a disposal group held for sale	10	(70,688)		
Derivative financial instruments	13	(2,344)	(2,579)	(2,417)
Total current liabilities		(77,166)	(8,036)	(8,916)
Total liabilities		(144,706)	(149,702)	(148,073)
Net assets		35,377	38,150	33,626
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		11,506	14,279	9,755
Total attributable to equity holders of the Company		35,377	38,150	33,626

Condensed Consolidated Statement of Cash Flows

for the six months ended 31 March 2014

	Note	Unaudited Six months ended 31 March 2014 £000	Unaudited Six months ended 31 March 2013 £000	Audited Year ended 30 Sept 2013 £000
Operating activities				
Profit/(loss) for the financial period		1,751	(1,547)	(6,071)
Adjustments for:				
Loss on change in fair value of investment properties	6	318	4,274	8,778
Net financing costs	3	2,831	2,860	5,190
Profit on disposal of investment properties		(218)	(63)	(114)
Loss on disposal of discontinued operations		–	–	500
Depreciation		–	19	123
Share of results of jointly controlled entities		(19)	(120)	134
		4,663	5,423	8,540
Decrease/(increase) in trade and other receivables		2,628	902	(86)
Increase in trade and other receivables held for disposal		(1,656)	–	–
Decrease in trade and other payables		(3,646)	(246)	788
Increase in trade and other payables held for disposal		2,729	–	–
		4,718	6,079	9,242
Interest paid		(3,881)	(3,705)	(8,006)
Interest received		2	2	4
Net cash flows from operating activities		839	2,376	1,240
Investing activities				
Proceeds from sale of investment properties		1,823	985	1,356
Acquisition of and improvements to investment properties		(613)	(998)	(1,693)
Proceeds of sale from property, plant and equipment		–	–	3
Proceeds of sale from discontinued operations		–	–	2,753
Proceeds of sale from other investments		–	–	725
Investment in jointly controlled entities	7	–	(316)	(317)
Repayment of investment in jointly controlled entities	7	–	681	681
Cash flows from investing activities		1,210	352	3,508
Net cash flows from operating activities and investing activities		2,049	2,728	4,748
Financing activities				
Repayment of borrowings		(1,402)	(1,290)	(68,300)
New borrowings		–	–	66,310
Dividends paid		–	(1,628)	(1,628)
Cash flows from financing activities		(1,402)	(2,918)	(3,618)
Net (decrease)/increase in cash		647	(190)	1,130
Cash at beginning of period		6,626	5,496	5,496
Cash included in assets held for disposal		(3,520)	–	–
Cash at end of period		3,753	5,306	6,626

Condensed Consolidated Statement of Changes in Equity

for the six months ended 31 March 2014

	Share capital £000	Reserves £000	Capital redemption reserve £000	Retained earnings £000	Total £000
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
Total comprehensive income for the period					
Loss for the period	–	–	–	(4,524)	(4,524)
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	–	–
Share based payments	–	–	–	–	–
Total contributions by and distributions to owners	–	–	–	–	–
At 30 September 2013	18,334	3,773	1,764	9,755	33,626
Total comprehensive income for the period					
Profit for the period	–	–	–	1,751	1,751
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	–	–
Share based payments	–	–	–	–	–
Total contributions by and distributions to owners	–	–	–	–	–
At 31 March 2014	**18,334**	**3,773**	**1,764**	**11,506**	**35,377**

Notes to the Half Year Report

for the six months ended 31 March 2014

1 Accounting policies

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 2013 (with which they should be read in conjunction).

The comparative figures for the financial year ended 30 September 2013 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.

During the previous financial year the Company went through a strategic review which resulted in the discontinuing of some of its activities. Where relevant the figures for March 2013 have been restated to reflect this.

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 maker.

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.

Following the strategic review, the Board consider there to be only one reportable segment. As the results for 2013 have been restated for discontinued activities, segmental analysis for 2013 is not considered to be material.

Notes to the Half Year Report continued

for the six months ended 31 March 2014

3 Net financing costs

	Six months ended 31 March 2014 £000	Six months ended 31 March 2013 £000	Year ended 30 September 2013 £000
Interest receivable	**2**	2	4
Financing income excluding fair value movements	**2**	2	4
Fair value gains on derivative financial instruments (see Note 13)	**1,255**	880	2,753
	1,257	882	2,757
Bank loan interest	**(3,988)**	(3,642)	(7,436)
Amortisation of loan arrangement fees	**(72)**	(72)	(143)
Write off of loan arrangement fees	**–**	–	(313)
Head rents treated as finance leases	**(28)**	(28)	(55)
Financing expenses excluding fair value movements	**(4,088)**	(3,742)	(7,947)
Financing expenses	**(4,088)**	(3,742)	(7,947)
Net financing costs	**(2,831)**	(2,860)	(5,190)

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

6 Investment properties

	Total £000
At 1 October 2013	166,107
Additions	613
Disposals	(1,605)
Fair value adjustments	(318)
Movement on investment properties held for sale	(2,100)
Assets of a disposal group held for sale	(78,178)
At 31 March 2014	**84,519**

The investment properties have all been revalued to their fair value at 31 March 2014.

