

Annual Report

For the year ended 31 December 2021

Contents

Strategic Report

- [2](#) Highlights
- [5](#) Chairman's Statement
- [8](#) Investment Adviser's Report
- [32](#) Strategic Review

Governance

- [46](#) Board of Directors
- [48](#) The Investment Adviser
- [50](#) Corporate Governance Report
- [64](#) ESG Committee Report
- [70](#) Audit Committee Report
- [74](#) Remuneration Committee Report
- [77](#) Nomination Committee Report
- [80](#) Directors' Report

Financial Statements

- [82](#) Independent Auditors' Report
- [89](#) Group Income Statement
- [90](#) Group Statement of Other Comprehensive Income
- [91](#) Group Statement of Changes in Equity
- [92](#) Group Balance Sheet
- [93](#) Group Cash Flow Statement
- [94](#) Notes to the Group Financial Statements
- [124](#) Company Balance Sheet
- [125](#) Company Statement of Changes in Equity
- [126](#) Notes to the Company Financial Statements

Unaudited Supplementary Information

- [128](#) Shareholder Returns
- [130](#) EPRA Measures
- [136](#) Rent Smoothing Adjustments
- [138](#) RPI Methodology
- [139](#) Property Portfolio as at 9 March 2022
- [142](#) Five Year Summary
- [143](#) Glossary
- [144](#) Company Information
- [145](#) Important Notes
- [146](#) Explanatory Notes Accompanying the AGM Notice
- [150](#) Notice of Annual General Meeting

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

At 31 December 2021 the Company has £2.1 billion of property assets with very long leases having a weighted average term to expiry without break of 30 years. The Group has £1.4 billion of net assets, a Net Loan To Value Ratio of 33.8%, structurally secure non-recourse debt, and difficult to replicate leases on Key Operating Assets in defensive sectors.

Over seven and a half years since listing, the Company has delivered a Total Accounting Return of 15.4% p.a. and a Total Shareholder Return of 16.3% p.a.. Through its portfolio of very long leases with a blend of fixed and inflation-linked rental uplifts, the Company aims to deliver progressively rising dividends and attractive risk adjusted total returns.

The Management Team holds a 12.4% interest in the business worth £170 million at 31 December 2021 EPRA NTA and is strongly aligned with shareholders to optimise value for all shareholders.

Highlights

- **11.8% uplift in EPRA NTA per share** to 424.1 pence per share
- Investment property valuation **up 9.3% over the year** and up 7.1% since 30 June 2021:
 - **Net Initial Yield of 5.1%**, down from 5.4% at 31 December 2020
 - Rent reviews in the year on 77% of the portfolio resulted in a **like for like rental increase of 3.1%**
 - **Weighted Average Unexpired Lease Term increased by some 50% over the year to 30.0 years following the regearing of the Merlin leases**
- **Merlin leases extended and enhanced in December 2021:**
 - Leases have been extended by 35 years to a **55.5 year term without break**
 - Rent reviews on UK assets Alton Towers, Thorpe Park and Warwick Castle modified to CPI + 0.5% per annum with 1% minimum and 4% maximum uplifts
 - Rental uplifts on German assets remain at 3.34% per annum throughout the extended term
 - £33.5 million premium recouped through valuation uplift
 - **Enhancements to leases** including formalisation of the existing close working relationship on ESG matters
- **Merlin leisure facility refinanced** in March 2022, post year end
 - **£282.5 million committed credit facility signed** with drawdown scheduled for April 2022 subject only to conventional conditions precedent (facility amount stated at 31 December 2021 exchange rate)
 - Risk management through non-recourse structure, no LTV default provision and low 100% interest cover requirement
 - Four year term certain with one year extension option
 - Lower borrowing level through **accretive deployment of surplus cash and 15% reduction in cost of debt provides platform for targeted dividend increase from July 2022**
- **400% increase in Adjusted EPRA EPS** to 17.5 pence per share
 - **Like for like earnings have increased by 10% as rents have returned to their pre-pandemic course following expiry of all temporary rent reductions**
- **Shareholder returns have rebounded:**
 - **Total Accounting Return of 15.8%** in the year
 - **Total Shareholder Returns:**
 - **46.7%** over the year
 - **15.3% p.a.** from listing to 8 March 2022
- **Net LTV reduced to 33.8%**, down from 36.4% at 31 December 2020
- **EPRA Cost Ratio of 12.6%** among the lowest in the UK REIT sector
- **ESG Committee established and chaired by the Company's Chairman, Martin Moore**, to oversee management of this important and developing area
- **Looking ahead: targeted dividend increase in July 2022 of approximately 15% to 18.2 pence per share annualised.** This is driven by the return of rents to their pre-Covid trajectories, together with targeted earnings enhancement arising from the Merlin facility refinancing and current expectations of high inflation which would translate into increased rents in the near term. This increase assumes no change to the portfolio or material change to tenant circumstances

	31 December 2021	31 December 2020	
Balance sheet and portfolio			
Properties at independent valuation	£2,127.6m	£1,946.9m	Up 9.3%
Net assets	£1,369.8m	£1,221.5m	Up 12.1%
EPRA NTA	£1,374.1m	£1,229.2m	Up 11.8%
EPRA NTA per share	424.1p	379.3p	Up 11.8%
Net Loan To Value ratio	33.8%	36.4%	Down 7.2%
Annualised passing rent (before Covid-19 concessions in 2020)	£116.8m	£113.3m	Up 3.1%
Net Initial Yield (topped up in 2020)	5.11%	5.42%	Down 31bp
Running Yield within 12 months*	5.35%	5.58%	
Weighted Average Unexpired Lease Term	30.0 years	20.2 years	Up 48.5%
* Using independent external valuers' RPI and CPI estimates averaging 6.4% (2020: 2.5%) and 4.6% respectively			
	Year to 31 December 2021	Year to 31 December 2020	
Earnings and returns			
Adjusted EPRA EPS:			
Like for like rent net of all costs and tax, before rent concessions	15.4p	14.0p	Up 10.0%
Rent deferrals	4.9p	(5.5)p	
Temporary rent concessions on a cash basis	(2.8)p	(5.0)p	
Adjusted EPRA EPS	17.5p	3.5p	Up 400%
IFRS EPS:			
Like for like rent net of costs and tax, before revaluations and rent concessions	17.8p	16.6p	
IFRS impact of temporary rent concessions, spread over lease terms	(0.5)p	(0.3)p	
IFRS rent net of costs and tax, before revaluations	17.3p	16.3p	
Property revaluations net of deferred tax	44.3p	(51.4)p	
IFRS EPS	61.6p	(35.1)p	
Total Accounting Return	15.8%	(8.0)%	
Total Shareholder Return	46.7%	(27.3)%	
Dividends per share	15.2p	15.7p	
Latest dividend per share annualised: % of EPRA NTA ¹	3.7%	3.8%	
Latest dividend per share annualised: % of 31 December share price ¹	3.7%	4.9%	
Dividend guidance from July 2022: % of 31 December 2021 EPRA NTA ²	4.3%		
Total Accounting Return over 30 June 2014 EPRA NTA	15.4% p.a.	15.3% p.a.	
Total Shareholder Return over issue price at 2014 listing	16.3% p.a.	12.8% p.a.	

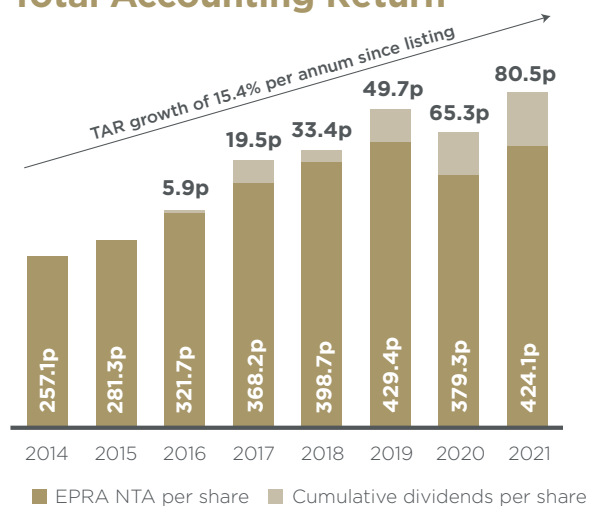
1 This is illustrative and does not constitute a dividend forecast

2 Potential dividend target and does not represent a dividend forecast

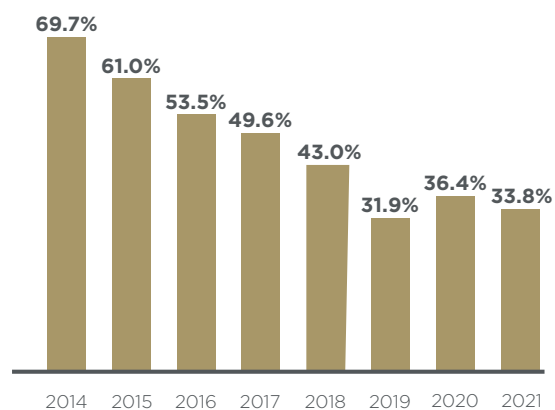
Capitalised terms are defined in the glossary on [page 143](#).

Highlights continued

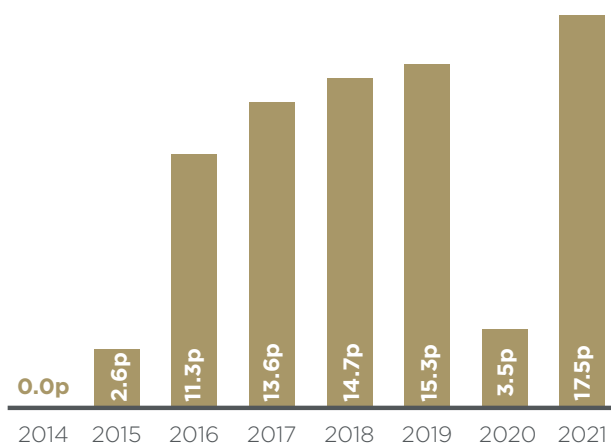
Total Accounting Return



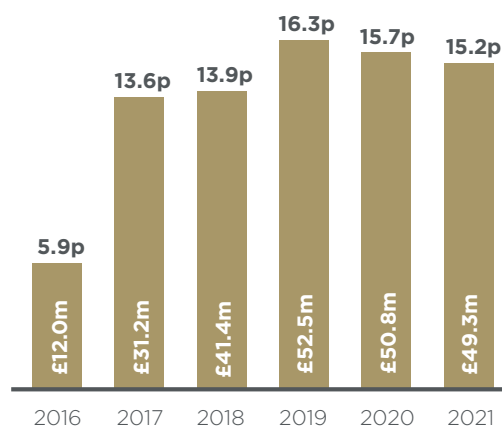
Net LTV



Adjusted EPRA EPS



Dividends and dividends per share



Chairman's Statement



"In 2021 we delivered a Total Accounting Return of 15.8%, in line with our long term returns since listing in 2014. Our rents have not only resumed their pre-pandemic path, but future income expectations are now higher due to rising inflation. Following the major regearing of our valuable Merlin leases to 55.5 years without break, the Company's WAULT at 30 years is now the longest amongst the major UK REITs. Since the year end the refinancing of our Merlin debt at a lower loan to value and a lower cost is expected to help boost our targeted dividend by an estimated 15% by the summer. Notwithstanding the uncertainty caused by the awful humanitarian crisis and geo-political events in Ukraine, these elements combine to form a strong platform for the year ahead."

Dear Shareholder,

The encouraging progress that we reported in our results for the six months ended 30 June 2021 has continued into the second half of the year, supported by twin tailwinds of the continued recovery in the growth trajectory of rents and asset values, together with a significant boost to valuations from the regear of the Merlin leases which we completed in December 2021. The outlook for the Company from 2022 is further enhanced by the positive impact of the Merlin debt refinancing after the year end.

The lease amendments agreed with Merlin have significantly increased the Company's Weighted Average Unexpired Lease Term to 30.0 years without break from 31 December 2021; have not reduced rents on any asset; and have enhanced the leases to document the co-operation between the Group and Merlin on ESG, including environmental matters in particular. We indicated at the time of announcing the transaction that the uplift in the value of the Merlin assets at 31 December 2021 was expected to be at least double the consideration paid of £33.5 million. While the impact of the lease variations is not separately reported on by the valuers, we are satisfied that this expectation has held true, helping to drive the 9.3% increase in asset values over the year. Further details of this important asset management initiative together with progress on the whole portfolio are given in the Investment Adviser's report.

Results and financial position

The Group's net asset value per share at 31 December 2021 reported under IFRS was 422.7 pence, up 12.1% since 31 December 2020. Using the industry standard EPRA measures for better comparison with other quoted real estate businesses, the Group's EPRA NTA per share at 31 December 2021 was 424.1 pence, which is up 11.8% since 31 December 2020. The reconciliation between IFRS and EPRA net assets is shown in [note 23](#) to the financial statements.

Financial position	IFRS Net Assets		EPRA NTA	
	£m	Pence per share	£m	Pence per share
1 January 2021	1,221.5	377.0	1,229.2	379.3
Investment property revaluation	140.2	43.3	155.5	48.0
Other retained earnings	57.4	17.6	38.7	12.0
Dividends paid	(49.3)	(15.2)	(49.3)	(15.2)
	148.3	45.7	144.9	44.8
31 December 2021	1,369.8	422.7	1,374.1	424.1
Total Accounting Return	197.6	60.9	194.2	60.0
Total Accounting Return %		16.2%		15.8%

The share price also continued to recover over the year, resulting in a Total Shareholder Return of 46.7%.

The impact of the end of the temporary Covid-19 rent concessions has benefited the reported earnings in the year with both the IFRS and Adjusted EPRA EPS earnings showing a strong recovery. With the last of those rent reductions having come to an end in the first week of January 2022, the rent roll is now restored to its pre-Covid growth trajectory and the annual rental income at 31 December 2021 stands at £116.8 million.

Chairman's Statement continued

Results and financial position continued

	IFRS EPS		Adjusted EPRA EPS	
	2021 Pence per share	2020 Pence per share	2021 Pence per share	2020 Pence per share
Earnings				
Like for like earnings before revaluations and before rent concessions and dividends	17.8	16.6	15.4	14.0
Temporary rent concessions	(0.5)	(0.3)	(2.8)	(5.0)
Rent deferrals	-	-	4.9	(5.5)
Earnings before revaluations	17.3	16.3	17.5	3.5
Property revaluations net of deferred tax	44.3	(51.4)	-	-
Earnings per share	61.6	(35.1)	17.5	3.5

The reconciliation between IFRS and EPRA earnings is shown in [note 10](#) to the financial statements.

In July 2020, while the pandemic raged and without the benefit, at that time, of the hope offered by vaccines and better Covid-19 treatments, the Board carefully reviewed the Company's dividend policy and took the decision to direct part of the Group's substantial Uncommitted Cash balance to support the dividend through the temporary cash flow impact of the Covid rent concessions, and to reduce the total dividends payable temporarily. As a result, the quarterly dividend reduced from 4.2 pence per share declared in each the first two quarters of 2020 to 3.65 pence per share declared in the four quarters from July 2020 to June 2021.

As the recovery in rents fed through to the results in 2021 and the pandemic outlook improved after the introduction of the vaccine programme, we were able to increase the dividend in the second half of 2021 by 8.2% to 3.95 pence per share per quarter. We have therefore now updated the dividend policy and expect to return in due course to our original policy of fully distributing Adjusted EPRA EPS. Commencing from the July 2022 quarter, we are targeting an increase in dividends of 15% to an annualised 18.2 pence per share. This is on the basis of the current portfolio, reflecting the reduction in financing costs following the degearing and refinancing of the Merlin debt (assuming that the Merlin debt is drawn as expected in April 2022), the application of current market estimates of RPI and CPI for the 2022 rent reviews and with no further changes to the portfolio or to the financing of the business. This increased dividend equates to a 4.3% yield on 31 December 2021 EPRA NTA on an annualised basis. This dividend target does not represent a profit forecast.

Outlook

The trading outlook for our tenants has brightened as the Omicron wave fades and the Government has signalled its clear intent for the country to learn to live with the residual impact of the pandemic without restrictions. This has been welcomed by the leisure and hospitality sector and bodes well for a resumption of the strong bounce back in trading we saw in the late summer and autumn of 2021.

The rise in inflation is a genuine concern for many, but our index-linked leases should provide both an element of protection and a stronger rental trajectory than in recent years. Across the real estate sector, the majority of inflation-linked leases contain caps and our portfolio is no exception, albeit 27% of our reviews are uncapped. Whether inflation proves to be transitional or embedded we do anticipate that inflation rates are likely to average out below our caps over the medium term. After a generation of falling rates the interest rate cycle has finally turned. Interest rates and property yields have historically shown limited correlation and, if the current gilt curve is any guide, the implied future interest rate rises are modest by historic standards and in our view unlikely to have much, if any, impact on property yields. Availability of debt, in our experience, usually has a bigger impact than its absolute pricing and we take comfort in the current balance sheet strength of the banking system and widening availability of debt from other sources. The Government's proposed reform of Solvency II could unleash billions of pounds of life assurance money, some of which is likely to be funnelled either into providing debt or direct demand for long lease index-linked property.

Sadly, geopolitics is back in centre stage with the tragic events unfolding in Ukraine. This may amplify some of the short term inflationary dynamics but also encourage central banks to behave less precipitously in their interest rate moves. It may also lead to greater risk aversion by investors and an increase in demand for safe haven assets. When the outlook is far from clear we find it helpful to focus on those elements upon which we hold the highest conviction. Our rents have not only resumed their pre-pandemic path but the trajectory is now higher than it was due to rising inflation. The refinancing of our Merlin debt at a lower loan to value and lower cost supports our targeted dividend increase of an estimated 15% by the summer. At 30 years our average lease length is the longest it has ever been. These elements combine to form a strong platform for the year ahead.

Martin Moore

Chairman

9 March 2022



Heide Park



Travelodge Cirencester

Investment Adviser's Report

Prestbury Investment Partners Limited, investment adviser to Secure Income REIT Plc, presents this report on the operations of the Group for the year ended 31 December 2021.

Our Management Team owns 12.4% of the Company, worth £170 million at 31 December 2021 EPRA NTA, representing the largest management holding by value of any UK REIT. Every member of the team holds a personally significant investment in the Company and we believe that this aligns our interests very strongly with those of all shareholders.

Secure Income REIT was created to provide attractive long term income and capital returns. The reporting cycle of half year and annual results necessarily focuses on those discrete six-monthly periods. We appreciate the relevance of short term performance for many investors, however the performance of the business over the medium to longer term and its prospects over similar timescales remains the principal focus of the Management Team and the Board.

In this report, we aim to explain the fundamentals of the business, the unique characteristics of the property portfolio, including the key terms of the leases, and the important features of the tenant operations that stand behind their lease obligations and therefore underpin both the value of the Company and ultimately shareholder returns.

The unaudited supplementary information which follows the financial statements includes calculations of the various EPRA and Adjusted EPRA performance measures referred to in this report and capitalised terms within this report are explained in the glossary that follows the financial statements.

The business model

The Company is a UK REIT specialising in real estate assets that provide long term rental income with inflation protection. The business is financed with non-recourse debt considered by the Board to be appropriate to asset specific and wider market risks, with significant in-built protections intended to enhance returns for shareholders without taking undue borrowing risk. We explain the Company's strategy in the "Strategy" section of the Strategic Review within this annual report.

Investment policy

The Company invests in long term, secure income streams from real estate investments. A long term income stream is considered to be one with (or a portfolio with) a Weighted Average Unexpired Lease Term in excess of 15 years at the time of acquisition. Security of income is assessed with reference to the extent of rent cover from underlying earnings, the credit strength of tenants and (where relevant) guarantors, and the reversionary potential of the assets.

The portfolio is considered by the Board to offer attractive geared returns from high quality real estate, with tenants which have well established brands in industry sectors with strong defensive characteristics. The Board proposes to build on this strong foundation by seeking to:

- diversify sources of income and enhance prospects for attractive shareholder returns through acquisitions; and
- manage the Company's capital structure in order to enhance income returns for investors whilst maintaining discipline over net debt levels and debt terms.

The Board exercises strict asset selection and stress testing criteria for acquisitions, with a view to delivering income streams that are not just long, but also secure and predictable. The Board seeks to build on the Company's existing, high quality portfolio by only sourcing assets let on long leases to businesses of appropriate financial strength or where the valuations are backed by residual asset value, and with inflation protected rental streams whether by way of fixed uplifts or inflation-linked reviews. Acquisitions should be accretive to shareholder returns and meet the following criteria:

- i) the properties should be Key Operating Assets: assets that are essential for the tenant to carry out their business and generate earnings, and which the tenant is therefore significantly more motivated to invest in and to retain in order to continue to generate sustainable earnings, including a high likelihood that tenants will take appropriate action to minimise threats from industry changes, climate threats and transition to de-carbonisation;
- ii) the relevant businesses should be in sectors which are likely to be more resilient to disruption from technology, including the internet, to economic downturn or other threats to their sustainability; and
- iii) the properties should have high barriers to entry, making them difficult to replace. This may be due to high costs of acquiring and developing the assets in question (for example, the significant investment and planning challenges required to create a theme park or hospital), or of building the networks and brand investments that underpin the operations of a business (for example, the nationwide coverage of the Budget Hotels portfolio and its 83 year old brand) or where assets are held by the Company at a discount to replacement cost.

By meeting these tests, the Board considers that tenants should be more likely to renew or extend their leases and to continue to invest in the assets (including investing in sustainability initiatives), transferring the burden of obsolescence from the owner to the occupier and thus preserving value for the Company's shareholders. We have seen evidence of this in the 38% of the Group rent roll where lease extensions have been agreed to date.

While the investment policy requires that any new investment has a Weighted Average Unexpired Lease Term of 15 years or more at the time of acquisition, income longevity alone is not enough. When the Management Team and the Board consider how sustainable rental income is likely to be, we evaluate three layers of protection:

At site level	<ul style="list-style-type: none"> i) the profitability of a given site, enhancing its attractiveness to the incumbent and alternative operators; or ii) high residual value or alternative use value.
Tenants	<ul style="list-style-type: none"> i) their financial strength; ii) the sustainability of their business models; iii) the strength of any restrictions relating to lease assignability; and iv) the spread of tenant operations, whether by segment or geography.
Any guarantors	their financial strength and geographic spread of operations which add to those at site and tenant level.

Financing the assets that meet these criteria with a combination of equity and appropriately structured debt means that returns to shareholders can be enhanced in a way that properly manages risk. To date all credit facilities have been strictly non-recourse secured credit facilities where the equity at risk is limited to the net assets within ring-fenced subgroups. There are currently six such subgroups which are self-contained, with no cross-default provisions between them. This is the case both throughout 2021 and following the refinancing of the Merlin facilities contractually committed in March 2022. In all cases, substantial financial covenant headroom was negotiated into the credit agreements at the outset together with appropriate cure rights where cash can be diverted to a security group to maintain covenant compliance if that becomes necessary. As new investments are acquired or existing facilities refinanced, or if debt market conditions change, the appropriateness of the financing structure is kept under review in order to deliver well priced borrowings while protecting shareholders' equity. We recognise that the additional protections can increase the cost of debt, and that trade-off is evaluated relative to the risks in the specific assets and in the debt structure.

Where equity is raised to finance acquisitions, the Board has undertaken that shares will only be issued at or above net asset value in order to protect against dilution of shareholder returns.

With the Group's debt costs largely fixed and its running costs predominantly represented by the advisory fee, which is a simple calculation on a reducing scale relative to net asset value (further explained in [note 25c](#) to the financial statements), the medium to long term prospects for shareholder returns on the basis of a small number of simple assumptions are largely predictable and transparent.

Investment Adviser's Report continued

The portfolio

The Group held 160 properties at 31 December 2021, down from 161 last year following the sale of one asset with a book value of £0.1 million. Contracted annual passing rent following the expiry of all Covid related concessions was £116.8 million at that date, up from £113.3 million, and the Weighted Average Unexpired Lease Term has increased by 9.8 years since December 2020 to 30.0 years without break. Movements in the independent property valuations and passing rents are set out in the following sections, as are the key terms of the leases, including the important and value accretive variations to the Merlin leases agreed at the end of 2021.

Temporary impact of Covid-19 related tenant support

Annualised rents receivable returned to 100% of their pre-Covid growth trajectory a week after the year end, when the last of the Travelodge rent concessions came to an end. No rent reductions have been granted since 31 December 2020 and, largely as a consequence of the relaxation of all Covid-19 restrictions later than originally expected, we have agreed only two further rent deferrals since that date on 1.3% of total Group rents. The support measures granted in 2020 with an impact on the 2021 results are:

- June 2020 and September 2020 rents due from Merlin amounting to £17.7 million were deferred to September 2021 and were received when due. The deferred rent was recorded in the income statement for the year to 31 December 2020 but in order to more logically demonstrate the impact on the Group's results in the period over which the concession was granted, these rents were excluded from Adjusted EPRA EPS for the 2020 financial year and included in the 2021 financial year, when the rents were received.
- The creditors of Travelodge Hotels Limited agreed a temporary rent reduction in 2020 which resulted in £8.9 million of rent foregone by the Company in 2021 (2020: £14.3 million). Rents returned to the levels originally contracted in January 2022. It was also agreed that the receipt of rental uplifts arising in 2020 and 2021 would be deferred until January 2022, so £0.8 million of further cash rents that would otherwise have been receivable in 2020 and 2021 was deferred to January 2022, at which point all deferred amounts were received. Consistent with the treatment of the Merlin rent deferral, the deferred uplifts will be recorded in Adjusted EPRA EPS in the 2022 financial year.

Further support provided in the 2021 financial year related to monthly rents totalling £1.8 million originally due between May and October 2021 from the tenant of The Brewery, which were deferred so they are payable in instalments until September 2022. Deferred amounts receivable in the balance sheet at 31 December 2021 amounted to £1.0 million. The deferred rent has been recorded in the income statement for the 2021 financial year but will be recorded in Adjusted EPRA EPS in the period in which it is received.

Impact of concessions on rental cash flows and Adjusted EPRA EPS

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Merlin rent deferral including German rents at year end exchange rate	17.6	(17.7)
Budget Hotels rent reduction	(8.9)	(14.3)
Budget Hotels rent deferral	(0.6)	(0.2)
Brewery rent deferral	(1.0)	-
Impact on rental cash flow and Adjusted EPRA EPS (£m)	7.1	(32.2)
Impact on rental cash flow and Adjusted EPRA EPS (pence per share)	2.1	(9.9)

The accounting policy for rent concessions is explained in the Financial Review section of this Investment Adviser's Report and in [note 2d](#) to the financial statements, and remains unchanged since the 2020 Annual Report.

Rent collections

Over the 2021 financial year, the Group reported only minimal rent arrears in each quarterly collection cycle.

	8 Jan to 7 April 2021 £m	8 April to 7 July 2021 £m	8 July to 7 Oct 2021 £m	8 Oct 2021 to 14 Jan 2022 £m
Rent collections				
Originally contracted rents	28.3	28.7	28.8	32.5
Rent concessions:				
Reduced rents	(2.2)	(2.2)	(2.2)	(0.5)
Deferred rents	(0.1)	(0.8)	17.6	1.0
Due in the period	26.0	25.7	44.2	33.0
Collected on or before the due date	(25.9)	(25.4)	(44.2)	(33.0)
Rent arrears at due date	0.1	0.3	-	-
Rent deferral agreed after the due date	-	(0.3)	-	-
Rent arrears at the date of this report	0.1	-	-	-
2021 collected by due date (%)	99.9%	98.7%	100.0%	100.0%
2020 collected by due date (%)	83.1%	89.7%	99.9%	99.7%

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

The portfolio

	Number of properties	Valuation £m	Passing rent £m
At the start of the year	161	1,946.9	113.3
Change at constant currency	-	190.4	4.0
Exchange rate movements	-	(9.6)	(0.5)
Non-core pub disposal	(1)	(0.1)	-
At the end of the year	160	2,127.6	116.8

Portfolio valuation and rents by sector

There was a 9.8% increase in the independent external valuation at constant currency over the year, resulting in a net movement of 9.3% after exchange rate movements on the c. 6% of the portfolio represented by German assets, valued in Euros.

	Leisure		Healthcare		Budget Hotels		Total	
Valuation	£m	Change	£m	Change	£m	Change	£m	Change
31 December 2020	793.0		769.1		384.8		1,946.9	
Revaluation	135.9	17.1%	21.3	2.8%	33.2	8.6%	190.4	9.8%
Exchange rate movement	(9.6)	(1.2)%	-	-	-	-	(9.6)	(0.5)%
Disposal	(0.1)		-		-		(0.1)	
Total movement in valuations	126.2	15.9%	21.3	2.8%	33.2	8.6%	180.7	9.3%
31 December 2021	919.2		790.4		418.0		2,127.6	

77% of portfolio rents were reviewed in 2021 and overall achieved a 3.6% increase in like for like passing rent (3.1% after exchange rate movements).

Investment Adviser's Report continued

The portfolio continued

Passing rent	Leisure		Healthcare		Budget Hotels		Total	
	£m	Change	£m	Change	£m	Change	£m	Change
31 December 2020	47.5		36.6		29.2		113.3	
Uplifts	2.0	4.1%	1.0	2.8%	1.0	3.7%	4.0	3.6%
Exchange rate movement	(0.5)	(1.0)%	–	–	–	–	(0.5)	(0.5)%
Total movement in rents	1.5	3.1%	1.0	2.8%	1.0	3.7%	3.5	3.1%
31 December 2021	49.0		37.6		30.2		116.8	

The portfolio is valued by qualified independent external valuers every six months. In reaching their assessments of market value, the valuers had all details of agreed rent concessions. The valuations therefore take into account the full effect of those concessions and also recognise that rental income returned to its previously contracted levels in January 2022. While the 31 December 2020 valuations of the Leisure and Budget Hotels assets were required under RICS rules to be expressed as subject to “material valuation uncertainty”, there is no such caveat applied to the 31 December 2021 valuations. Further details of valuations are given in [note 11](#) to the financial statements. The Company's approach to managing the relationship with the valuers is explained in the Audit Committee Report on [page 72](#) and its disclosure of valuation risk is in the summary of Principal Risks and Uncertainties on [page 40](#).

Yields by sector

Yields	Leisure		Healthcare ³		Budget Hotels		Total	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Net Initial Yield ¹	4.92%	5.54%	4.46%	4.46%	6.78%	7.10%	5.11%	5.42%
Running Yield within 12 months ²	5.13%	5.76%	4.58%	4.58%	7.31%	7.21%	5.35%	5.58%

- 1 Net Initial Yield was topped up in 2020 to ignore the impact of temporary rent concessions
- 2 the Leisure and Budget Hotels Running Yields are calculated using the independent external valuers' estimates of RPI and CPI averaging 6.4% (2020: 2.5%) and 4.6% respectively
- 3 the Healthcare valuations and yields take no account of any uplift from an outstanding May 2018 open market rent review on the Ramsay hospitals; the Ramsay rents account for 94% of the Healthcare rents at 31 December 2021

Tenant or guarantor	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Merlin Entertainments Limited ¹	36.1	35.6
Ramsay Health Care Limited	35.4	34.4
Travelodge Hotels Limited	30.2	29.2
SMG and SMG Europe Holdings Limited	4.2	4.0
The Brewery on Chiswell Street Limited	3.8	3.4
Orpea SA	2.2	2.2
Stonegate Pub Company Limited	2.2	2.2
Others (each below £1.3 million) ²	2.7	2.3
	116.8	113.3

- 1 £6.8 million (2020: £7.1 million) of the Merlin rents are Euro denominated
- 2 including £0.5 million (2020: £0.5 million) and £0.3 million (2020: £nil) of estimated variable net income from the car park and naming rights agreements at Manchester Arena respectively

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

Basis of rent reviews

	31 December 2021			31 December 2020
	Reviewed annually	Reviewed five-yearly	Total portfolio	Total portfolio
Contracted rents				
CPI +0.5%, minimum 1%, maximum 4%	25%	-	25%	-
Upwards only RPI:				
Uncapped	-	27%	27%	52%
Collared*	4%	2%	6%	6%
Total upwards only inflation-linked reviews	29%	29%	58%	58%
Fixed uplifts, reviewed:				
Annually: weighted average 2.9% p.a.	38%	-	38%	38%
Five-yearly: weighted average 2.5% p.a.	-	3%	3%	3%
Total fixed uplifts	38%	3%	41%	41%
Variable income	-	1%	1%	1%
Total portfolio	67%	33%	100%	100%

* annual RPI reviews with a 2% minimum and 5% maximum, and five-yearly RPI reviews with minimums between 1% and 1.5% and maximums between 3.5% and 4.0%

- 33% of portfolio income is reviewed to upwards only RPI
- 58% of portfolio income has RPI or CPI exposure
- 72% of portfolio income is subject to fixed or minimum uplifts
- 67% of portfolio income is reviewed annually and the balance is subject to five-yearly review

As part of the lease regear agreed with Merlin at the end of the year, the basis of annual review on the Merlin UK assets included within the Group's Leisure portfolio changed from upwards only uncapped RPI to CPI plus 0.5% subject to a 1% minimum and a 4% maximum. Fuller details of the lease variations including other beneficial changes are included in the Leisure assets section of this report.

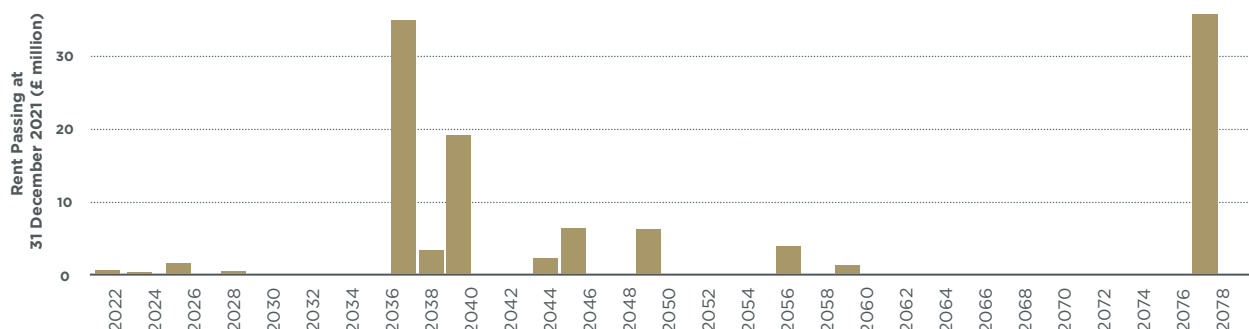
Lease lengths

The Group's leases are very long with a Weighted Average Unexpired Lease Term of 30.0 years without break from 31 December 2021, significantly longer than all other major UK REITs.

	Leisure		Healthcare		Budget Hotels		Total	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Weighted Average Unexpired Lease Term (years)	46.9	22.1	15.8	16.8	20.4	21.4	30.0	20.2

98% of contractual passing rents have an unexpired term without break of more than 15 years.

Passing rent by year to first tenant break or expiry



Investment Adviser's Report continued

The portfolio continued

No material vacancies or landlord costs

The portfolio is fully let other than a small restaurant unit at Manchester Arena with a negligible Estimated Rental Value. All occupational leases are on full repairing and insuring terms, meaning that property running costs are low and there is no material landlord's capital expenditure requirement. There are two other income streams that arise from an operating agreement and a naming rights agreement rather than leases, which currently account for less than 1% of the Group's passing rent.

Leisure assets (43% of portfolio value)

	31 December 2021 £m	31 December 2020 £m
UK assets	42.2	40.4
German assets at constant currency	6.8	6.6
Contracted rents	49.0	47.0
Portfolio valuation at constant currency	919.2	783.4

The Company's leisure assets are:

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

Merlin attractions and hotels

The Merlin assets include two of the UK's top three resort theme parks by visitor numbers, Alton Towers and Thorpe Park, as well as Warwick Castle, and all the on-site guest accommodation at the three attractions. The German assets operated by Merlin are Heide Park resort theme park and hotel in Soltau, Saxony, which is the largest in Northern Germany. These assets are all held freehold and are let on a full repairing and insuring basis to subsidiaries of Merlin Entertainments Limited, which owns all of Merlin's operating businesses worldwide and which is the guarantor of all lease obligations for these assets. The guarantor company operates over 130 attractions in 25 countries and has the benefit of all of Merlin's global operations including leading brands such as Sea Life Centres, Legoland Parks and, following an acquisition announced in January 2022, Cadbury World. Measured by the number of visitors, Merlin is Europe's largest and the world's second largest operator of leisure attractions, second only to Disney.

Merlin was taken private in 2019 at a price representing some £6 billion of enterprise value. It is owned by a consortium of substantial, established, long term investors: Kirkbi, the owner of the Lego business which has been invested in Merlin since 2005 and which owns 47.5% of Merlin, together with Blackstone Core Equity Partners, a long term fund comprising part of Blackstone's assets under management of c. £654 billion at 31 December 2021, The Canada Pension Plan Investment Board, one of the world's largest pension fund investors with assets under management of c. £467 billion at 31 December 2021, and the Wellcome Trust which had assets under management of c. £38 billion at 31 December 2021. The quoted price of Merlin's publicly traded 5.75% bonds maturing in 2026, which have been in issue since before the onset of the pandemic, is above par with a yield to maturity on 8 March 2022 of 4.8%.

Total contracted rents receivable from Merlin were £36.2 million per annum at 31 December 2021, which is an increase of 3.0% on a constant currency basis over £35.1 million at 31 December 2020 and an increase of 1.6% after the impact of currency translation.

In December 2021, in return for a premium of £33.5 million payable to Merlin, the leases were regeared including an extension of the lease terms of all the UK and German Merlin assets by 35 years such that the weighted average term to expiry is now 55.5 years without break from 31 December 2021. The tenants have a further right to renew for 35 years at the end of that term. It was also agreed with the tenants of the UK properties (with a passing rent of £29.3 million at 31 December 2021) to change the basis of the annual rental uplift on those leases. Previously subject to upwards only uncapped RPI, with effect from (and including) the next review in June 2022, the reviews will be calculated as upwards only CPI plus 0.5%, subject to a minimum uplift of 1% and a maximum uplift of 4%. The rental uplifts on the German assets, with a passing rent at 31 December 2021 of £6.8 million (scheduled to increase to £7.1 million in July 2022 at the 31 December 2021 exchange rate), remained unaltered with fixed annual uplifts every July of 3.34%.

All of the Merlin leases were also updated to formalise the existing close co-operation between the Group and Merlin in relation to ESG, in particular the reporting and management of environmental matters. Clauses were added to formalise the provision of information on tenant trading performance both at a site and guarantor level on an annual basis.

Manchester Arena and ancillary assets

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

Known as the AO Arena, it is let to SMG and SMG Europe Holdings Limited, part of ASM Global, with 23.5 years unexpired without break from 31 December 2021. The annual rent is £4.1 million before head rent and is reviewed annually every June in line with RPI, collared between 2% and 5%, which in 2021 resulted in a rental increase of 3.3%.

ASM Global was created by a merger of AEG Facilities and SMG in October 2019 and is the world's largest venue management company, operating over 300 venues in five continents. The Arena was closed during the initial part of the pandemic period but it was able to reopen in August 2021 and was fully operational from September 2021. Despite not trading as a result of the pandemic restrictions, all Arena rents have been received when due, reflecting the strength of this large and well capitalised global operator as a tenant. The offices and ancillary leisure space at Manchester are let to tenants including Serco, Unison, JCDecaux and go-karting operator TeamSport. The leases on the Manchester site as a whole have an average term to expiry of 15.8 years from 31 December 2021 and produce net passing rent, after head rent, of £6.1 million per annum at that date.

The Brewery on Chiswell Street

The Brewery is a predominantly freehold investment let to an established specialist venue operator on a full repairing and insuring lease. The largest catered event space in the City of London, it is located within five minutes' walk of the Moorgate entrance to the new Crossrail station at Liverpool Street. The Brewery was closed during the initial part of the pandemic period but was permitted to reopen in July 2021 and restored full operations from September 2021.

The lease term to expiry is 34.5 years without break from 31 December 2021 and the lease provides for five-yearly fixed uplifts of 2.5% per annum compounded. The passing rent increased from £3.4 million per annum to £3.8 million in July 2021 as a result. Four months' rent amounting to £1.2 million was deferred in 2021 and £1.0 million remains repayable in instalments between January and September 2022.

Pubs portfolio

As at 31 December 2021 the portfolio of 17 high street pubs produced passing rent of £2.2 million per annum and the leases had an average term to expiry of 23.5 years without break. The pubs all opened for indoor trading, subject to Covid restrictions, by May 2021 and final social distancing restrictions were lifted in July 2021. During the year, one pub with no rent receivable was sold with vacant possession for £150,000, slightly ahead of the 31 December 2020 book value.