All properties acquired since the beginning of the financial year, 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.

A reconciliation of the portfolio valuation at 31 March 2014 to the total value for investment properties given in the Consolidated Balance Sheet is as follows:

	31 March 2014 £000	31 March 2013 £000	30 September 2013 £000
Portfolio valuation	167,550	172,989	168,860
Head leases treated as investment properties held under finance leases in accordance with IAS 17	922	922	922
Total properties	168,472	173,911	169,782
Properties held for sale	(5,775)	–	(3,675)
Properties included in a disposal group for sale	(78,178)	–	–
As at 31 March 2014	84,519	173,911	166,107
Comprising:			
Portfolio valuation	83,847	172,989	165,185
Head leases treated as investment properties held under finance leases in accordance with IAS 17	672	922	922
Total per Consolidated Balance Sheet	84,519	173,911	166,107

Notes to the Half Year Report continued

for the six months ended 31 March 2014

7 Investments in jointly controlled entities

The Group has the following investments in jointly controlled entities:

	Ownership 31 March 2014	31 March 2013	30 September 2013
Local Parade Investments LLP	Nil	20%	Nil
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. This investment was disposed of in July 2013 as part of the strategic restructuring.

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 2014 £000	31 March 2013 £000	30 September 2013 £000
Cost			
At beginning of period	507	4,070	4,070
Equity investments	–	–	–
Loan advances	–	316	317
Loans repaid	–	(681)	(681)
Share of results, net of tax	19	120	53
Distributions received	–	–	–
Investment disposed of	–	–	(3,252)
At end of period	526	3,825	507

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

	31 March 2014 £000	31 March 2013 £000	30 September 2013 £000
Non-current assets	1,019	9,901	1,019
Current assets	39	1,192	44
Non-current liabilities	(488)	(6,746)	(491)
Current liabilities	(44)	(522)	(65)
	526	3,825	507

7 Investments in jointly controlled entities continued

	31 March 2014 £000	31 March 2013 £000	30 September 2013 £000
Represented by:			
Capital	500	500	500
Loans	210	3,467	210
Share of results brought forward	(203)	(262)	(68)
Share of results, net of tax	19	120	(135)
Group's share of net assets	526	3,825	507

	31 March 2014 £000	31 March 2013 £000	30 September 2013 £000
Net rental income	47	46	91
Property expenses	(6)	(17)	(27)
Administrative expenses	(7)	(7)	(14)
Change in fair value of properties	–	–	(139)
Net interest payable	(14)	(27)	(54)
Movement in fair value of financial derivatives	–	–	8
(Loss)/profit on disposal of investment properties	–	–	–
Tax	(1)	–	–
	19	(5)	(135)

Notes to the Half Year Report continued

for the six months ended 31 March 2014

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. This was disposed of as part of the strategic restructuring in July 2013.

	Total £000
Fair value	
At 30 September 2012	909
Additions	–
At 31 March 2013	909
Disposal	(909)
At 30 September 2013	–
At 31 March 2014	**–**
Impairment charge	
At 31 March 2014	**–**
Net book value	
At 31 March 2014	**–**
At 31 March 2013	909
At 30 September 2012	909

9 Interest-bearing loans and borrowings

	31 March 2014 £000	31 March 2013 £000	30 September 2013 £000
Non-current liabilities			
Secured bank loans	64,541	135,639	134,939
Loan arrangement fees	(363)	(478)	(576)
	64,178	135,161	134,363
Current liabilities			
Current portion of secured bank loans	1,173	–	–

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.

The loans are amortised by 0.45% of the balance outstanding on a quarterly basis, and the final balance is repayable in 2018.

10 Disposal group

As part of the ongoing policy of realisation of the Group's assets, the shares of two of the subsidiary companies, NOS 2 Limited and NOS 3 Limited are being marketed as a single unit sale which includes their joint financing arrangements.

The following assets and liabilities are deemed to be held for sale as part of this process:

	Total £000
Assets	
Trade and other receivables	1,656
Investment properties held for sale	78,178
Cash	3,520
Total Assets held for sale	**83,354**
Liabilities	
Interest bearing loans and borrowings	(67,709)
Trade and other payables	(2,729)
Finance lease liabilities	(250)
Total Liabilities held for sale	**(70,688)**
Total net assets held for sale	**12,666**

11 Profit/(Loss) per share

Basic profit/(loss) per share

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

Profit/(loss) attributable to ordinary shares

	31 March 2014 £000	31 March 2013 £000	30 September 2013 £000
Profit/(loss) for the financial period	1,751	(1,547)	(9,178)