16 of the pubs are let on individual leases either to, or guaranteed by, Stonegate Pub Company Limited, the largest pub group in the UK with over 4,500 pubs following Stonegate's acquisition of Ei Group for £1.3 billion in March 2020. Stonegate's Sterling bonds maturing in 2025, issued in July 2020, were trading above par at a yield to maturity of 7.8% at close on 8 March 2022. The lease of the remaining pub in Palmers Green, London was assigned to another operator during the year and represents 1.5% of the pub rents and a negligible proportion of total Group rents.

Rents are subject to five-yearly RPI-linked increases collared between 1% and 4% per annum compounded. The next review, on all of the pubs, falls due in February 2025.

Investment Adviser's Report continued

Healthcare assets (37% of portfolio value)

	31 December 2021 £m	31 December 2020 £m
Ramsay hospitals	35.4	34.4
London psychiatric hospital	2.2	2.2
Contracted rents	37.6	36.6
Portfolio valuation	790.4	769.1

The Group's healthcare assets, 11 freehold private acute hospitals and a central London freehold private psychiatric hospital, continued to trade throughout the pandemic with no rent concessions required. The private hospitals are located throughout England and are let to a subsidiary of Ramsay Health Care Limited, the ASX50 listed Australian healthcare company. The psychiatric hospital, the only private facility of its kind in central London, is let to a subsidiary of Orpea SA. Located in Lisson Grove, it trades as The Nightingale Hospital.

The Ramsay hospitals are let on full repairing and insuring leases with a term to expiry from 31 December 2021 of 15.3 years without break. The rents increase in May each year by a fixed minimum of 2.75% per annum throughout the lease term and, following the May 2021 fixed uplifts, the rents increased from £34.4 million to £35.4 million per annum. In addition, there is an upwards only open market rent review within each lease as at 3 May 2018, then in May 2022 and every five years thereafter. The May 2018 open market review remains outstanding. As a test case for the portfolio, the review of one hospital was instigated, without prejudicing our ability to proceed with the reviews on the other assets in future. The rent review is currently subject to a formal arbitration process which was put on hold by agreement between the parties during 2020 to allow Ramsay management to fully focus on its pandemic response and because the arbitrator would have been unable to inspect the hospitals during the lockdowns. Counter submissions were made in January 2022. The arbitrator had previously indicated that he would make a decision within four weeks, however his timetable is still awaited. The outcome of the review and how the arbitrator approaches his decision is likely to determine how the Group and Ramsay progress the other May 2018 open market reviews for the remaining hospitals. Given the uncertainty over the time taken to resolve the arbitration and the nature of that process, there is currently no indication of the likely review outcome and these financial statements take no account of any potential increase in rental income that may arise from it.

The leases on the Ramsay hospitals are all guaranteed by Ramsay Health Care Limited, one of the top five private hospital operators in the world and the largest operator of private hospitals in Australia, France and Scandinavia. In December 2021, Ramsay announced the acquisition of leading UK acute mental health business Elysium Healthcare for £775 million, further cementing the Group's commitment to the UK. Ramsay is a constituent of the ASX 50 index of Australia's largest companies, with a market capitalisation at 8 March 2022 (and using the exchange rate on that date) of £7.7 billion and has an investment grade credit rating.

The Ramsay hospitals, through their contracts with NHS England, provided guaranteed capacity to the NHS during the pandemic to tackle the Covid crisis at cost (including the cost of their rents) for approximately a year from late March 2020. Ramsay reported in February 2021 that they had treated more than 500,000 NHS patients over this period, more than any other provider in the independent sector. The Ramsay balance sheet is strong with low leverage and significant cash flows supporting material capital expenditure in the existing estate and also earmarked for further investment in future. Ramsay's management continue to highlight the opportunities in the UK and elsewhere from the backlog in demand for both public and private healthcare services alongside the existing demographic and other growth drivers for their business.

The London psychiatric hospital is let on a full repairing and insuring lease with a term to expiry at 31 December 2021 of 22.6 years without break. The rent increases in May each year by a fixed 3.0% per annum throughout the lease term and increased from £2.17 million to £2.23 million in May 2021. The lease is guaranteed by Orpea SA, a European operator of retirement homes, rehabilitation clinics and psychiatric care, listed on Euronext Paris with a market capitalisation at 8 March 2022 (and using the exchange rate on that date) of £1.8 billion.

Budget Hotels assets (20% of portfolio value)

	31 December 2021 £m	31 December 2020 £m
Contracted rents	30.2	29.2
Portfolio valuation	418.0	384.8

At 31 December 2021 the Group owned 123 Travelodge hotels in England, Wales and Scotland (the same number was held at 31 December 2020), let to Travelodge Hotels Limited which is the main operating company within the Travelodge group trading in the UK, Ireland and Spain. Travelodge is the UK's second largest budget hotel brand, with 592 hotels and c. 45,000 rooms as at 31 December 2021.

As a response to liquidity issues created by the sudden forced closure of nearly all of their hotels, Travelodge entered into a Company Voluntary Arrangement ("CVA") in June 2020 which came to an end in January 2022. As a consequence of the CVA, £14.3 million of rent was foregone by the Group in the 2020 financial year and the extent of the rent reduction reduced significantly in 2021 to £8.9 million. Rents returned to the levels originally contracted in January 2022 and all rent demanded under the terms of the CVA was received when due. Rent reviews arising during the CVA concession period continued to be calculated and documented but were deferred in line with the terms of the CVA. As a result, £0.8 million of uplifted rent was deferred in total across 2020 and 2021 and was received in full when it fell due in January 2022.

Travelodge is a major, established brand with very high levels of brand recognition and a strong pre-pandemic five year performance track record. In addition to the rent reductions secured by Travelodge through their CVA, the company raised £40 million of equity from its shareholders and completed a £65 million private debt placement in December 2020 to further support liquidity. At close on 8 March 2022, Travelodge's publicly traded bonds, which have been in issue throughout the pandemic, were trading at 95% of their pre-pandemic level at the start of 2020, with a yield to maturity of 7.4%.

In a trading update issued by Travelodge's parent company on 1 March 2022, they reported revenues for the final quarter of 2021 up c. 2% and revenue per available room up 5.9% against 2019, with a continuation of the group's seven year outperformance of the mid-scale and economy segment. This followed very strong results reported for the third quarter of 2021. While trading performance in the first weeks of 2022 showed some impact from the Omicron wave, improvements have been reported since the lifting of Covid restrictions with revenue returning to 2019 levels by early February and improving throughout the month. £142.8 million of cash was held at 31 December 2021 and a refit capex programme of c. £70 million in 2022 has commenced. Travelodge management reported that "with our large network of hotels, value proposition and focus on domestic travel, we are well positioned to benefit in the expected recovery."

The average term to expiry of the Travelodge leases is 20.4 years from 31 December 2021 with no break clauses. The leases are on full repairing and insuring terms and Travelodge is also responsible for the cost of any headlease payments and other amounts owing to the freeholders of the 52 leasehold properties. There are upwards only uncapped RPI-linked rent reviews every five years throughout the term of each lease, with reviews falling due over a staggered pattern across the portfolio. Reviews on 23% of the portfolio by rental value represented by 27 hotels were agreed during 2021 with passing rent on those assets increasing by 16.5% from £6.6 million to £7.7 million. 38% of the passing rent will be reviewed in 2022, 10% in 2023, 5% in 2024 and 24% in 2025.

Investment Adviser's Report continued

Financing

The Group's operations are financed by a combination of cash resources and non-recourse debt finance, where the equity at risk is limited to the net assets within six ring-fenced subgroups. Each subgroup is self-contained, with no cross-default provisions or cross collateralisation between the six of them. In all cases, substantial financial covenant headroom was negotiated into loan terms at their inception, together with appropriate remedial cure rights, where cash can be temporarily injected into a security group in order to maintain covenant compliance if and when necessary.

Since the year end, the Merlin credit facilities have been refinanced, the impact of which is summarised at the end of this section.

	31 December 2021	31 December 2020
Gross debt at the start of the year	928.3	930.7
Scheduled loan repayments	(7.3)	(4.4)
Repayment from disposal proceeds	-	(1.5)
Foreign currency translation	(4.2)	3.5
Gross debt at the end of the year	916.8	928.3
Secured cash	(29.9)	(23.1)
Free cash	(168.5)	(196.6)
Net debt at the end of the year	718.4	708.6
Net LTV	33.8%	36.4%

The principal movements in the cash balance during the year are explained in the cash flow section of this report, with the main reason for the increase in net debt being the deployment of £30.5 million (of a maximum £33.5 million premium payable) from free cash in payment for the Merlin lease variations.

The weighted average term to maturity of the Group's debt was 2.1 years at 31 December 2021 compared to 3.1 years at 31 December 2020. This has been extended to a weighted average term of 3.4 years on a pro forma basis following the refinancing of the Merlin facility in March 2022. Save for minor, market standard variations to certain terms to deal with the UK's transition from LIBOR to SONIA as a reference rate on certain of the Sterling loans, the terms of the facilities did not change in the year.

	Principal £m	Number of properties securing loan	Maximum annual interest rate	Interest rate protection	Annual cash amortisation	Final repayment date
Merlin leisure ¹	372.4 ¹	6	5.7%	Fixed	£3.8m ²	Oct 2022 ¹
Budget Hotels 2	65.4	70	3.3%	80% fixed 20% capped	None	Apr 2023
Leisure: Arena, Brewery, Pubs	60.0	19	3.2%	83% fixed 17% capped	None	Jun 2023
Budget Hotels 1	59.0	53	2.7%	Fixed	None	Oct 2023
Healthcare 1	63.5	2	4.3%	Fixed	£0.3m	Set 2025
Healthcare 2	296.5	10	5.3%	Fixed	£3.2m	Oct 2025
Total	916.8	160	4.9%			

- 1 £312.8 million of senior and mezzanine Sterling denominated loans and €70.9 million of senior and mezzanine Euro denominated loans translated at the year end exchange rate of €1:£0.84. All loan tranches within the total £372.4 million are cross-collateralised with each other. Since the balance sheet date the Merlin leisure loan has been refinanced with a new loan which has a term certain of four years to March 2026 with a one year extension option subject to suitable hedging being place at that time
- 2 comprising £3.2 million on the Sterling facility and €0.7 million on the Euro facility

The Board manages interest rate risk by either fixing (by way of fixed rates or by entering into interest rate swaps on floating rates) or capping rates over the term of each loan. As at 31 December 2021, 97.5% of the loan principal of the Group's borrowings incurred interest at fixed rates. The weighted average interest payable in the year remained the same as in 2020 at 4.9% per annum.

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

Refinancing of Merlin facilities in March 2022

A new committed credit agreement was entered into in March 2022 to refinance the Merlin leisure facility which matures in October 2022. Subject to satisfaction of certain conditions precedent which are typical for this type of facility, the new loan is expected to be drawn at the end of April 2022 and the existing facilities repaid at that stage.

The new facility will be £282.5 million at 31 December 2021 exchange rates and £108.2 million of the Group's Uncommitted Cash will also be applied to meet the prepayment of the existing loans plus refinancing costs. Interest rate caps were purchased when the facility agreement was signed, establishing a maximum interest rate payable of 4.95% per annum, 15% lower than the current rate payable at the maximum capped cost, with potential for further upside to the extent that rates are below the capped level of 1.50%. The new facility is an interest only loan with a term of three years from signing with two one-year extensions. The extensions are subject only to interest rate hedging being in place at an appropriate level and as the caps purchased at the time of signing have a term of four years, the loans have an effective four year term with the option to extend for one further year. Importantly, the new facility is strictly non-recourse to any assets beyond those in the subgroup that owns the Merlin assets, and there is no LTV default covenant. The income cover covenant level is 100% which means that there is very substantial headroom on that covenant from day one, when the actual cover is expected to be in excess of 260%.

Pro forma impact of refinancing

	31 December 2021 £m	Refinancing adjustments £m	Pro forma ² £m
Portfolio independent valuation	2,127.6	–	2,127.6
Gross debt (non-recourse)	(916.8)	88.9	(827.9)
Uncommitted Cash ¹	159.9	(108.2)	51.7
Other cash: secured cash and free cash reserved for creditors	38.5	–	38.5
Other net liabilities including rent in advance	(35.1)	11.4	(23.7)
EPRA NTA	1,374.1	(8.0)	1,366.1
Net LTV	33.8%		34.7%
Weighted average term to expiry	2.1 years		3.4 years
Weighted average maximum cost	4.9%		4.6%

1 certain of the refinancing costs will not be known until completion, therefore certain costs are estimated

2 the adjustments and pro forma figures use the year end exchange rate to translate Euro balances

Following the refinancing, 37% of the Group's debt will benefit from rate savings should the actual cost of funds fall below capped rates. Through the combination of fixed, swapped and capped rates, the weighted average maximum rate of 4.6% will not be exceeded.

	£m	% of debt portfolio
UK SONIA capped at 1.50%	232.0	28%
EURIBOR capped at 1.50%	50.5	6%
UK SONIA capped at 1.43%	13.3	2%
UK SONIA capped at 1.65%	10.0	1%
Total debt with potential for rate saving	305.8	37%

Investment Adviser's Report continued

Financial review

Key performance indicators ("KPIs")

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

	Year to 31 December 2021	Year to 31 December 2020
Financial measures:		
Total Accounting Return	15.8%	(8.0)%
Total Shareholder Return	46.7%	(27.3)%
Adjusted EPRA EPS	17.5p	3.5p
Net LTV ratio	33.8%	36.4%
Uncommitted Cash	£159.9m	£192.0m
Other measures:		
Headroom on debt default covenants before any preventative cash cure or other remedial action:		
Valuation headroom before tightest LTV default test would be triggered	35%	32%
Rent headroom before tightest projected interest cover default test would be triggered	31%	29%

Dividend policy

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

The dividend policy was modified in August 2019 to reflect the impact of the sale of a portfolio of eight Ramsay hospitals, which reduced Adjusted EPRA EPS and significantly increased the surplus cash balance. This resulted in a decision to use the cash surplus in part to top up dividends to a level that would otherwise have been payable had the hospitals not been sold until such time as the surplus cash was invested, used for debt management or otherwise deployed for the benefit of shareholders. By the first quarter of 2020, prior to the pandemic, dividends were payable at a quarterly rate of 4.20 pence per share, being 3.525 pence per share and 'top up' dividends of 0.675 pence per share.

The impact of the pandemic on the Group's rental income and on the Board's assessment of risks and uncertainties arising from it resulted in a further review of the dividend policy. With the Company's liquidity surplus directed to supporting tenants and ensuring the robustness of the balance sheet during such uncertain times, the Board concluded that the element of the dividend relating to topping up income on the sold hospitals should be discontinued with effect from the July 2020 dividend. However, the Board also concluded that it would be appropriate to continue to pay dividends at a level that recognised that the Covid-19 rent concessions granted were temporary, and as a result some of the surplus liquidity was used to fund the dividend in excess of the Group's Adjusted EPRA earnings. At that time, the quarterly dividend was reset to 3.65 pence per share.

The dividend was maintained at 3.65 pence per share in each of the last two quarters of 2020 and the first two quarters of 2021 and it was increased to 3.95 pence per share as declared in the third and fourth quarters of 2021 and the first quarter of 2022. With the stabilisation of the business following the scaling back of pandemic restrictions and following the de-risking provided by the refinancing of the Merlin debt facility, the dividend policy has been updated and is expected to return in due course to the original policy of distributing Adjusted EPRA EPS. The dividend rate is expected to increase in line with earnings in the third quarter of every year as the majority of the reviews on the current portfolio arise prior to July each year.

Therefore, commencing from the July 2022 quarter, we are targeting an increase in dividends of 15% to an annualised 18.2 pence per share. This is on the basis of the current portfolio, reflecting the reduction in financing costs following the degearing and refinancing of the Merlin debt (assuming that the Merlin debt is drawn as expected in April 2022), the application of current market estimates of RPI and CPI for the 2022 rent reviews and with no further changes to the portfolio or to the financing of the business. This increased dividend equates to a 4.3% yield on 31 December 2021 EPRA NTA on an annualised basis (4.55 pence per share quarterly). This dividend target does not represent a profit forecast.

Key performance indicator – Total Accounting Return

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

	Year to 31 December 2021		Year to 31 December 2020	
	£m	Pence per share	£m	Pence per share
NAV at the start of the year	1,221.5	377.0	1,384.5	428.8
Investment property revaluation*	140.2	43.3	(166.6)	(51.4)
Rental income* less administrative expenses, finance costs and tax	59.4	18.3	52.9	16.3
Dividends paid	(49.3)	(15.2)	(50.8)	(15.7)
Currency translation movements and derivative revaluations	(2.0)	(0.7)	1.5	0.5
Dilution from shares issued in settlement of previous year's incentive fee	-	-	-	(1.5)
NAV at the end of the year	1,369.8	422.7	1,221.5	377.0
Change in NAV	148.3	45.7	(163.0)	(51.8)
Dividends paid	49.3	15.2	50.8	15.7
IFRS Total Accounting Return	197.6	60.9	(112.2)	(36.1)
IFRS Total Accounting Return: percentage		16.2%		(8.4)%

* including £15.2 million or 4.7 pence per share (2020: £23.7 million or 7.3 pence per share) of Rent Smoothing Adjustments

The industry standard EPRA NTA measure takes IFRS Net Asset Value and excludes items that are considered, in accordance with the EPRA Guidance, to have no relevance to the assessment of long term performance. When assessing the extent to which any deferred tax liabilities are included in the calculation of EPRA NTA, the EPRA Guidance requires an assessment of the likelihood of the relevant properties being sold and accordingly, the Group's reported IFRS NAV has been adjusted to exclude 50% of deferred tax on the German property revaluations and all of the fair value movements on derivatives in arriving at EPRA NTA. EPRA NTA and EPRA NTA per share are reconciled to IFRS Net Asset Value in [note 23](#) to the financial statements.

	Year to 31 December 2021		Year to 31 December 2020	
	£m	Pence per share	£m	Pence per share
Movements in EPRA NTA				
EPRA NTA at the start of the year	1,229.2	379.3	1,391.3	429.4
Investment property revaluation*	155.5	48.0	(142.5)	(44.0)
Rental income* less administrative expenses, finance costs and current tax	42.6	13.1	28.8	8.9
Dividends paid	(49.3)	(15.2)	(50.8)	(15.7)
Currency translation movements	(3.9)	(1.1)	2.4	0.7
EPRA NTA at the end of the year	1,374.1	424.1	1,229.2	379.3
Movement in EPRA NTA	144.9	44.8	(162.1)	(50.1)
Dividends paid	49.3	15.2	50.8	15.7
Total Accounting Return	194.2	60.0	(111.3)	(34.4)
Total Accounting Return – percentage		15.8%		(8.0)%

* adjusted by £15.2 million or 4.7 pence per share (2020: £23.7 million or 7.3 pence per share) of Rent Smoothing Adjustments

The analysis of the investment property revaluation in the year is presented in the Portfolio section of this report. The other movements in EPRA NTA are explained in the sections of this report on the elements of EPRA Earnings.

Investment Adviser's Report continued

Financial review continued

Key performance indicator – Total Shareholder Return

	Year to 31 December 2021 Pence per share	Year to 31 December 2020 Pence per share
Total shareholder return		
Share price at the end of the year	425.0	300.0
Share price at the start of the year	(300.0)	(434.0)
Movement in the year	125.0	(134.0)
Dividends paid	15.2	15.7
Total Shareholder Return	140.2	(118.3)
Total Shareholder Return – percentage	46.7%	(27.3)%

Key performance indicator – Adjusted EPRA earnings per share

Basic EPS is calculated on IFRS earnings as reported in the financial statements.

	Year to 31 December 2021		Year to 31 December 2020	
	£m	Pence per share	£m	Pence per share
Basic and diluted EPS (IFRS basis)				
Rental income net of property outgoings	121.8	37.5	120.2	37.0
Net finance costs	(50.0)	(15.4)	(49.9)	(15.4)
Administrative expenses	(15.2)	(4.7)	(17.0)	(5.2)
Tax charge	(0.4)	(0.1)	(0.3)	(0.1)
Earnings before revaluations	56.2	17.3	53.0	16.3
Investment property revaluations net of deferred tax	143.4	44.3	(166.7)	(51.4)
Basic and diluted earnings per share	199.6	61.6	(113.7)	(35.1)

IFRS earnings include unrealised property revaluation movements, gains and losses on any property disposals and certain other elements such as unrealised movements in the fair values of interest rate derivatives, which are considered to distort an assessment of underlying long term performance of real estate companies and which are therefore required to be excluded from EPRA earnings under the EPRA Guidance. The calculation of EPRA earnings and EPRA Earnings Per Share is presented in [note 10](#) to the financial statements.

There are certain items within EPRA earnings which create a material disconnect between those earnings and the Group's funds from operations available for the payment of dividends: principally the Rent Smoothing Adjustments, including those arising as a result of the Covid-19 related rent concessions, and any incentive fees which are payable in shares. We therefore present a further measure, Adjusted EPRA earnings, both for comparison of the performance of the Group from year to year and with its peer group, and to avoid distortions which in turn would result in unreliable measures of Dividend Cover.

Adjusted EPRA EPS is derived from EPRA EPS by:

- removing the Rent Smoothing Adjustments from rental income and reflecting the impact of any rent deferrals, to include rents on a basis that is much closer to cash rents receivable;
- excluding the charge for any incentive fee, on the basis that it is a non-cash payment and considered to be linked to revaluation movements, and therefore best treated consistently with revaluations which are excluded from EPRA EPS (last paid in respect of the year to 31 December 2019);
- excluding any significant non-recurring costs or income (there have been no non-recurring income or costs since 2016); and
- calculating the weighted average number of shares so as to reflect the actual dates on which shares were issued.

	Year to 31 December 2021		Year to 31 December 2020	
	£m	Pence per share	£m	Pence per share
Rental income net of property outgoings	119.8	36.9	118.2	36.5
Net finance costs	(48.1)	(14.8)	(48.0)	(14.9)
Administrative expenses	(15.2)	(4.7)	(17.0)	(5.2)
Tax charge	(0.4)	(0.1)	(0.3)	(0.1)
EPRA earnings	56.1	17.3	52.9	16.3
Rent Smoothing Adjustments:				
Before any Covid related rent concessions	(7.8)	(2.5)	(8.9)	(2.7)
Impact of Covid related rent concessions: difference between IFRS and Adjusted EPRA EPS recognition of concessions	(7.4)	(2.2)	(14.8)	(4.6)
Rent deferrals:				
Theme parks	17.6	5.5	(17.7)	(5.5)
Other	(1.8)	(0.6)	-	-
Adjusted EPRA earnings	56.7	17.5	11.5	3.5

Adjusted EPRA EPS is reconciled to basic EPS in [note 10](#) to the financial statements. The table below shows the analysis of the Adjusted EPRA earnings in the year in order to demonstrate where the adjusting items take effect.

	Year to 31 December 2021		Year to 31 December 2020	
	£m	Pence per share	£m	Pence per share
Rental income net of property outgoings before rent concessions	113.5	35.0	110.8	34.2
Net finance costs	(48.1)	(14.8)	(48.0)	(14.9)
Administrative expenses	(15.2)	(4.7)	(17.0)	(5.2)
Tax charge	(0.4)	(0.1)	(0.3)	(0.1)
Like for like earnings before rent concessions	49.8	15.4	45.5	14.0
Rent concessions	(8.9)	(2.8)	(16.3)	(5.0)
Rent deferrals	15.8	4.9	(17.7)	(5.5)
Adjusted EPRA earnings	56.7	17.5	11.5	3.5

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

Adjusted EPRA EPS – property outgoings

	Year to 31 December 2021		Year to 31 December 2020	
	£m	Pence per share	£m	Pence per share
Property outgoings				
Irrecoverable property costs	0.3	0.1	0.3	0.1
Head rents on leasehold properties	0.2	0.1	0.5	0.1
Managing agents' fees and other net property outgoings	0.1	-	0.2	0.1
Costs of negotiating and documenting rent concessions	-	-	0.6	0.2
Property outgoings in IFRS and EPRA earnings	0.6	0.2	1.5	0.5
Financing element of head rent costs reclassified from finance costs and investment property revaluations	1.9	0.6	1.7	0.6
Recovery of head rent and other costs reclassified from revenue	(1.6)	(0.5)	(1.6)	(0.6)
Costs of negotiating and documenting rent concessions reclassified from finance costs	-	-	0.1	-
Property outgoings in Adjusted EPRA earnings	0.9	0.3	1.7	0.5

Investment Adviser's Report continued

Financial review continued

On an EPRA and Adjusted EPRA earnings basis, various items are reclassified in accordance with the EPRA Guidance to more accurately reflect the net cost of the Group's property outgoings. This primarily entails moving elements of the Group's property costs that are required under IFRS to be classified within finance costs, property revaluations or revenue. The adjusted figure is used in the calculation of the industry standard EPRA Cost Ratios shown in the unaudited supplementary information. This includes the recovery of certain head rent and other costs from the occupational tenants. For the year ended 31 December 2021, the EPRA Cost Ratio including direct vacancy costs was 12.8% (down from 15.1% in 2020) and excluding direct vacancy costs it was 12.6% (down from 14.8%) with the declines in the year largely as a result of the expiry of rent concessions and the costs of negotiating the rent concessions all falling within 2020.

Adjusted EPRA EPS: administrative expenses

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

	Year to 31 December 2021		Year to 31 December 2020	
	£m	Pence per share	£m	Pence per share
Advisory fees	13.2	4.1	13.7	4.2
Other administrative expenses	1.5	0.4	2.8	0.8
Corporate costs	0.5	0.2	0.5	0.2
Total administrative expenses	15.2	4.7	17.0	5.2

Because VAT cannot be applied to the rents on the Healthcare assets, there is an element of irrecoverable VAT incurred on the Group's running costs which is included within each relevant line item in the table above. The proportion of disallowed VAT on administrative expenses averaged 19% during the year (2020: 30%).

As an externally managed business, the majority of the Group's overheads are covered by the advisory fees paid to the Investment Adviser, which meets office running costs, administrative expenses and remuneration for the whole management and support team out of those fees. The cost to the Company of the advisory fee for the year amounted to £12.4 million plus irrecoverable VAT of £0.8 million (2020: £12.8 million plus irrecoverable VAT of £0.9 million).

The basis of calculating the advisory fees is explained in [note 25b](#) to the financial statements. In summary, the fees are calculated on a reducing scale based on the Group's EPRA NAV (as defined under the EPRA recommendations in place at the time of inception of the management contract), at:

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

In this way, the Investment Adviser is directly exposed to any reduction in the Group's EPRA NAV by way of a reduction in its fee income and shareholders benefit from economies of scale through a reducing fee scale as EPRA NAV grows.

In February 2020 the Independent Directors approved a proposal made by the Investment Adviser to exclude the surplus cash on the hospitals portfolio disposal in 2019 from EPRA NAV on which the advisory fee is calculated to the extent that those funds have not been:

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

This change took effect from the first fee calculation following that review, 1 April 2020. The saving for the 2021 financial year as a result of this amendment was £0.8 million (2020: £0.8 million). The surplus cash realised on the disposal was £164.0 million and the balance remaining at 31 December 2021 was £88.1 million (2020: £113.9 million). Following the drawdown of the new Merlin credit facilities, which is scheduled for April 2022, the surplus cash balance will be fully deployed and this adjustment will no longer be made to the advisory fee calculation.

The other recurring administrative expenses are principally professional fees, including the costs of independent external property valuations, external trustee and administration costs, tax compliance fees and the fees of the external auditor, which are largely billed directly to subsidiary undertakings. Fees paid to the auditor are disclosed in [note 7](#) to the financial statements.

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

- fees payable to the four Independent Directors amounting to £0.2 million in the year (2020: £0.2 million), with the other three Directors being shareholders in the Investment Adviser who receive no directors' fees from the Company; and
- other costs of being listed, such as the fees of the nominated adviser required under the AIM Rules, registrars' fees and AIM fees, which together totalled £0.3 million (2020: £0.3 million) in the year.

As explained in [note 25d](#) to the financial statements, if Total Accounting Return exceeds a benchmark level in any financial year, an incentive fee may be earned. No incentive fee was earned in the current or prior year.

Adjusted EPRA EPS: net finance costs

	Year to 31 December 2021		Year to 31 December 2020	
	£m	Pence per share	£m	Pence per share
Basic and diluted EPS (IFRS basis)				
Interest on secured debt facilities	45.3	13.9	45.9	14.2
Amortisation of costs of arranging facilities (non-cash)	2.3	0.7	2.3	0.7
Interest charge on headlease liabilities	1.8	0.6	1.7	0.5
Loan agency fees and other lenders' costs	0.5	0.2	0.3	0.1
Fair value movements on derivatives	0.1	-	0.1	-
Interest income	-	-	(0.4)	(0.1)
Net finance costs for the year (IFRS and EPRA basis)	50.0	15.4	49.9	15.4
Reclassification of interest charge on headlease liabilities against revenue*	(1.8)	(0.6)	(1.7)	(0.5)
Costs of negotiating and documenting rent concessions reclassified to property outgoings	-	-	(0.1)	-
Net finance costs for the year (Adjusted EPRA basis)	48.1	14.8	48.1	14.9

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

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

Adjusted EPRA EPS: Tax

As the Group is a UK Group REIT, rental operations which make up the majority of the Group's earnings are exempt from UK corporation tax, subject to continuing compliance with the UK REIT rules. The Group is otherwise subject to UK corporation tax on any net income not arising from its rental operations.

German corporation tax is payable on the Group's German rental operations at an effective tax rate in the year of 12.5% (2020: 12%), resulting in a current tax charge of £0.4 million (2020: £0.4 million).

The balance sheet includes a deferred tax liability of £8.0 million (2020: £11.9 million) relating to unrealised German capital gains tax on the German properties, which would only be crystallised on a sale of those assets. There are no plans at present to sell these assets, so the deferred tax is not currently expected to be crystallised. During the year, a deferred tax credit of £7.7 million has been recognised following a change to take account of refinements made to the calculations to better reflect the actual approach to the calculation of these liabilities under German tax law.

On an IFRS basis, there is a current tax charge of £0.4 million (2020: £0.3 million) and a £3.2 million deferred tax credit (2020: £nil), which results in a net tax credit of £2.8 million (2020: charge of £0.3 million). Deferred tax is excluded from EPRA EPS and Adjusted EPRA EPS as shown in [note 10](#) to the financial statements.

Investment Adviser's Report continued

Financial review continued

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

The German tax assets have been subject to a routine tax audit by the German tax authorities which commenced in January 2021. The maximum tax currently the subject of the enquiry, including interest up to the balance sheet date but excluding any penalties, is estimated at no more than £0.8 million. The Board, having taken advice from the Group's tax advisers including their specialist German tax team, considers that there are strong arguments to counteract those made by the German tax authorities and that the matter should be resolved with an outcome of substantially less tax payable than the potential maximum, if any. No allowance has been made in these financial statements for any liability that might arise.

Adjusted EPRA EPS: Currency translation

94% (2020: 94%) by value of the Group's property assets are located in the UK and the financial statements are therefore presented in Sterling and 95.0% (2020: 96.1%) of the Group's EPRA NTA is attributable to those assets. The remaining 5.0% (2020: 3.9%) of the Group's EPRA NTA comprises assets and liabilities relating to properties located in Germany, valued in and generating net earnings in Euros. Exposure to currency fluctuations is partially hedged through assets, liabilities, rental income and interest costs being Euro denominated. The Group remains exposed to currency translation differences on the net results and net assets of these unhedged operations. Foreign currency movements are recognised in the statement of other comprehensive income.

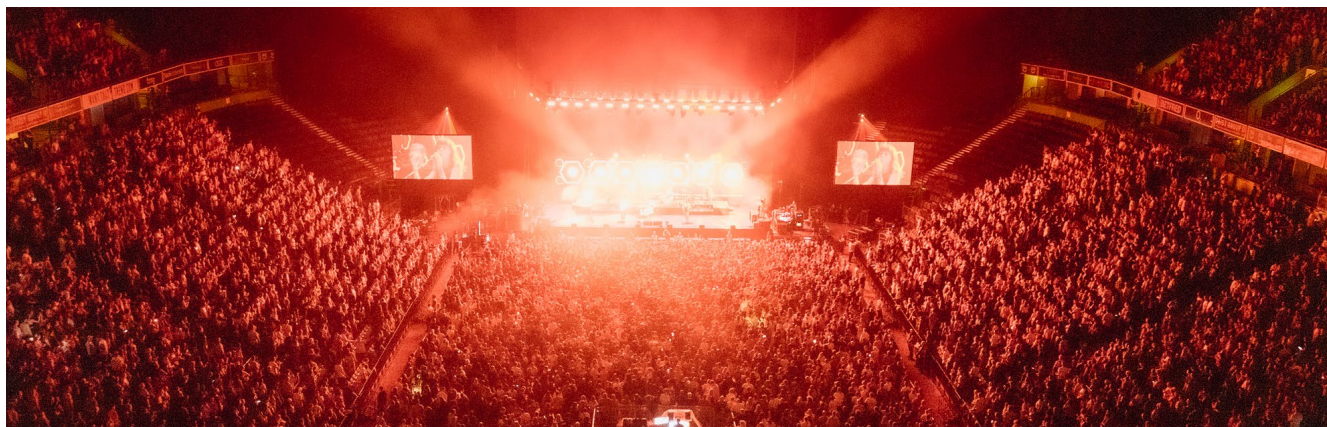
The German properties are valued at €160.4 million as at 31 December 2021 (2020: €128.2 million) and the Euro denominated secured debt amounts to €70.9 million (2020: €71.6 million). The Euro weakened against Sterling over the year by nearly 7% (2020: strengthened by 6%) and as a result there was a net currency translation loss of £3.6 million (2020: gain of £2.1 million) on an IFRS basis. Half of the deferred tax liability is excluded from EPRA NTA and as a result a further currency translation loss of £0.3 million (2020: £0.3 million) arises in the movement in EPRA NTA in relation to the German operations.

Key performance indicator – Net LTV ratio

The Board negotiates the Group's debt facilities with a view to maintaining a capital structure that will enhance shareholder returns while withstanding a range of market conditions.

Movements in Net LTV are explained in the Financing section of this report.

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



Manchester Arena

Key performance indicator – headroom on debt covenants

The Board's management of the Group's capital structure includes assessing the risk of any breach of covenants within secured debt facilities and considering the extent to which these risks can be managed. Covenant calculations are regularly monitored, at least quarterly and more often as required, on various scenarios within a realistic range of outcomes, including stress tested and reverse stress tested scenarios where the key variables are the levels of rent received and property valuation yields. Scenarios are also run to calculate the commercial conditions that would need to occur in order for breaches to arise, so that the likelihood of such a scenario can be evaluated. These scenarios flex the rent and valuation variables to the point where covenant tests would be triggered and then further flexes the variables to assess the extent to which cash reserves could be deployed or other mitigating action taken to avoid or cure the breach.

At the inception of new loans, facilities are structured to ring-fence the extent to which the Group's assets are at risk, ensuring that levels of headroom over financial covenants are appropriate. Subsequently, the Board keeps the Group's liquidity needs under review and aims to maintain a level of Uncommitted Cash which could be applied in avoiding or curing debt defaults in the event that such action needs to be taken.

When evaluating the appropriateness of the level of secured debt, the Board has regard to the unusual nature of the Group's income streams, specifically that the lease lengths of all portfolios are significantly longer than conventional UK real estate leases and that the Group's rental income can be expected to increase annually as a result of the annual minimum or fixed rental uplifts on 67% of portfolio income, with a further 5% subject to five-yearly minimum or fixed uplifts and the additional prospect of increases from the upwards only inflation-linked reviews on the rest of the portfolio. This structure gives rise to predictable improvements in interest cover across the Group in aggregate on the basis of contractual income flows and a naturally deleveraging debt profile on the assumption of constant valuation yields. The Board also has regard to other factors including tenant credit risks.

The headroom on key financial covenants at the first test date following 31 December 2021 (which in all cases fell before the end of January 2022) is summarised below, including the fall in valuation (and related Net Initial Yield) or the fall in rent that would trigger a breach of the relevant covenant, before any preventative or remedial actions are taken. Defensive actions could include utilising any of the Group's Uncommitted Cash which is further explained under the heading 'Key performance indicator – Uncommitted Cash'.

	Scenarios before any remedial action				
	31 December 2021	Covenant	Net Initial Yield triggering LTV test	Valuation fall before LTV test triggered	Rent fall before interest cover test triggered
Merlin facility					
Property security at independent valuation (£m)	736.0				
Gross loan outstanding (£m)	(372.4)				
Other subgroup net liabilities (£m)	(9.5)				
Ring fenced equity (£m)	354.1				
Ring fenced equity (pence per share)	109.3				
LTV default test	n/a	none	n/a	n/a	
Cash trap LTV test: 1% per annum loan amortisation	51%	<80%	7.3%	37%	
Cash trap LTV test: full cash sweep	51%	<85%	7.7%	40%	
Rental fall before interest covered 1:1					31%

The valuation fall that would trigger the LTV cash sweeps has increased since 31 December 2020, from 23% to 37% for 1% amortisation and from 27% to 40% for a full cash sweep. Over the year to 31 December 2021, the Net Initial Yield required to trigger 1% per annum of additional amortisation has increased from 7.0% to 7.3%. The full cash sweep trigger point has increased from 7.4% to 7.7%. Headroom on the 1:1 interest cover requirement has increased from 29% to 31%.

Investment Adviser's Report continued

Financial review continued

Key performance indicator – headroom on debt covenants continued

	Scenarios before any remedial action				
	31 December 2021	Covenant	Net Initial Yield triggering LTV test	Valuation fall before LTV test triggered	Rent fall before interest cover test triggered
Healthcare facility 1					
Property security at independent valuation (£m)	640.2				
Gross loan outstanding (£m)	(296.5)				
Other subgroup net liabilities (£m)	(0.4)				
Ring fenced equity (£m)	343.3				
Ring fenced equity (pence per share)	106.0				
Cash trap LTV test: full cash sweep	46%	<74%	7.1%	37%	
LTV test	46%	<79%	7.6%	41%	
Cash trap projected interest cover: full cash sweep	200%	>140%			30%
Projected interest cover test	200%	>120%			40%
<p>Headroom on the LTV tests has increased since 31 December 2020, from 35% (at a 6.8% valuation yield) to 37% (at a 7.1% valuation yield) for the LTV cash sweep test and from 39% (at a 7.1% valuation yield) to 41% (at a 7.6% valuation yield) for the LTV default test. Headroom on the interest cover test has improved from 38% to 40% and on the cash sweep interest cover test from 27% to 30%, as a result of a combination of the fixed 2.8% weighted average rental increase in the year and the modest reduction in finance costs because of £3.2 million of scheduled loan amortisation.</p>					

	Scenarios before any remedial action				
	31 December 2021	Covenant	Net Initial Yield triggering LTV test	Valuation fall before LTV test triggered	Rent fall before interest cover test triggered
Healthcare facility 2					
Property security at independent valuation (£m)	150.1				
Gross loan outstanding (£m)	(63.5)				
Other subgroup net assets (£m)	0.2				
Ring fenced equity (£m)	86.8				
Ring fenced equity (pence per share)	26.8				
LTV test	42%	<80%	8.5%	47%	
Cash trap projected debt service cover test (full cash sweep if triggered)	232%	>150%			35%
Projected debt service cover test	232%	>125%			46%
<p>Headroom on the LTV test has increased since 31 December 2020, from 45% (at an 8.2% valuation yield) to 47% (at an 8.5% valuation yield). Headroom on the interest cover test has improved from 33% to 35% for the cash sweep test and from 44% to 46% on the default test, largely from the fixed 2.75% rental increase in the year.</p>					

	Scenarios before any remedial action				
	31 December 2021	Covenant	Net Initial Yield triggering LTV test	Valuation fall before LTV test triggered	Rent fall before interest cover test triggered
Budget Hotels facility 2					
Property security at independent valuation (£m)	213.9				
Gross loan outstanding (£m)	(65.4)				
Other subgroup net assets (£m)	1.5				
Ring fenced equity (£m)	150.0				
Ring fenced equity (pence per share)	46.4p				
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	31%	<40%	8.6%	24%	
Cash trap LTV test (full cash sweep if triggered)	31%	<45%	9.6%	32%	
LTV test	31%	<50%	10.7%	39%	
Cash trap projected interest cover test (full cash sweep if triggered)	678%	>300%			56%
Projected interest cover test	678%	>250%			63%
Budget Hotels facility 1					
Property security at independent valuation (£m)	204.0				
Gross loan outstanding (£m)	(59.0)				
Other subgroup net assets (£m)	3.2				
Ring fenced equity (£m)	148.2				
Ring fenced equity (pence per share)	45.7p				
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	29%	<40%	9.7%	28%	
Cash trap LTV test (full cash sweep if triggered)	29%	<45%	10.9%	36%	
LTV test	29%	<50%	12.1%	42%	
Cash trap projected interest cover test (full cash sweep if triggered)	906%	>300%			67%
Projected interest cover test	906%	>250%			72%
The two hotels facilities are ring fenced from one another as while they have the same arranger, they each have a different lender group. However, the comments below relate to both facilities as they are structured in much the same way and as the same tenant underpins the rent and property value in each case, the factors affecting the financial covenants in the year were the same for each facility.					
Headroom on the LTV default covenants in the two facilities has improved from 33% to 39% and from 38% to 42% since 31 December 2020 following the valuation increases in each portfolio. Headroom on the projected income default covenants in the two facilities has improved over the same period from 59% to 63% and from 68% to 72% as the temporary Covid related reductions on the rents have come to an end.					
Covenant waivers were granted on one of the facilities to accommodate the rent reductions during the period of the temporary rent concessions. These waivers expired in July 2021 as they are no longer required following the end of the rent concessions. All covenant tests have reverted to their previous levels.					