Weighted average number of shares

	31 March 2014 Number 000	31 March 2013 Number 000	30 September 2013 Number 000
Issued ordinary shares	91,670	91,670	91,670
Shares held by EBT	(1,096)	(1,096)	(1,096)
Treasury shares	(9,164)	(9,164)	(9,164)
Weighted average number of ordinary shares	81,410	81,410	81,410

Diluted earnings per share

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

Notes to the Half Year Report continued

for the six months ended 31 March 2014

12 Net asset value (NAV)

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

	31 March 2014 Number 000	31 March 2013 Number 000	30 September 2013 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 2014 £000	31 March 2013 £000	30 September 2013 £000
Net assets per Consolidated Balance Sheet	35,377	38,150	33,626
Net asset value per share	£0.43	£0.46	£0.41

Adjusted net asset value per share

	31 March 2014 £000	31 March 2013 £000	30 September 2013 £000
Net assets per Consolidated Balance Sheet	35,377	38,150	33,626
Fair value of derivative financial instruments	5,034	8,162	6,289
	40,411	46,312	39,915
Adjusted net asset value per share	£0.49	£0.56	£0.48

13 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 2013 £000	Movements in Income Statement £000	Fair value at 31 March 2014 £000
Non current liabilities	(3,872)	(1,182)	(2,690)
Current liabilities	(2,417)	(73)	(2,344)
Net liabilities	(6,289)		(5,034)
Amount credited to Consolidated Income Statement		(1,255)	

13 Derivative financial instruments continued

Notional value of swap £000	Effective date	Maturity date	Rate payable on fixed leg %	Value at 30 September 2013 £000	Movements in Income Statement £000	Value at 31 March 2014 £000
21,577	16–Jul–07	31–Jan–17	4.85	(2,518)	(482)	(2,036)
22,500	30–Apr–13	20–Jul–16	5.05	(2,571)	(527)	(2,044)
10,500	30–Apr–13	29–Jul–16	5.05	(1,200)	(246)	(954)
				(6,289)	(1,255)	(5,034)

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 2014: 92% (30 September 2013: 92% and 31 March 2013: 91%) of the Group's debt was fixed.

14 Cash

	31 March 2014			31 March 2013	30 September 2013
	Balance Sheet £000	Assets held for sale £000	Total £000	£000	£000
Substitution accounts	998	1,039	2,037	585	831
Rent accounts	1,379	1,523	2,902	2,859	1,906
Other accounts	1,376	958	2,334	1,862	3,889
Total	3,753	3,520	7,273	5,306	6,626
Accrued interest	658	802	1,460	1,351	1,493

Cash held on the substitution accounts is charged to the lenders pending the transfer of assets to the lenders from the uncharged pool. If these balances are not used within certain time periods, they will be used to pre-pay the loans.

The rent accounts shown above were held pending interest payments due in the month following the Balance Sheet date. The accrued interest shown is the amount due on those loans at the Balance Sheet date. Until the interest payments and amortisation have been deducted from those balances the cash is not available for use by the Group.

15 Discontinued Operations

In July 2013 as part of the reconstruction following the strategic review, the Company disposed of its interests in Local Parade Investments LLP and LSR Asset Services Limited. In addition it ceased its asset management activities being carried on by LSR Asset Management Limited and LSR Gresham Asset Advisors Limited. The comparative figures for March 2013 have been restated to reflect these changes.

Notes to the Half Year Report continued

for the six months ended 31 March 2014

16 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.

17 Significant contracts

With effect from 22 July 2013 the Company entered into a management agreement with INTERNOS Global Investors Limited ("INTERNOS"). Under this agreement the Company pays to INTERNOS:

1. An annual management fee of 0.70% of the gross asset value of the portfolio, subject to a minimum fee of £1m in each of the first two years, £0.95m for the third year and £0.9m for the fourth year.
2. An annual performance fee of 20% of the recurring operating profits above a pre-agreed target recurring profit.
3. Fees for property sales as follows: up to £50m nil; £50m-£150m 0.5% of sales; over £150m 1.5% of sales.
4. A terminal fee of 5.7% of cash returned to the Company's shareholders in excess of 36.1 pence per share per annum from the Effective Date outside of dividend payments (the "Terminal Fee Hurdle"). The Terminal Fee Hurdle rises by 8% per annum after the first year but reduces on a pro-rata daily basis each time equity is returned to shareholders outside of dividend payments from recurring operating profits.

Under the terms of the agreement INTERNOS received a fee of £589,391 (September 2013: £291,967; March 2013: £Nil) during the financial period. In the period to September 2013 INTERNOS received a one off fee of £50,000 for work carried out on renegotiating the HSBC loan facilities.

the
Local Shopping
REIT plc

The Local Shopping REIT plc
65 Grosvenor Street
London
W1K 3JH

Telephone: +44 (0)20 7355 8800
Registration number: 05304743
Website: www.localshoppingreit.co.uk