Investment Adviser's Report continued

Key performance indicator – headroom on debt covenants continued

	31 December 2021	Scenarios before any remedial action			
		Covenant	Net Initial Yield triggering LTV test	Valuation fall before LTV test triggered	Rent fall before interest cover test triggered
Leisure facility: Arena, Brewery, Pubs					
Property security at independent valuation (£m)	183.3				
Gross loan outstanding (£m)	(60.0)				
Other subgroup net assets (£m)	3.5				
Ring fenced equity (£m)	126.8				
Ring fenced equity (pence per share)	39.1				
Partial cash trap LTV cash (50% cash sweep)	33%	<40%	7.1%	18%	
Cash trap LTV test (full cash sweep if triggered)	33%	<45%	8.0%	27%	
LTV test	33%	<50%	8.9%	35%	
Projected interest cover test	338%	>150%			56%
The LTV headroom on this facility has improved from 32% to 35% since 31 December 2020 in line with the portfolio valuation increase. The partial cash trap headroom has improved from 15% to 18% and the full cash trap level from 25% to 27%. The extent of a fall in rent that would breach the financial covenant test level is consistent with the level reported at 31 December 2020 which was 57%.					

Key performance indicator – Uncommitted Cash

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

	31 December 2021 £m	31 December 2020 £m
Free cash	168.5	196.6
Tax and social security	(3.3)	(1.7)
Leisure lease incentive payable	(3.0)	-
Accruals, trade and other payables and corporation tax	(2.3)	(2.9)
Uncommitted Cash	159.9	192.0

The level of Uncommitted Cash retained is assessed regularly in light of property market and wider economic conditions and outlook, together with an assessment of specific covenant headroom levels in individual debt facilities.

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Movements in Uncommitted Cash		
At the start of the year	192.0	234.2
Leisure lease incentive payable	(33.5)	-
Leisure interest payments funded during period of rent deferral	11.7	(11.8)
Scheduled repayment of secured debt	(7.3)	(4.4)
Dividend support during period of rent concessions	(4.2)	(32.6)
Property disposals net of debt repayments	0.1	1.0
Other	1.1	5.6
At the end of the year	159.9	192.0

Since the end of the year, £108.2 million of Uncommitted Cash has been committed to deployment in the refinancing of the Merlin leisure facility, which is expected to be drawn in April 2022. The remaining pro forma balance of £51.7 million is considered by the Board to be an appropriate level given the lower gross loan to value levels within the debt facilities and the lowered tenant risk profiles as their trading recovers after the relaxation of pandemic restrictions.

Cash flow

The business is structured so that net income flows through efficiently to the payment of quarterly cash dividends. Rents are in the ordinary course predictable, financing costs are fixed or capped and the majority of operating costs are represented by the advisory fees, calculated by applying a simple formula based on a percentage of the Group's net assets.

Cash from operations has increased significantly in 2021 following the end of substantially all of the temporary Covid related rent concessions by the end of the financial year and as a result of the positive impact from the receipt of £17.6 million of Merlin rents deferred in 2020. Investment activity in the year was the payment to Merlin of £30.5 million of a maximum £33.5 million payable relating to the value accretive lease extensions and variations, further details of which are given earlier in this report.

	Year to 31 December 2021		Year to 31 December 2020	
	£m	Pence per share	£m	Pence per share
Cash from operating activities	113.8	35.1	54.7	16.9
Net interest and finance costs paid	(47.7)	(14.7)	(47.4)	(14.5)
Tax paid	(0.3)	(0.1)	(0.4)	(0.1)
	65.8	20.3	6.9	2.3
Dividends paid	(49.3)	(15.2)	(50.8)	(15.7)
	16.5	5.1	(43.9)	(13.4)
Leisure lease regear payment	(30.5)	(9.4)	-	-
Scheduled repayment of secured debt	(7.3)	(2.3)	(4.4)	(1.4)
Property disposals net of debt repayment	0.1	-	1.1	0.3
Acquisition of tangible fixed assets	-	-	(0.3)	(0.1)
Cash flow in the year	(21.2)	(6.6)	(47.5)	(14.6)
Cash at the start of the year	219.7	67.8	267.1	82.7
Currency translation movements	(0.1)	-	0.1	-
Dilution from incentive fee share issues	-	-	-	(0.3)
Cash at the end of the year	198.4	61.2	219.7	67.8

The Group's investment properties are in the vast majority of cases let on full repairing and insuring terms, with each tenant obliged to keep their premises in good and substantial repair and condition, including rebuilding, reinstating, renewing or replacing premises where necessary. Consequently, no material unrecovered capital expenditure, property maintenance or insurance costs have been incurred in the year and it is not currently expected that material costs of that nature will be incurred on the portfolio as it stands at 31 December 2021.

Risks to future cash flows are summarised in the Principal Risks and Uncertainties section of the Strategic Review.

Nick Leslau

Chairman, Prestbury Investment Partners Limited
9 March 2022

Strategic Review

Strategy and investment policy

Strategy

One of the key reasons for creating the Company as a specialist long lease REIT in 2014 was that investors had a requirement for a tax efficient investment in well secured, long term, inflation protected income from industries with sustainable prospects against a background of a marked reduction in the average term to the first tenant break or lease expiry in the UK property market. The current inflationary conditions only reinforce this thesis.

The Board's intention is for the Group to continue to hold a diversified portfolio of long term, secure income streams from real estate investments across a range of property sectors, enhancing prospects for attractive total returns both from the existing portfolio and, when appropriate, through earnings accretive acquisitions. In this way, the Board believes that the Company is well placed to continue to offer attractive geared returns from high quality real estate, with tenants operating with well established brands in industry sectors with strong defensive characteristics. An important characteristic of the portfolio is that assets acquired are Key Operating Assets, meaning they are business critical from the tenant's perspective. In that way, rental security is more certain as the assets in question form an essential part of the value of the tenants' own businesses, therefore the tenants are strongly motivated to continue to invest in the assets and to retain their leases. This is evident in the 38% of current portfolio income where leases have been extended to date.

Through the implementation of the investment policy, set out below, the Board believes that it will be able to deliver total returns-enhancing deals in the interests of all shareholders and, when investment and equity market conditions are right, the Board aims to add to the Group's existing portfolio of Key Operating Assets to further build a substantial diversified portfolio providing secure, growing income and capital returns for shareholders. This could include further acquisition opportunities from a range of sources including operating businesses, non-REITs with latent capital gains fettering sale prospects and opportunities where the Company's shares may be used as currency to unlock value. Acquisitions should be accretive to shareholder returns and will be financed with modest leverage and non-dilutive equity issues.

The Company is managed by a team with an exceptionally large 12.4% interest in the Company, worth c. £170 million at 31 December 2021 EPRA NTA, making the team the second largest shareholder in the Company. Consequently, the motivation for the Management Team to deliver on strategy is very strong, with their interests closely aligned with those of all shareholders.

Investment policy

The Company invests in long term, secure income streams from real estate investments. A long term income stream is considered to be one with (or a portfolio with) a Weighted Average Unexpired Lease Term in excess of 15 years at the time of acquisition. Security of income is assessed with reference to the extent of rent cover from underlying earnings, the credit strength of tenants and (where relevant) guarantors, and the reversionary potential of the assets.

The portfolio is considered by the Board to offer attractive geared returns from high quality real estate, with tenants which have well established brands in industry sectors with strong defensive characteristics. The Board proposes to build on this strong foundation by seeking to:

- diversify sources of income and enhance prospects for attractive shareholder returns through acquisitions; and
- manage the Company's capital structure in order to enhance income returns for investors whilst maintaining discipline over net debt levels and terms.

The business model is explained in the Investment Adviser's Report on [page 8](#).

Potential future changes to strategy and the business model

The Board aims to keep future risks to the business under review with the objective of amending the Company's strategy or business model on a timely basis if necessary. No-one has perfect foresight, but currently the principal areas being actively monitored in this context are climate risk and the risks of global economic or social upheaval including from geo-political events, an extended Covid pandemic or of a new pandemic.

The way that climate change is manifesting itself is prompting a range of responses from governments and businesses around the world. These responses in turn feed back into climate change itself and will have an impact on businesses, individuals and economies. Predicting the way that climate change and the responses to it will interact and impact on this business and that of our tenants remains difficult to assess accurately, including the outcomes of the COP26 discussions of November 2021. However, we know that our principal tenants are very much alive to the risks and to their responsibilities and we report on their approaches and progress in the ESG Committee Report on [page 68](#). Furthermore, we consider that climate change may well present opportunities as well as challenges. Widespread decarbonisation to meet global emissions goals may well increase costs for our tenants in the short term, but these may yield medium to longer term benefits in both social and economic terms. We will remain close to our tenants to understand their considerable efforts to reduce emissions and meet their climate commitments, and work with them where we can to our mutual benefit. We will continue to report on those efforts in the Company's annual reports and on its website.

The scale and suddenness of the onset of the Covid-19 pandemic prompted an early, considered response from the Board and management of the Company, both in terms of support provided for the Group's tenants and the change in working practices. The business and our tenants' businesses have to date weathered the storm due to the robustness of their business operations and brand strength. The pandemic has not prompted any changes to the Company's strategy or business model at this stage save as to the consideration of further diversification of income when appropriate, but not at any cost. While sustainability in its widest sense and the longevity of the businesses operating the assets that the Company owns have always been key considerations, it is fair to say that both the pandemic and the return of political instability in Europe has heightened our awareness of previously unanticipated external threats to those businesses, reminding us of the importance of this particular plank of the Company's strategy.

Key performance indicators

In order to oversee the successful delivery of the investment strategy, the Board regularly monitors the following key performance indicators, which are reported on in the Investment Adviser's quarterly reports to the Board and more frequently when appropriate:

- Total Accounting Return and Total Shareholder Return
- Adjusted EPRA EPS
- Net LTV Ratio
- Headroom on debt covenants
- Uncommitted Cash

Each of these is reported on in the Investment Adviser's Report from [page 20](#).

Strategic Review continued

Corporate responsibility and ESG

The Board is mindful of its responsibilities to all of its stakeholders, including the wider community, when it makes decisions in setting and implementing the Company's strategy. Alongside its fiduciary, regulatory and legal responsibilities, these responsibilities include those which can be broadly classified under the headings environmental responsibility, social responsibility and governance, widely referred to as "ESG". We report on various aspects of our responsibilities in this annual report.

The report on the Company's compliance with the UK Corporate Governance Code commences on [page 50](#). The first report of the ESG Committee is presented on [page 64](#). The Audit Committee reports on [page 70](#), the Remuneration Committee on [page 74](#) and the Nomination Committee on [page 77](#). The Company's statement on stakeholder relationships is on the following page.

All of these reports contain aspects of the Company's approach to corporate responsibility which is integral to the delivery of the Company's strategy set out on [page 32](#).

Statement on stakeholder relationships made under Section 172(1) of the Companies Act

The Directors consider that, in conducting the business of the Company over the course of the year ended 31 December 2021 and to the date of this report, they have complied with Section 172(1) of the Companies Act 2006 ("the Act").

The business is externally managed and the Group has no employees. The Board is of the opinion that its conduct and that of its external Management Team culminated in decisions made in good faith to promote the success of the Company for the benefit of all of its members, having regard to the impact of those decisions on the following matters:

- the interests of the workforce, for whom the Chairman of the Remuneration Committee has special responsibility and which is also represented on the Board by the three Prestbury directors;
- business relationships with suppliers, customers and other counterparties, where engagement is managed in the main by the Investment Adviser with a view to fostering good two way communication with respect for all staff and respecting supplier payment terms;
- the community and the environment, where the Board takes overall responsibility and where the ESG Committee has specific focus;
- the reputation of the Company for high standards of business conduct, monitored by the Board with input from advisers including the Company's broker;
- fair treatment as between all members of the Company where the Investment Adviser engages routinely and where the Chairman of the Company and other Independent Directors make themselves available for meetings as appropriate, seeking to respond to any shareholder feedback in a constructive and open way; and
- the likely long term consequences of decisions made by the Board on all stakeholders.

The strategy of the Company, summarised on [page 32](#), was initially laid out in the AIM Admission document issued in May 2014 and was approved by the Board at that time. Any material deviation from or amendment of that strategy is subject to Board and, if necessary, shareholder approval. At least annually, the Board considers a business plan and budget for the delivery of its strategic objectives and the Investment Adviser reports at least quarterly against the delivery of the budget and the strategic objectives of the business.

Through regular engagement with its stakeholders, the Board aims to gain a rounded and balanced understanding of the impact of its decisions. In the main, that information is gathered in the first instance by the Investment Adviser and communicated to the Board in its regular quarterly meetings and otherwise as required.

The key strategic decisions for the Board are those relating to asset acquisitions, lease variations, financing, disposals, and distributions, including the interaction of these decisions with our ESG Policy. Where these types of transaction, or any other material transaction or decision, is considered, the Board has regard to its obligations under Section 172 of the Act. The principal non-routine decisions made by the Board in 2021 are as follows.

- The most material non-routine decision in the year was the variation to the Merlin leases, summarised on [page 14](#). In reaching its decision on the terms of the lease regears, the Board had specific regard to the long term success of the Company, to the sustainability of the Company's and tenant's businesses and, through the enhanced ESG reporting, to the environment.
- The Company maintained appropriate levels of support for the Group's tenants as the Covid-19 pandemic and the responses to it continued to evolve, continuing the open and constructive dialogue which commenced in 2020 and where the long term success of the Company formed the bedrock of decisions made.
- The Board carefully assessed the impact on stakeholders of the return to the pre-Covid, progressive dividend policy and was able to conclude that it was in the best interest of stakeholders to increase the dividend rate by 8.2% from July 2021.
- Considering the Group's responsibilities to the community and to meeting the Company's obligations to comply with all legal and regulatory requirements, the Board decided during the year to escalate its ESG reporting and to enhance its ESG capabilities which culminated in the establishment of an ESG Committee, chaired by the Chairman of the Company, Martin Moore. Expert external advisers were appointed to conduct a materiality review and to work on the further development of the Group's ESG policy and reporting standards.
- The Board, Nomination Committee and Management Team have been working closely together to implement the recruitment process to replace the four Independent Directors prior to the end of their recommended nine year term. Key features of these procedures include:
 - i) an aim to preserve the balance of skills, experience and diversity of thought on the Board to continue the Company's strong long term track record;
 - ii) to adhere to the Company's Diversity and Inclusion Policy (stated on [page 52](#)) in the recruitment process;
 - iii) to use suitably qualified external consultants with a brief to search among a diverse candidate pool; and
 - iv) to complete the process with a balance between allowing for appropriate handover periods without undue additional cost to shareholders. The proposed timetable allows for a period of overlap between the outgoing and incoming directors to ensure adequate training and handover, in particular for the roles of Chairman and Chairman of the Audit Committee, and the Board will be temporarily enlarged as a result.

While the Group has no employees, the Board has regard to the interests of the individuals who are responsible for delivery of the management and advisory services to the Company. Three of the seven Directors are representatives of the Investment Adviser and, in their capacity as directors and majority owners of the Investment Adviser, have direct responsibility for the employees of the companies providing services to the business. In addition, the Chairman of the Remuneration Committee has responsibility for workforce engagement so that there is a direct line of communication from the workforce to the Independent Directors. There have been no strategic initiatives or transactions in the year that were considered to have a direct bearing on the employees of the Investment Adviser or its workforce.

The Board has been kept informed of any relevant developments in the workforce. The Investment Adviser has confirmed that none of the workforce has been furloughed through the Covid pandemic or made redundant, that all members of the workforce have continued to be paid their salaries in full, and that the Investment Adviser and its associated companies have not drawn on the Government's Job Retention Scheme or any other Covid related support. Steps are taken to protect the physical and mental wellbeing of the workforce, as far as possible. This includes access to a confidential helpline for physical and mental health issues which is provided by the Investment Adviser's private medical insurer.

In the Board's annual review of the internal control environment operating in the business, the appropriateness of staffing levels and staff qualifications are kept under review, but it is noted that the Board does not have direct responsibility for any employees.

Strategic Review continued

Statement on stakeholder relationships made under Section 172(1) of the Companies Act continued

In the main, the Company's suppliers, customers and counterparties are professional firms such as lenders, property agents, accounting and law firms, tenants with which we have longstanding relationships, and transaction counterparties which are generally large and sophisticated businesses or institutions. Where material counterparties are new to the business, checks, including anti money laundering checks, are conducted prior to transacting any business to ensure that no reputational or legal issues would arise from engaging with that counterparty. The Company also reviews the compliance of all material counterparties with relevant laws and regulations such as the Modern Slavery Act 2015. All Group entities have a policy of paying suppliers in accordance with agreed terms as noted in the Supplier Payment Policies within this report.

The interaction of Group entities with the wider community and their impact on the environment is relatively limited as a result of the Group's business operations being entirely related to investment in properties let on very long leases, where the operation of the properties, their upkeep and environmental impact is the responsibility of the occupational tenants. The Board's approach to sustainability is explained in the ESG Committee Report on [page 66](#).

The Board is mindful that the ability of the Company to continue to conduct its investment business and to finance its activities depends in part on the reputation of the Board and Management Team. The risk of falling short of the high standards expected and thereby risking the reputation of the Company is included in the Board's review of the Company's risk register. The Board aims to maintain high standards of conduct and requires the Investment Adviser to do likewise under the terms of its appointment.

The investor relations programme is designed to promote formal engagement with major investors, generally defined as those holding more than approximately 1% of the shares in the Company. Major investors are offered meetings after each results announcement or other significant announcements. The Board and Management Team also engage with investors and potential investors who request meetings on an ad hoc basis throughout the year. All Company announcements and formal shareholder presentations are made available on the Company's website.

Recognising the great importance of engaging with the Company's shareholders, the Board oversees the Management Team's investor relations programme which is supported by the Company's brokers and financial PR advisers. The Board and Management Team aim to be open with shareholders and available to them, subject at all times to compliance with relevant securities laws.

Feedback from our shareholders is an important part of the Board's decision making process. We receive such feedback both directly and through intermediaries such as brokers and analysts. The feedback received is a natural part of the open dialogue we aim to have with our investors and, when appropriate and within the rules on sharing company information, the opinions of shareholders are sought in advance of decisions being made. During the financial year there have been fewer matters to discuss with shareholders than in 2020 as the impact of the Covid related rent concessions has abated and the share price discount has closed. Shareholder feedback was sought by the Investment Adviser on the impact of the Merlin lease regears and reported to the Board.

The AGMs held in 2020 and 2021 were held in compliance with Covid restrictions in force at the time, therefore shareholders were not able to attend. However, levels of proxy voting remained high with approximately three quarters of the issued shares being voted in each year. Where public health regulations do not present any obstacles, the whole Board intends to attend each Annual General Meeting. Where that is not possible, we will continue to keep lines of communication with shareholders open, including the facility for shareholders to submit questions by email or post ahead of the AGM.

The Company has a single class of shares in issue with all members of the Company having equal rights, therefore balancing the interests of shareholders among themselves is not an issue for the Company.

The investment strategy of the Group is focused on medium to long term returns and as such the long term is firmly within the sights of the Board when all material decisions are made.

Supplier payments

Neither the Company nor any of its subsidiary undertakings exceed the thresholds for reporting payment practices and performance. The following voluntary disclosures relate to the Group:

- the Group does not have standard or maximum payment terms, but seeks to settle supplier invoices in accordance with agreed terms;
- invoices may be submitted electronically but as the volume of payments is relatively low, the Group does not operate electronic tracking for suppliers;
- the Group does not offer supply chain finance;
- there are no arrangements for participation on supplier lists and no charges for being on such a list;
- the Group is not a member of a payment code of conduct; and
- the average number of days taken to make payments in the year was 19 days (2020: 30 days). The 2020 average was unusually long, due in large part to both of our accounts assistants unfortunately suffering from Covid-19 at the same time at the end of the year.

Principal Risks and Uncertainties

The Board's responsibilities for risk management include assessing the principal risks faced by the Group and how they may be mitigated, including considering matters that may threaten the performance of the Group, its business model or its viability. These responsibilities are summarised on [pages 71 and 72](#).

The Audit Committee and the Board review the Group's risk register at least annually and more often as necessary. The risk register, which was most recently reviewed in September 2021 in connection with the publication of the interim report, has been reviewed again in conjunction with the approval of this annual report.

Material changes to the Group risk register

Global economic and social disruption, including pandemic risk, was added to the overarching risks at the first review after the pandemic was declared, and the risk rating of each of the principal risks was increased at that time because all were impacted by the consequences of the pandemic and the response of governments and public health bodies to it. Since the last report to shareholders in September 2021, the impact of high vaccination rates in the UK, better treatments for those suffering from Covid-19 and the reopening of businesses has reduced the impact of this pandemic on the Company. These risks have not abated entirely, and the general easing of the pandemic risk has not changed the Board's assessment of which risks are most material to the business. We note also that risks of global economic and social disruption are currently heightened given the unfolding situation in Ukraine.

The Group's largest debt facility, the Merlin leisure facility with a balance of £372.4 million at 31 December 2021, matures in October 2022. With a near term refinancing facing the Company, refinancing risk was elevated in the September 2021 risk report. Having signed committed facilities to refinance that debt in March 2022, the immediate refinancing risk facing the Group has been dealt with. The next two facilities that fall due for repayment total £125.4 million of debt, repayable in April and June 2023, more than 12 months after the date of approval of these accounts. These facilities each represent loan balances of less than one third of the respective security value and the risks to the Group in refinancing these assets is considered lower than the refinancing risk prior to the refinancing of the Merlin facility. Refinancing risk remains on the risk register but with a lower significance than as reported in the 2021 Interim Report.

Valuation risk remains a key risk but has lessened since the 2020 Annual Report as none of the Group's portfolios were subject to a "material valuation uncertainty" caveat on their 31 December 2021 independent valuations. Refinancing risk is a new risk that was introduced in the 2021 Interim Report and which is considered to have lessened since then following the committed facility entered into in March 2022, which will be applied together with some of the Group's Uncommitted Cash, to meet the repayment of the debt facility which matures in October 2022 ahead of the maturity date. Another new risk introduced in the 2021 Interim Report is the Environmental Risk which relates in particular to the impact of new laws and regulations on the Group's property assets. The assessment of that risk remains the same as it was in the 2021 Interim Report.

The risk assessments are otherwise unchanged since those presented in the 2020 Annual Report.

Strategic Review continued

Overarching risks

There are overarching risks which the Board considers to be relevant to most of the individual risk areas identified in the Group risk register.

Global economic and social disruption including pandemic risk

The Board and Management Team of the Company and those of the Group's major tenants have operated through a number of cycles of economic boom and bust, through varying degrees of political stability, and have dealt with deep recessions and periods of great disruption. The global reach, sudden onset and extensive impact of the spread of Covid-19 was in a class of its own in its scale and unpredictability. While the positive impact of the vaccine programme and successful treatments for those suffering from the virus has allowed the UK economy and most economies around the world to reopen, this serves to remind us that pandemic risk is not limited to this one virus so despite the easing of the impact of Covid-19 at the time of this report, this risk remains one of our overarching risks. We also note the economic and social disruption aspect of this overarching risk. The unfolding situation between Russia, Ukraine and NATO allies indicates a further elevation of this risk factor. At the date of this report it is difficult to conclude with any certainty what the impact of that situation might be on the Company and its tenants, but the Chairman's Statement notes the possibility of higher inflation and less precipitous action on interest rates than might otherwise have been the case.

Climate risk, including the risks and costs of transition to decarbonisation

We assess the overarching climate risk as a distinct risk from the regulatory risks posed by specific environmental standards applicable to the Company, dealt with separately in the risk register. The Company is externally managed with no offices run by it and so has no direct exposure to decarbonisation costs. The general risk of disruption from climate change is not one where the Company can take steps to make a material impact on its own behalf. However, in assessing the strength of the credit quality of our tenants, we take climate risk into account. Climate risk assessments also form an integral part of the way that we consider how any assets being considered for acquisition meet the criteria set out in the Company's business model and the Board has committed to sign up to the UN Principles of Responsible Investment to guide this process. We report on our own policies and those of our major tenants in the ESG Committee Report on [pages 67 and 68](#) and in the ESG Centre on the Company's website.



Fulwood Hospital



Warwick Castle

Brexit risk

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

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

Risk and change in assessment since prior year	Strategic importance and impact on the Group	Mitigation
<p>Tenant risk</p> <p>During the year and prior year, the Group derived its income from ten tenant groups, two of which have the benefit of guarantees from or joint tenancies with substantial parent companies. The three largest tenant groups account for 87% of passing rent before concessions as at the balance sheet date (2020: 88%).</p> <p>Although the Board considers the tenant and guarantor groups to be financially strong in ordinary circumstances, certain tenants experienced liquidity stresses during the pandemic and there can be no guarantee that they will remain able to comply with their obligations throughout the term of the relevant leases.</p> <p>The severe impact of Covid-19 on the Group's Leisure and Budget Hotels tenants, which suffered an abrupt and almost complete closure of their operations as a result of the pandemic, created heightened tenant risk in 2020. The reopening of their businesses in the UK over the course of 2021 has brought some easing of risk. The risk remains elevated while the pandemic continues and given economic uncertainty as a result of elevated geo-political tensions.</p>	<p>In order to underpin both the rental cash flows that support a progressive dividend policy and the valuation of assets delivering acceptable risk adjusted shareholder returns, the financial strength and sustainability of our tenants is important.</p> <p>A default of lease obligations by a material tenant and its guarantor (if any) would have an impact on the Group's revenue, earnings and cash flows and could have an impact on debt covenant compliance. The specialised use of the properties may mean that, in the event of an unexpected vacancy, re-letting takes time.</p> <p>Investment property valuations reflect an independent external valuer's assessment of the future security of income. A loss of income would therefore impact net asset value as well as earnings. It could also lead to a breach of interest cover or debt service cover covenants, resulting in increased interest rate margins payable to lenders, restricted cash flows out of secured debt groups or ultimately default under secured debt agreements. The availability of distributable reserves could also be reduced.</p>	<p>32% (2020: 32%) of passing rent before concessions at the balance sheet date is contractually backed by large listed companies and a further 35% (2020: 35%) by global businesses with multi billion pound valuations, all with capital structures considered by the Board to have been strong and with impressive long term earnings growth and (where relevant) share price track records up until the start of the pandemic. The balance of the income is payable by substantial businesses also considered by the Board to be sufficiently financially strong in the context of their lease obligations.</p> <p>The properties are Key Operating Assets, which should have the effect of enhancing rental income security given their strategic importance to the tenants.</p> <p>The Board reviews the financial position of tenants and guarantors at least every quarter and more often when relevant, based on publicly available financial information and any other trading information which may be obtained either under the terms of the leases or informally.</p> <p>The Board reserves Uncommitted Cash outside ring-fenced debt structures which would be available to be used to cure certain covenant defaults to the extent of the cash available. The Group's key performance indicators include the levels of covenant headroom and of Uncommitted Cash, both of which are relevant to monitoring and, if necessary, mitigating this risk.</p>

Strategic Review continued

Principal risks and uncertainties continued

Risk and change in assessment since prior year	Strategic importance and impact on the Group	Mitigation
<p>Property valuation movements</p> <p>The Group invests in commercial property which is held on the balance sheet at its fair value. The Company is therefore exposed to movements in property valuations, which are subjective and may vary as a result of a number of factors, many of which are outside the control of the Board. These factors include (but are not limited to) economic conditions, specific property sub-market conditions and potentially climate risk.</p> <p>This risk increased in 2020 because of a relative lack of liquidity in the Leisure and Budget Hotels sectors, which was reflected in “material valuation uncertainty” in the independent external valuations of those properties as at 31 December 2020. The risk has reduced in 2021 as none of the valuations are subject to material valuation uncertainty.</p>	<p>The Company’s strategy is to deliver a combination of income and capital returns to shareholders and robust, reliable valuation is a key part of the calculation of the returns.</p> <p>Investment properties make up the majority of the Group’s assets, so material changes in their value will have a significant impact on net asset value and therefore on shareholder returns, with any effect of the valuation changes magnified by the impact of borrowings.</p> <p>Falls in the value of investment properties beyond a certain point could lead to a breach of financial covenants in secured debt facilities, resulting in increased interest margins payable to lenders, restricted cash flows out of secured debt groups, restrictions of distributable reserves available for dividend payments or default under secured debt agreements.</p>	<p>The Group uses experienced independent external valuers whose work is reviewed by suitably qualified members of the Management Team and, separately, the Audit Committee before being considered by the Board in the context of the financial statements as a whole.</p> <p>The Board seeks to structure the Group’s capital such that the level of borrowing and the protections available to cure a covenant default are appropriate having regard to market conditions and financial covenant levels.</p> <p>The Board reserves Uncommitted Cash outside ring-fenced debt structures which would be available to cure certain covenant breaches. The Group’s key performance indicators include the levels of covenant headroom and Uncommitted Cash, both of which are relevant to monitoring and, if necessary, mitigating this risk.</p>

Risk and change in assessment since prior year	Strategic importance and impact on the Group	Mitigation
<p>Borrowing</p> <p>Certain Group companies have granted security to lenders in the form of mortgages over each of the Group's investment properties and fixed and floating charges over other assets within the ring-fenced security groups.</p> <p>The Group had the support of its lenders in agreeing those consents or waivers that were required to accommodate the support provided to its tenants throughout the pandemic but these waivers are no longer required following the increases in rental levels in 2021.</p> <p>The risk has reduced in 2021 as covenant headroom is returning to pre-pandemic levels.</p>	<p>The Company's finance strategy as set out in the explanation of the Business Model on page 8, includes building in appropriate safety features to the Group's borrowings in order to minimise the risks related to the use of debt finance to enhance shareholder returns.</p> <p>In the event of a breach of a debt covenant, the Group may be required to pay higher interest costs or increase debt amortisation, affecting Group earnings and cash flows. If a financial covenant breach is the result of the financial weakness of a tenant or a guarantor, property valuations and therefore net asset value may also be adversely affected. In certain circumstances the Company's ability to make cash distributions to shareholders may be reduced.</p> <p>Where a loan repayment cannot be made the Group may be forced to sell assets to repay part or all of the Group's debt. It may be necessary to sell assets at below book value, which would adversely impact net assets and future earnings. Early debt repayments would in most cases crystallise repayment penalties, which would also adversely impact cash balances and net assets and reduce distributable reserves.</p>	<p>The Group's borrowing arrangements comprise six ring-fenced subgroups with no cross-guarantees between them and no recourse to other assets outside each secured subgroup. A financial covenant issue in one portfolio should therefore be limited to that portfolio, save for tenant related events (such as a tenant insolvency) where the two Healthcare subgroups would both be affected by any issue relating to Ramsay Health Care Limited and the two Budget Hotels facilities would be affected by any issue relating to Travelodge Hotels Limited.</p> <p>Five of the facilities have LTV default covenants (the Merlin Leisure facility has no LTV default covenant) and all facilities have interest cover or debt service cover covenants. The Board reviews compliance with all financial covenants at least every quarter, including forward-looking tests for at least twelve months, and considers whether there is sufficient headroom on relevant loan covenants to withstand stress test and reverse stress test scenarios.</p> <p>The Board seeks to structure the Group's capital such that gearing is appropriate having regard to market conditions and financial covenant levels, with appropriate cure rights within debt facilities.</p> <p>The Board reserves Uncommitted Cash outside ring-fenced debt structures which would be available to cure certain covenant breaches. The Group's key performance indicators include the levels of Net Loan to Value, covenant headroom and Uncommitted Cash, all of which are relevant to monitoring and, if necessary, mitigating this risk.</p>

Strategic Review continued

Principal risks and uncertainties continued

Risk and change in assessment since prior year	Strategic importance and impact on the Group	Mitigation
<p>Refinancing</p> <p>The Group's debt portfolio is comprised of six ring fenced bilateral facilities with terms to maturity as at 31 December 2021 ranging between ten months and nearly four years. To preserve shareholder value, credit facilities must be repaid or refinanced in an orderly way and on terms aligned with the Company's strategy.</p> <p>One of the Group's debt facilities with principal outstanding of £372.4 million at 31 December 2021 is due for repayment in October 2022. Since the balance sheet date, a committed new facility has been entered into which, subject to the satisfaction of conditions precedent typical for a facility of this nature, will be drawn in April 2022 and applied, with cash from Group resources, in repayment of the £372.4 million facility.</p> <p>This risk ranking was raised in 2021 as the maturity date of the largest of the existing loans neared and is now considered to have reverted to its previous level of risk, with the next facilities due for refinancing falling due in 2023 being smaller facilities with relatively low Loan To Value ratios, as more fully described in the assessment of viability on page 45.</p>	<p>In order to deliver long term sustainable returns, the debt maturity profile of the Group must be sensibly managed.</p> <p>Debt finance might not be available on acceptable terms or might not be available to the full extent of the amounts due for repayment. An inability to repay the debt in full could mean a reduction in the value of shareholders' equity through a forced sale of assets, a reduction in Uncommitted Cash, or could result in default interest rates being applied, increasing the cost of debt service to the Group.</p> <p>Debt finance might only be available at a higher interest cost than the current rates, adversely impacting the outlook for Adjusted EPRA EPS and reducing distributable reserves, or on more restrictive terms which might reduce free cash flow available for dividends.</p>	<p>At the current independent portfolio valuation, there is significant LTV headroom over loan principal within each facility and the Group also holds Uncommitted Cash which could be applied as part of future refinancings.</p>
<p>Environmental regulations</p> <p>The Group is subject to environmental laws and regulations relating to its properties.</p> <p>Although our environmental strategy continues to be actively developed, this risk was increased in 2021, given the ongoing Government consultation on new environmental laws and regulations relating to properties. While the allocation of risk between landlords and tenants requires greater clarity, particularly if they relate to long leases where tenants have a greater opportunity to reap the benefits of any changes to sustainability ratings, it is possible that the consultation could result in obligations on landlords.</p>	<p>As explained in the Company's statement under section 172 of the Companies Act (on page 34) the Board has responsibilities to the environment and the wider community in delivering its strategy and is required to comply with all relevant laws and regulations.</p> <p>Regulations could be onerous to comply with, or could adversely affect the Group's ability to sell, lease, finance or redevelop its property assets. Violations could result in reputational damage and/or regulatory compliance penalties.</p>	<p>The vast majority of the Group's assets are let on long FRI leases where the tenants are responsible for compliance with statutory requirements, including environmental laws and regulations. As such any costs associated with environmental compliance are borne by the tenant. Ultimately, therefore, this risk is a tenant credit risk.</p> <p>The Board is assessing the potential impact that the emerging regulations, currently under consultation, would have. Proposals to address any such risks arising form part of the Company's ESG policy which will be further developed with input from specialist external advisers. We note that this is an area of evolving regulation and practice, so the Board keeps an active watch on developments, including through the ESG Committee which has been established for this purpose.</p>

Risk and change in assessment since prior year	Strategic importance and impact on the Group	Mitigation
<p>Tax risk</p> <p>As a UK REIT, a failure to comply with certain conditions resulting in the loss of this status could result in property income being subject to UK corporation tax.</p> <p>This risk was increased as a result of the pandemic. The pressures on the UK Treasury of providing financial support throughout the pandemic was considered to have increased the risk of changes in the tax regime and, as the economic impact of the actions taken to deal with the pandemic is still being felt, this risk assessment remains unchanged.</p>	<p>As part of its commitment to the wider community and to recognising its part in society, the Company, through the Board, is careful to comply with all relevant laws and regulations and to pay any taxes as and when they are due. Continued compliance with the REIT rules helps to underpin the financial model which is, broadly, a tax transparent one for shareholders.</p> <p>If subject to UK corporation tax, the Group's current tax charge would increase, impacting cash flows, net asset value and earnings, and reducing cash and reserves available for distributions. Further, any asset sales would also be subject to corporation tax, reducing the net amounts receivable on sale and requiring deferred tax to be provided on inherent capital gains.</p>	<p>The REIT conditions which, if breached, could result in automatic expulsion from the REIT regime are those relating to the Company's share capital (and any loan capital should the Company have any in future), and are therefore (with the exception of a successful hostile takeover of the Company by a non-REIT) within the control of the Group.</p> <p>The Board reviews compliance with the UK REIT rules at least every quarter.</p>
<p>Liquidity risk</p> <p>Working capital must be managed to ensure that both the Group as a whole and all individual entities are able to meet their liabilities as they fall due. With highly predictable income and costs there is limited scope for unexpected liquidity pressures outside those risks described under Tenant risk.</p> <p>The Group holds Uncommitted Cash providing the benefit of a liquidity buffer. For as long as the risks of further economic disruption including that arising from the pandemic or from geo-political threats remain elevated, the potential for the liquidity buffer to be called on to provide support to tenants and/or to deploy in debt management is also elevated.</p>	<p>In order to continue to deliver long term, sustainable returns to investors and also to continue to comply with its obligations under the REIT rules to pay at least the prescribed minimum level of dividends, as well as its intention to continue as a going concern, the Group must maintain appropriate levels of liquidity.</p> <p>A breach of a lending covenant, or the insolvency of either the Group as a whole or an individual entity within a secured subgroup could result in a reduction of net asset value and earnings, and reducing cash and reserves available for distributions.</p> <p>As a result, there could be insufficient cash and/or distributable reserves to meet the Property Income Distribution ("PID") requirement under the UK REIT rules, which could result in UK corporation tax becoming payable on the Group's property rental business. This would in turn reduce free cash flows.</p>	<p>Unless there is a tenant default (the risk of which is explained under Tenant risk) the Group's cash flows are generally highly predictable. The cash position is reported to the Board at least quarterly, projections at least two years ahead are included in the Group budget and are updated for review when the interim and annual reports are approved, and projections for a five year period are reviewed for the viability statement in the annual report.</p> <p>The Group's key performance indicators include the levels of Uncommitted Cash available to the Group.</p> <p>The Group has Uncommitted Cash reserves out of which any tax liabilities or increases in required PIDs above the cash flow generated from operations could be met in the short to medium term. A scrip dividend alternative could be offered to meet the PID requirement.</p>

Strategic Review continued

Going concern and viability

The Board regularly monitors both the Company's and the Group's ability to continue as a going concern and its longer term viability. This is supported by the Audit Committee's work in this area, as outlined in the Audit Committee Report on [page 73](#). Summaries of the Company's and the Group's liquidity position, actual and prospective compliance with loan covenants and the financial strength of its tenants and, where relevant, their guarantors are considered at the scheduled quarterly Board meetings and more often as required. This includes updating the stress tests and reverse stress tests described in the mitigation sections of the tenant and borrowing risks within the Principal Risks and Uncertainties reported on [pages 39 and 41](#). These include expanded and stress tested assessments consistent in approach with, but more detailed than, those presented in the Investment Adviser's summary of the 'headroom on debt covenants' key performance indicator on [pages 27 to 30](#). The modelling includes (but is not limited to):

- the identification of uncertainties facing the Group, including the risks of default of each material tenant and of investment property valuation movements (as outlined in the Principal Risks and Uncertainties section on [pages 39 and 40](#)), the resulting impact on Group liquidity, debt covenants and distributable reserves and the remedial action that may be taken, including the extent of the resources available to the Company to cure covenant breaches; and
- stress tests, presented both on the basis of estimated reasonable ranges of outcomes (such as variations in investment property valuation yields, rental cash flows and exposure to any unexpected cash outflows) and reverse stress tests, where scenarios are presented to demonstrate the key inputs (principally rental cash flows and property valuation yields) that would be required to exhaust the Company's liquidity buffer in curing financial covenant breaches.

The scenarios reviewed by the Audit Committee and the Board include:

- an assessment of the extent to which the valuation yields of each security pool would need to worsen in order to trigger each cash trap, amortisation or default LTV covenant and assessment of the risks of those valuation thresholds being breached;
- modelling the impact of changes in valuation yields, reflecting levels of yield shift experienced during previous downturns in real estate investment markets, including during the 2008 global financial crisis and during the most extreme movements of the 2020 Covid-19 pandemic;
- assessing the level of loss of rents that could be sustained within a security group before each covenant or default level is triggered;
- assessing the loss of rents or valuation that could be sustained before the Group's Uncommitted Cash would be fully utilised in application to cure rights within debt facilities; and
- assessing the impact on Group resources of any or all ring-fenced security groups falling into default.

The detailed scenarios are calculated by the Investment Adviser and presented to the Audit Committee for its review, subject to challenge and debate as explained in the Audit Committee Report on [page 73](#). The projections and scenarios considered throughout 2021 and in connection with the approval of these financial statements had particular regard to stresses arising from the Covid-19 pandemic, and in particular the impact on the trading and financial strength of the Group's tenants. The ability of each tenant to navigate its way through the challenges of the pandemic to date, the Group's significant liquidity levels that were available to deal with any issues arising and the brighter medium term outlook as a result of the vaccine rollouts and improved treatments, are considered relevant in the context of the going concern and viability assessments for the Group.

The most material assumption affecting these scenarios as tested during 2021 related to the refinancing of the Merlin leisure facility, with a balance of £372.4 million at 31 December 2021 which is due for repayment in October 2022. This refinancing has been materially de-risked since the balance sheet date as a committed credit agreement was signed in March 2022, with drawdown scheduled for April 2022 conditional only on satisfaction of conditions precedent that are typical for a facility of this nature. The Board has carefully reviewed the status of each of the conditions precedent and is satisfied that all conditions should be able to be complied with within the relevant timescales.

The Board has weighed up the risks to going concern set out above, together with the ability of the Company to take mitigating action in response to those risks. The Board considers that the combination of their conclusions as to the tenants' prospects, the headroom available on debt covenants and the liquidity available to the Group to deal with reasonable stressed scenarios on income and valuation outlook leads to a conclusion that the Company and the Group are each able to continue in business for the foreseeable future. This assessment includes an analysis of the extent of surplus liquidity and distributable reserves available within the ultimate parent company. They therefore consider it appropriate to adopt the going concern basis in the preparation of these financial statements.

Viability statement

The Board has assessed the prospects of the Group over the five years to 31 December 2026, which is the period covered by the Group's longer term financial projections. The Board considers the resilience of projected liquidity, as well as compliance with debt covenants and UK REIT rules, under a range of inflation and property valuation assumptions. These scenarios include stress tests and reverse stress tests consistent with those described in the paragraph preceding the going concern statement and include a consideration of mitigating actions that may be taken to avert or mitigate potential threats to viability.

Given the longer period of assessment covered by the viability review, further analysis is conducted in order to test the reasonableness of the key assumptions made and to examine potential alternative outcomes and mitigating actions relating to those risks and assumptions. The most material of these assumptions relate to the debt refinancings during the forecast period, including the existing Merlin leisure facility, the status of which is explained within the going concern review on the previous page. Facilities falling due in 2023 are relatively low in value and at lower levels of LTV, where the Board's assessment is that it is reasonable to conclude that financing should remain readily available on acceptable terms but that, if not, mitigating actions such as utilisation of some of the Group's Uncommitted Cash or proceeds from asset sales could be applied to satisfy the debt maturity obligations. The Healthcare facilities fall due in September and October 2025 when total debt of £360.0 million falls due with the security value available of £790.4 million in aggregate at the 31 December 2021 independent valuation, representing a 45.5% Loan To Value ratio. In March 2026, the new Merlin leisure facilities of £282.5 million (at 31 December 2021 exchange rates) will mature unless the one year extension option in that facility is exercised. The Loan To Value ratio of that facility against the 31 December 2021 independent valuation is 38.4%. The Board has formed the assessment that lending markets are currently available for healthcare and leisure assets of this type and quality should remain reasonably active, and that financing at the levels required should be available at reasonable cost. In extremis, assets could be sold to partly or wholly refinance debt, although that is not the core assumption.

The principal risks and the key assumptions that were relevant to this assessment are:

Risk	Assumptions
Tenant risk	<ul style="list-style-type: none"> Tenants and their guarantors (where relevant) continue to comply with their rental obligations and do not suffer any insolvency events or otherwise cease rental payments over the term of the review or reduce amounts payable to levels that would threaten income cover or debt service cover covenants.
Borrowing risk	<ul style="list-style-type: none"> The Group continues to comply with all loan covenants. The conditions precedent to the drawdown of the new Merlin credit facility will be met. £184.4 million in two Budget Hotels facilities and one Leisure facility falling due between April and October 2023 are able to be refinanced against secured investment property worth £601.3 million at the 31 December 2021 independent valuations. The Healthcare facilities, totalling £360.0 million against secured investment property of £790.4 million at the 31 December 2021 independent valuations, can be refinanced by the final quarter of 2025. The new Merlin credit facility, totalling £282.5 million and secured against investment property worth £736.0 million at the 31 December 2021 independent valuation (both at the 31 December 2021 exchange rate), can be refinanced by the first quarter of 2026.
Liquidity risk	<ul style="list-style-type: none"> The Group continues to generate sufficient cash to meet its liabilities as and when they fall due while retaining the ability to make distributions, which includes the Group's continuing compliance with loan covenants.
Management contract renewal or succession	<ul style="list-style-type: none"> The Independent Directors will either extend the agreement between the Company and the Investment Adviser, which has a term to December 2025 and no renewal rights in favour of either party, or find a replacement management team before the end of the term without any adverse impact on the cash flows of the Company.

Based on the work performed, the Board has a reasonable expectation that the Group will be able to continue in business over the five year period of its assessment.

The Strategic Report, which comprises the Chairman's Statement, Investment Adviser's Report and Strategic Review, was signed on behalf of the Board on 9 March 2022.

Martin Moore
Chairman

Sandy Gumm
Director

Board of Directors



Martin Moore

Non-Executive Chairman

Chairman of the ESG Committee and member of the Remuneration Committee

Martin Moore, 65, MRICS, is a Chartered Surveyor who served as CEO of M&G Real Estate Limited (previously Prudential Property Investment Managers Limited) from 1996 to 2012. During that time, he ran the team and was responsible for setting the strategy that grew the business in the UK and led to the establishment of platforms in North America, Continental Europe and Asia. He retired as Chairman of M&G Real Estate in 2013. He is Senior Independent Non-Executive Director of Segro Plc, a past President and board member of the British Property Federation, a past Chairman of the Investment Property Forum, past Chairman of BMO Commercial Property Trust, and was a Commissioner of The Crown Estate for eight years to 2011. He was also a Senior Adviser to KKR from 2013 to 2020.

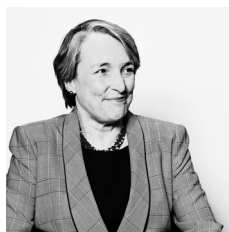


Mike Brown

Non-Executive Director

Member of the Nomination and ESG Committees

Mike Brown, 61, BSc (Land Man), MRICS, is Chief Executive Officer of and a shareholder in Prestbury Investment Partners Limited, Investment Adviser to the Group. A Chartered Surveyor with over 38 years' experience, he joined the Management Team in 2009 at the time of the flotation of Max Property Group Plc, a limited life opportunity fund which was sold to Blackstone in 2014. Previously he was Deputy Chief Executive of Helical Bar Plc, with responsibility for all its investment and trading activities from 1998 to 2009, and a Director of Threadneedle Property Fund Managers, running their largest property fund from 1992 to 1998. Mike is also a Non-Executive Director of Weybourne Limited and Chairman of its Property Advisory Committee.



Leslie Ferrar

Independent Non-Executive Director

Chairman of the Audit Committee; member of the Remuneration and Nomination Committees

Leslie Ferrar, 66, CVO, FCA, BSc, is a Non-Executive Director and Chair of the Audit Committee of Windmill Hill Asset Management, a Lay Member of Durham University Council and a Member of the Council of The Economy of the Vatican and Chair of its Audit Committee. A qualified Chartered Accountant, she trained at KPMG where she was appointed partner in 1988, a position she held for 17 years. During that time she led the firm's international expatriate practice and was a member of the international board that ran the global tax practice. Leslie is also an Adviser to the Diocese of Westminster, was previously a Non-Executive Member of the HMRC Risk and Audit Committee and served as Treasurer to TRH The Prince of Wales and Duchess of Cornwall from 2005 to 2012.



Sandy Gumm

Non-Executive Director

Company Secretary

Sandy Gumm, 55, BSc, CA (ANZ), is an Australian qualified Chartered Accountant with over 29 years' experience and is Chief Operating Officer of and a shareholder in Prestbury Investment Partners Limited, Investment Adviser to the Group. She qualified as a Chartered Accountant in 1992 and worked for KPMG for nine years in Sydney and London before becoming Group Financial Controller of Burford Holdings Plc, where Nick Leslau was Chief Executive, in 1995. She was Finance Director at the time that Prestbury Group Plc was established in 1997 and in 2007 became Chief Operating Officer of Prestbury.



Jonathan Lane
Independent Non-Executive Director

Chairman of the Nomination Committee; member of the Audit Committee

Jonathan Lane, 63, MA, is a Senior Adviser to Morgan Stanley and was until 2019 Chairman of EMEA Real Estate Investment Banking ("REIB"). He joined Morgan Stanley in 1999 where he served as Managing Director and co-head of REIB. Jonathan is Chairman of the Board of Grosvenor Europe, a member of the Policy Committee of the British Property Federation, and Chairman of the Trustees and a Director of the professional choir, Tenebrae. He was formerly a member of the UK Government's Property Unit Advisory Panel, a member of the Bank of England's Commercial Property Forum, a member of the Advisory Board of Resolution Real Estate Advisors LLP and a Non-Executive Director of Songbird Estates Plc, the holding company of Canary Wharf. He holds bachelor and masters degrees in Biochemistry from the University of Oxford and is a Certified Person under the Financial Reporting Council's and Prudential Regulation Authority's Certification Regime.



Nick Leslau
Non-Executive Director

Member of the Nomination Committee

Nick Leslau, 62, BSc (Hons) Est Man, FRICS, is the Chairman and majority shareholder of Prestbury Investment Partners Limited, Investment Adviser to the Group. He is a Fellow of the RICS who has been Chairman and Chief Executive of Prestbury Investment Holdings Limited since it commenced business in 2000 and was Chairman of Prestbury Investments LLP from its establishment in 2006 until 2019, when its business was transferred to Prestbury Investment Partners Limited. He was Chief Executive of Burford Holdings Plc for approximately ten years up to 1997 and Group Chairman and Chief Executive of Prestbury Group Plc from 1998. He has sat on many quoted and unquoted company boards including, most recently, Max Property Group Plc, and is a member of the Bank of England Property Forum.



Ian Marcus
Independent Non-Executive Director

Senior Independent Director; Chairman of the Remuneration Committee; member of the Audit Committee

Ian Marcus, 63, OBE, MA, FRICS, is the Senior Non-Executive Director of Town Centre Securities Plc and the Lead Independent Director of Shurgard Self Storage SA. He is a Senior Adviser to Eastdil Secured, Elysian Residences, Work.Life and Anschutz Entertainment Group. He is also a member of Redevco NV's Advisory Board, the Real Estate Advisory Board of the Department of Land Economy at the University of Cambridge and the European Advisory Board of the Wharton Business School Real Estate Faculty, President of Cambridge University Land Society and a Trustee of the Saracens Multi-Academy Trust. Ian has formerly been Chairman of the Bank of England's Commercial Property Forum, Chairman of The Prince's Regeneration Trust, a Trustee of The Prince's Foundation, a Crown Estate Commissioner and Managing Director and Chairman of the European Real Estate Investment Banking division of Credit Suisse. He is a past President of the British Property Federation and a past Chairman of the Investment Property Forum.

The Investment Adviser

The Company is advised on an exclusive basis by Prestbury Investment Partners Limited which is owned and controlled by Nick Leslau, Mike Brown, Sandy Gumm, Tim Evans and Ben Walford, a team of property and finance professionals who between them have extensive experience in UK real estate. They have a strong track record of successfully creating value for shareholders through previous economic cycles.



Biographies for Mike Brown, Sandy Gumm and Nick Leslau are presented on [pages 46 and 47](#).

Tim Evans

Tim Evans, 52, MA Hons (Cantab), MRICS, is a Chartered Surveyor with 30 years of experience. Tim joined Prestbury Investment Holdings Limited as a senior surveyor in 2002 and became Property Director in 2005. Prior to joining Prestbury, Tim held positions with Jones Lang LaSalle, Hill Samuel Asset Management and MEPC Plc. Tim is the Property Director of and a shareholder in Prestbury Investment Partners Limited.

Ben Walford

Ben Walford, 42, BSc (Hons) Est Man, MRICS, is a Chartered Surveyor with more than 15 years of experience. Ben joined Prestbury Investment Holdings Limited as a trainee surveyor in 2002 and became a partner in the Prestbury group in 2011. Ben has a wealth of experience in property investment, refurbishment and design. Ben is a director of and shareholder in Prestbury Investment Partners Limited.

The Prestbury team



Abigail O'Donovan
Front of House



Ben Walford
BSc Hons MRICS
Property



Francesca Brown
Property PA



Jemma Blyth
Property PA



Keval Sahota
BSc ACCA
Finance



Khadijah Saleem
MAAT
Finance



Lauren Proctor
Front of House and
Finance PA



Louise O'Shea
Property PA



Mike Brown
BSc MRICS
Property



Nick Leslau
BSc Hons FRICS
Property



Paul Cooke
FCA MBA MA (Oxon)
Finance



Robert Ward
BA Hons MSc MRICS
Property



Sandy Gumm
BEC CA (ANZ)
Finance



Stacey Wood
ACCA
Finance



Tim Evans
MA Hons (Cantab) MRICS
Property



Tom Nugent
MAAT
Finance



Yogi Leslau
Security

Corporate Governance Report

Corporate Governance Code

The Board has adopted the UK Corporate Governance Code 2018 (the “Code”) and in this report we describe how the principles and supporting provisions set out in the Code have been applied.

The Board is committed to the Company delivering long term, sustainable returns to investors and also aims to build long term relationships with its stakeholders in a spirit of integrity and openness, reflecting its commitment to diversity and with respect to the views of its shareholders and other stakeholders. In this way we consider that consistently applying the principles of good governance is fully aligned with the Company’s strategy.

The Company is externally managed and all Directors are non-executive directors. This means that the Board and Management Team interact in a different way to those in an internally managed business, with the relationship governed by the terms of a contract, and that the Group has no employees. When applying the principles of the Code, we consider that the employees of the Investment Adviser and its related service provider, Prestbury Investment Holdings Limited, would, for these purposes only, be considered as the Group’s workforce despite not being employees of the Group.

Throughout the year ended 31 December 2021, the Company has complied with the provisions of the Code save for two cases where departure from the provisions of the Code is considered by the Board to be appropriate. These are explained in the following sections and relate to the composition of the Nomination Committee, explained on [page 58](#) and the vesting and holding period for incentive rewards, explained on [page 62](#).

Principles A to R, as set out in the Code, are summarised at the beginning of each section of this report.

Board Leadership and Company Purpose

- A. Leadership should be provided by an effective and entrepreneurial board whose role is to promote the long term sustainable success of the company, generating value for shareholders and contributing to wider society.*
- B. The board should establish the company’s purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.*
- C. The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.*
- D. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, those parties.*
- E. The board should ensure that workforce policies and practices are consistent with the company’s values and support long term sustainable success. The workforce should be able to raise any matters of concern.*

Board oversight of value creation, the assessment of risks, opportunities and sustainability and the control environment

The Board is responsible for the overall leadership of the Company, setting its values and standards, including approval of the Group’s strategic aims and objectives and oversight of its operations.

In meeting its duty to the Company’s shareholders to promote the success of the business, the Board takes a long term view, assessing opportunities and risks together with considering and reporting on the viability of the business over a five year period. This encompasses a wide range of risks and opportunities, including among all other areas, climate related risks and opportunities. The Board is collectively responsible for the long term success of the Company and seeks to achieve:

- competent and prudent management;
- sound planning over both short and longer term time scales;
- maintenance of appropriate management and internal control systems;
- reliable accounting and other records; and
- compliance with statutory and regulatory obligations.

The Company's business model and strategy were established at the time of its admission to AIM in June 2014. While the business has grown very materially since the Company's listing, its strategy has not changed. The business continues to generate long term income with inflation protection from real estate assets that are considered 'mission critical' by their tenants (we refer to these as Key Operating Assets), with additional potential for capital growth over the medium to long term. Acquisition opportunities and any related debt finance are assessed by the Board with a view to ensuring the long term sustainability of the business. The security and longevity of returns is fundamental to the Company's strategy, as summarised in the outline of the Group's business model on [page 8](#), and the Company's investment policy is described in the Strategic Review on [page 32](#).

Assets are financed with a combination of equity and appropriate levels of third party debt, with close attention paid to building in sufficient headroom on any financial covenants having regard to the risks facing the Company. The Company's debt strategy is further described in the outline of the business model on [page 8](#) and the Investment Adviser's review of key performance indicators on [page 27](#). The Board has committed that any equity issues will be at or above Net Asset Value to minimise any risk of dilution of shareholder value.

The track record of the Group over the last five years and for certain key returns metrics since listing is on [page 142](#) and the viability statement for the next five years is on [page 45](#). The Board regularly reviews actual and potential risks facing the business and the most recent assessment of risk is set out in the summary of Principal Risks and Uncertainties on [pages 37 to 43](#). Investment and other opportunities are evaluated by the Board against the criteria set out in the Investment Strategy on [page 32](#) and includes stress tested scenarios to evaluate the impact on short, medium and long term performance.

The control environment operated within the Group is subject to the review and oversight of the Audit Committee, which formally considers the internal control framework at least annually and discusses the operation and effectiveness of internal controls with the Group's external auditor. A summary of the Audit Committee's internal control review is set out in its report on [page 71](#).

The Management Team is responsible to the Board for day to day reporting against targets and delivery of the strategy. Its obligations and rights regarding the Group are set out in a contract, the Investment Advisory Agreement, which is subject to regular review by the Remuneration Committee and the Board. Those reviews include periodic independent benchmarking of the terms, including the appropriateness of the rewards accruing to the Investment Adviser. The most recent independent review was conducted in March 2018 and the next review is scheduled to occur by December 2022. The Independent Directors are in a position to judge the adequacy and appropriateness of the resources made available to the Group by the Investment Adviser by way of their assessment of the quality and timeliness of information provided to the Board and its committees and by direct interaction with the members of the Management Team and the workforce, including those who are not Directors of the Company. The Audit Committee's report on risk management and internal control on [page 71](#) and the Remuneration Committee's report on [page 74](#) both describe the monitoring role of the Board and its committees over the operations of the business and the assessment of the Investment Adviser's performance in delivering long term sustainable returns to shareholders.

Board responsibility for workplace culture

An entrepreneurial culture is fostered both by way of the backgrounds and career histories of the Board members and the Management Team, and by very close alignment of the Management Team with the interests of shareholders as a whole. The shareholding held by the Management Team (which includes participation of the majority of Prestbury staff in that equity interest) is very large in both absolute terms, being worth £170 million at the 31 December 2021 EPRA NTA, and in relative terms at 12.4% of the Company.

As an externally managed business, the Group has no employees, but the Independent Directors ensure that they have regular direct contact with members of the Management Team and other individuals who work on the Group's operations, including the involvement of various Prestbury employees in committee and Board meetings. There are 16 individuals who make up the workforce with the biographies of the senior team members listed on [page 48](#), in addition to the three Prestbury Board representatives whose biographies appear on [pages 46 and 47](#). As the workforce is not large, the Board considers that the allocation of responsibility for engagement with the workforce to the Remuneration Committee is an appropriate and effective method for workforce engagement and the Remuneration Committee's description on this aspect of their work is included in their report on [page 75](#).

Corporate Governance Report continued

Board responsibility for workplace culture *continued*

The Board is committed to the Company and its representatives, including the Investment Adviser, adhering to high standards of business conduct. The Independent Directors seek to obtain and assess feedback from investors, advisers and other market participants, where appropriate, in order to monitor standards of conduct, including the conduct and reputation of the Investment Adviser and the reputation of the business.

The Board is committed to encouraging diversity, inclusion and equality and will not tolerate unlawful discrimination in any of its operations. It ensures that the Investment Adviser and the workforce also adhere to diversity and inclusion policies consistent with the Company's. The Company seeks to achieve diversity on its Board and its progress in achieving that is set out in the Nomination Committee's Report.

The Board meets at least every quarter to review the Group's performance against its strategic aims, objectives, business plans and budgets, and ensures that any corrective action considered necessary is taken. Additional meetings are held as required to deal with the business of the Group in a timely manner. Meetings are held more frequently when transactions are being considered and reported on, and in times of heightened market uncertainty such as during the pre-vaccine stage Covid pandemic. The Investment Adviser also discusses matters with the Independent Directors individually or collectively and updates them on activities as and when appropriate outside the scheduled Board meetings. Relevant members of the wider team working on the Group's operations, including employees of the Investment Adviser and also key advisers such as the Company's Nominated Adviser and Broker, legal counsel and financial PR advisers, attend Board and committee meetings as appropriate.

Board committees have been appointed under written terms of reference. The Audit Committee meets at least twice per year and the Remuneration, Nomination and ESG Committees meet at least once per year. Committee meetings are otherwise held as often as is required to properly discharge their duties. During 2021, the Nomination Committee has been meeting frequently in order to oversee the Board succession process which is detailed in their report. The ESG Committee has also been meeting frequently since its establishment in May 2021 to undertake its policy review and to keep in regular contact with the Group's specialist ESG advisers.

Directors are expected to attend all meetings of the Board and all meetings of those committees on which they sit, as well as the Annual General Meeting. Every meeting during the year has been attended by the quorum required by the Articles of the Company, which also require that the Independent Directors outnumber the Directors connected with the Investment Adviser. In all cases during the financial year, the Independent Directors outnumbered the representatives of the Investment Adviser.

The AGM and all scheduled Board meetings were fully attended during the year. Attendance at Board and committee meetings is reported on [page 57](#).

Shareholder engagement

The Board is responsible for ensuring open and constructive dialogue with shareholders based on a mutual understanding of objectives.

The Board approves the resolutions and related documentation to be put to shareholders at the AGM, together with any circulars, prospectuses, listing particulars and announcements concerning the Company. The Company reports to shareholders at least twice each year in its interim and annual reports, and, where any price sensitive or other information requires disclosure to the London Stock Exchange, makes announcements which are then published on the Company's website. Any written presentations to investors are made available on the Company's website.

Stifel Nicolaus Europe Limited ("Stifel") acts as the Company's Nominated Adviser and Broker, assisting with communications to shareholders and monitoring compliance with the AIM Rules. Whenever appropriate, feedback from shareholders is presented in an appropriate format (at times, anonymised at the request of shareholders) to the Board by Stifel to ensure that the Board is aware of any issues raised or feedback provided by investors. The Company's shareholder profile and any material changes in shareholdings are reviewed by the Board at least quarterly and more often if appropriate.

All Board members are available to meet with shareholders and to answer any questions at the Company's AGM and otherwise as reasonably required. Board members connected with the Investment Adviser generally conduct the routine meetings with shareholders, including those following results and other announcements and they maintain contact with shareholders as appropriate throughout the year. In certain cases, including where shareholders' views about the Investment Adviser or the terms of its appointment are being discussed, Independent Directors including in particular the Chairman, Martin Moore, and the Senior Independent Director and chairman of the Remuneration Committee, Ian Marcus, offer to meet with shareholders as necessary. The Board considers that this, along with the provision of independent feedback to the Board by Stifel where appropriate following shareholder meetings, ensures that the whole Board remains well informed of shareholders' views.

The Board is keen to make access to information about the Company as convenient as possible and is also mindful of the Company's impact on the environment. Consequently, the Company issues its shareholder communications, including the annual and interim reports and notices of meeting, electronically with the option of receiving hard copy reports for those who wish to do so.

Constructive use of the AGM

The AGM will be held on 1 June 2022. This is a forum to give all interested shareholders the opportunity to meet the Board and to vote on the resolutions proposed. Prior to the Covid-19 pandemic, all Directors attended all AGMs, making themselves available to answer questions, and they intend to continue to do so as far as possible within the limits of any Covid-19 restrictions. Government imposed restrictions required the AGMs in May 2020 and May 2021 to be held as closed meetings and, unfortunately, shareholders were not permitted to attend. However, arrangements were made to ensure that questions could be raised in advance of the meeting. Under current guidance, it would be possible to hold the AGM in person again in 2022 but in the event that restrictions apply again at that time, the same procedures for raising questions in the absence of attendance will apply. The notice of meeting and explanatory notes for the 2022 AGM are included on [pages 146 to 152](#).

Monitoring of AGM results

Following the Company's AGM each year, a summary of voting is communicated by way of a regulatory news release and posted on the Company's website. To date, the Company has not experienced a significant number of votes against any resolution.

Voting at May 2021 AGM

	% For	% Against
<i>Ordinary resolutions:</i>		
1. To approve the annual report for the year to 31 December 2020	98.51	1.49
2. To re-elect Martin Moore as a Director	99.76	0.24
3. To re-elect Mike Brown as a Director	99.88	0.12
4. To re-elect Leslie Ferrar as a Director	99.54	0.46
5. To re-elect Sandy Gumm as a Director	100.00	0.00
6. To re-elect Jonathan Lane as a Director	99.99	0.01
7. To re-elect Nick Leslau as a Director	99.88	0.12
8. To re-elect Ian Marcus as a Director	99.99	0.01
9. To reappoint BDO LLP as auditor	98.34	1.66
10. To authorise the Directors to fix the remuneration of the auditor	99.99	0.01
11. That the Company be generally and unconditionally authorised to allot Ordinary Shares in the Company	99.83	0.17
<i>Special resolutions:</i>		
12. That the Company be generally authorised to make market purchases of Ordinary Shares subject to certain conditions	98.43	1.57
13. That the Directors be empowered to allot equity securities in the Company for cash without pre-emption rights subject to certain conditions	98.03	1.97

The total votes cast in respect of each resolution put to the 2021 AGM amounted to approximately 74% of the shares in issue.

Corporate Governance Report continued

Engagement with stakeholders other than shareholders

Along with the interests of shareholders, the Board has regard to the interests of other stakeholders including the Company's tenants, suppliers and workforce. The Company's statement of compliance with Section 172 of the Companies Act 2006 which deals with its engagement with stakeholders is set out on [pages 34 to 36](#) and appears on the Company's website. Compliance with Section 172 of the Companies Act 2006 is kept under review and updated as necessary. The Company's ESG report, forming part of the Company's engagement with the wider community, is set out on [pages 64 to 69](#) and is available on the Company's website.

Whistleblowing policy

The whistleblowing policy applicable to the workforce and Board is reviewed and approved by the Audit Committee each year for recommendation (if appropriate) to the Board. That policy provides for direct lines of communication from the workforce to Independent Directors if appropriate. To date no such reports have been made but, in the event that any arise, the Audit Committee will investigate on behalf of the Board in the first instance and follow up any matters arising, reporting the results and their conclusions to the Board.

Conflicts of interest

Conflicts of interest are required to be disclosed in order that the Board functions effectively and with appropriate independence. Declaration of conflicts is a standing order of business at the start of every Board meeting.

Director concerns and resignations

Directors would in the first instance raise any matters of concern about the operation of the Board or any of its committees with the Chairman of the Company or of the relevant committee, and any such matters and their ultimate resolution would be minuted. Any unresolved matters may be raised with the Senior Independent Director or such other Director or external party, including regulators, as is considered appropriate. There have been no such issues to report or resolve and no Director has resigned from the Company.

Division of Responsibilities

- F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.*
- G. The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.*
- H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, other specialist advice and hold management to account.*
- I. The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.*

Chairman's role and assessment of his independence

As Chairman, Martin Moore sets the Board's agenda and ensures that adequate time is available for discussion of all agenda items, including strategic issues in particular. He is responsible for the leadership of the Board and ensuring its effectiveness. He seeks to ensure that all Directors constructively engage in the business of meetings and with the development of strategy.

On the date of his appointment, Martin Moore was considered to be independent within the meaning of the Code. Under the terms of the Code, a chairman is considered not to be independent after the date of appointment purely by reason of being the Company's chairman.

The Code requires that the roles of Chairman and Chief Executive are distinct and that a chief executive should not become a Company's chairman. As it is externally managed, the Company does not have an individual designated as Chief Executive, the functions of which are carried out by the Investment Adviser. The roles of the Board and the Investment Adviser are very distinct and are laid out in a contract between the Company and the Investment Adviser. Martin Moore has never acted in any executive capacity in the Company and is independent of the Investment Adviser.

Composition of the Board

The balance of skills and experience of the members of the Board and the long and successful track record of the Management Team are key factors in the continuing ability of the Group to exercise skill and discipline in deal selection and embrace opportunities in a way that balances potential risks and rewards with a view to delivering the Company's strategy. The long term track record of the Management Team is available on the investor centre on the Company's website and the track record of the Company over the past five years is shown on [page 142](#).

The composition of the Board is as it was at the time of the Company's listing in June 2014. At that time, the Chairman sought to appoint Directors who would bring appropriate independence and an open mind to the running of the Company, and between them to have a range of skills and experience appropriate to a full understanding of the Group and its activities and the effective delivery of its strategy.

There are three qualified chartered surveyors and two qualified chartered accountants on the Board. All Directors have long experience in the areas considered critical to the running of the business, principally real estate investment and financing, capital markets activity, mergers and acquisitions, taxation, financial reporting and governance. These skills are considered core to the delivery of the Company's strategy and to dealing with the risk factors outlined in the Strategic Report. Through over seven years on the Company's Board along with their wider careers, all Directors have a level of experience in all of these areas, but particular areas of expertise are set out below. When vacancies arise on the Board, the Nomination Committee will seek to maintain a balance of skills in these various key areas and this aspect of the Committee's role is reported on in the Nomination Committee's Report on [page 79](#).

	Chartered surveyor	Chartered accountant	Direct real estate investment and long lease negotiation	Real estate financing	Capital markets	Real estate M&A	Accounting and tax	Financial and governance reporting
Martin Moore	✓		✓					
Mike Brown	✓		✓			✓		
Leslie Ferrar		✓					✓	✓
Sandy Gumm		✓		✓		✓	✓	✓
Jonathan Lane				✓	✓	✓		
Nick Leslau	✓		✓			✓		
Ian Marcus				✓	✓	✓		

In addition to diversity of experience and qualifications, the gender balance on the Board is two women (29%) and five men (71%). Brief biographies of the Company's Directors are set out on [pages 46 and 47](#) and those of other key members of the Management Team on [page 48](#).

Independence of Directors

The Chairman was considered independent within the meaning of the Code at the time of his appointment. Leslie Ferrar, Ian Marcus and Jonathan Lane are all considered independent within the meaning of the Code. Mike Brown, Sandy Gumm and Nick Leslau are not independent as they are directors of and shareholders in the Investment Adviser. The majority of the Directors are independent of the Management Team and, excluding the Chairman who is considered not to be independent by definition within the terms of the Code, three of the remaining six are independent.

There is no individual with unfettered powers of decision making and the Articles of Association require that Independent Directors must always hold the majority of voting power in order for a meeting of the Board to be quorate.

Corporate Governance Report continued

The Senior Independent Director

Ian Marcus is the Company's Senior Independent Director and his biographical details are included on [page 47](#). Ian acts as a sounding board where necessary for Martin Moore as Chairman and, if required, as an intermediary for shareholders or for other Directors. As the Senior Independent Director, Ian is available to shareholders if they have concerns which contact through the normal channels of Chairman or Investment Adviser have failed to resolve, or for which such contact is inappropriate.

The Code requires that the Senior Independent Director should convene a meeting of the Board excluding the Chairman at least annually to assess the performance of the Chairman. The most recent meeting convened for this purpose was held in March 2022 and attended by all Directors other than the Chairman.

Scrutiny of executive management

Day to day management of the Group is carried out by the Company's Investment Adviser, Prestbury, whose activities are subject always to the oversight of the Board. The terms under which Prestbury has been appointed are set out in a contract, the Investment Advisory Agreement, which has been in place since the Company listed and which is kept under review resulting in certain amendments having been made from time to time since it was first entered into. The matters which fall exclusively to the Board to approve are clearly set out in writing and these reserved matters may only be considered for approval in a properly convened Board meeting where Directors independent of the Investment Adviser are in the majority. Matters reserved for the Board include any material transaction and any transaction of whatever level of materiality with an unusual risk profile or where there would be a departure from the Company's stated strategy and investment policy. The Chairman convenes a meeting annually without the non-Independent Directors or any management representatives present to assess the Investment Adviser's performance. The most recent meeting convened for this purpose was held in March 2022 and attended by all Independent Directors.

In distinguishing the matters dealt with day to day by the Investment Adviser from the material strategic decisions made by the Board, the Independent Directors maintain control of key judgements affecting the business. In delivering their services to the Company, the Investment Adviser is required to diligently perform specified services and exercise judgement, drawing on the experience and expertise of the Management Team. The Board challenges these judgements through regular interactions between the Independent Directors and the Management Team including the scheduled Board and committee meetings and other more informal meetings and discussions. In the case of judgements affecting the accounting policies and financial statements, the Audit Committee holds discussions with both the Management Team and external auditor, separately and together, where any judgements made are interrogated and carefully considered to ensure that judgement has been exercised in the best interests of the Company and with appropriate care and diligence.

Any matters delegated to Prestbury remain subject to the Board's overall supervision and its review of Prestbury's effectiveness. Prestbury has only very limited permission to transact business for the UK companies within the Group and no discretion to transact business for any non-UK entities. The agreement allows Prestbury, without specific approval by the Board but subject to certain conditions, to investigate, negotiate and execute or require any member of the Group to execute an asset acquisition, an asset disposal or a financing or refinancing (including related hedging instruments) in respect of an investment opportunity or existing investment, in each case only where the impact does not exceed either a Net Asset Value of £10 million or a gross asset value of £20 million. Prestbury has not transacted any business within the discretionary limits at any time up to the date of this report.

The Remuneration Committee's responsibilities include keeping the terms of Prestbury's appointment under review, including periodic external independent review and benchmarking of the terms. The Remuneration Committee, the members of which are all Independent Directors, reports on these reviews in its reports to shareholders. In addition, the Audit Committee is in a position to closely review the Investment Adviser's services relating to financial reporting and internal control. As part of its work, it meets at least annually with the external auditor and without any management representatives present. The report of the Audit Committee is presented on [pages 70 to 73](#).

The Board and its committees meet when appropriate without any representatives of the Investment Adviser or, if necessary, without a specific Director or Directors present. This will include meetings where the performance of a specific Director or the Investment Adviser is being considered.

Attendance at Board and Committee meetings and the AGM

Attendance at meetings	Scheduled Board meetings	Audit Committee ¹	Remuneration Committee	Nomination Committee ²	ESG Committee ³
Martin Moore (Chairman and Chairman of the ESG Committee)	4/4		1/1		2/2
Mike Brown	4/4			2/2	2/2
Leslie Ferrar (Chairman of the Audit Committee)	4/4	2/2	1/1	2/2	
Sandy Gumm	4/4				
Jonathan Lane (Chairman of the Nomination Committee)	4/4	2/2	1/1	2/2	
Nick Leslau	4/4			2/2	
Ian Marcus (Chairman of the Remuneration Committee)	4/4	2/2			

- 1 in addition to the two meetings shown, all Audit Committee members attended meetings with the Group's valuers prior to the consideration of both the interim and annual results
- 2 members of the Nomination Committee have met more frequently during the year outside the formal committee setting, including meetings to engage with search consultancies and to establish the job specifications for incoming directors
- 3 the third member of the ESG Committee is Ben Walford, a director of the Investment Adviser, who has specific responsibility for environmental issues and reporting within the Investment Adviser's team

All Directors also attended the AGM in May 2021, though restrictions in place because of the Covid-19 pandemic meant that shareholders were unable to attend.

Directors' and Committees' responsibilities

The terms and conditions of appointment of the Directors are set out in letters of appointment and written terms of reference have been established for each of the committees. The letters of appointment and committee terms of reference are available for inspection at the Company's registered office during normal business hours on reasonable notice. The terms of reference of the committees are available in the Investor Centre of the Company's website.

Other commitments of Directors

Prior to any Board appointment, a Director's other commitments must be disclosed and the Nomination Committee must be satisfied that the potential appointee has sufficient time to properly discharge his or her duties. This includes the disclosure of other positions and estimates of the time commitments relating to them and including any potential areas of conflict of interest. All Directors were appointed at the time of the Company's admission to AIM in June 2014 and all additional external appointments have been subject to further disclosures to the Board prior to those appointments.

Each Independent Director has a portfolio of non-executive roles and none has a full time executive position. While new external appointments may be entered into by the Independent Directors from time to time, the Board has always been satisfied, following careful review, that each Director remains able to fully commit sufficient time to discharging their duties for the Company. The Nomination Committee conducts an annual assessment of the time devoted to the business by each director and each person's ability to continue to commit appropriate time to the proper discharge of their responsibilities.

It is a requirement of the Code that no executive director holds more than one non-executive directorship of a FTSE 100 company nor the chairmanship of such a company, nor should they hold any other 'significant appointment'. While the Company has no executive directors, none of the Directors representing the Investment Adviser holds a chairmanship or directorship of a FTSE 100 company, nor any other significant external appointment. There have been no significant additions to the outside directorships of the Prestbury Directors in the past 12 months.

The significant external appointments of all Directors are disclosed in their biographies on [pages 46 and 47](#).

Corporate Governance Report continued

The Company Secretary

The Company Secretary is responsible for ensuring that the Board and Board committees receive accurate, timely and clear information on the Group's activities and is responsible to the Board and committees for ensuring that procedures are followed. The appointment or removal of the Company Secretary is a matter for the whole Board.

The Company Secretary seeks to ensure that the information provided is sufficient to enable the Board and the committees of the Board to discharge their duties, and that the information provided covers operational and financial reporting together with assessments of market conditions, risks and the Group's internal control environment. Reports are required to be submitted to the Board on a timely basis to allow sufficient time for review prior to Board or committee meetings.

Directors' and officers' insurance

The Directors are provided with independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities. Directors' and Officers' Liability Insurance cover of £15 million is maintained by the Company.

Composition, Succession and Evaluation

J. Appointments to the board should be subject to a formal, rigorous and transparent procedure and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership should be regularly refreshed.

L. Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

Succession planning

The Board as a whole is responsible for ensuring adequate succession planning so as to maintain an appropriate balance of skills, experience and diversity. Changes to the structure, size and composition of the Board may be made following recommendations from the Nomination Committee. This includes the selection of the Chairman of the Board and the Company Secretary, and the appointment of the Senior Independent Director.

The Nomination Committee

The Nomination Committee consists of four Directors: Jonathan Lane, Nick Leslau, Mike Brown and Leslie Ferrar. Leslie was appointed to the Committee in May 2021, ahead of the commencement of the succession planning process for the replacement of the existing Independent Directors as their terms of service now approach eight years. The Committee is chaired by Jonathan Lane. The biographies of each Committee member are shown on [pages 46 and 47](#).

The composition of the Committee deviates from the Code requirement for the majority of members to be independent. While Jonathan Lane and Leslie Ferrar are independent, Nick Leslau and Mike Brown are members of the Management Team. The Board considers this departure from the Code appropriate because the significant shareholding of the Management Team, including that of Nick Leslau and Mike Brown personally, provides very strong alignment with the interests of all shareholders. Additionally, given the intention to replace all of the Independent Directors prior to the end of nine years' service, which will in all cases be in May 2023, the contribution of representatives of the Investment Adviser as members of the Committee is considered particularly relevant, as the maintenance of strong and constructive working relationships amongst all individuals on the Board, including in particular the three representatives of the Investment Adviser who will continue on the Board, is considered to be important to the continuing success of the business.

The Nomination Committee Report appears on [pages 77 to 79](#).

Re-election

All Directors are subject to election by shareholders at the first AGM following their appointment, and the Company's Articles require that for the nine years following appointment they are subsequently subject to re-election at intervals of no more than three years after which they should stand for re-election annually. Since the 2020 AGM, all Directors have undertaken to voluntarily offer themselves for re-election each year, consistent with the requirements of the Code.

The Board considers that information sufficient for shareholders to make an informed decision about the re-election of each Director, including their specific skills relevant to a contribution to the long term success of the business, is included within this annual report and in the notice of AGM and accompanying explanatory notes on [pages 146 and 147](#).

Terms of service

Any Independent Director who has held office for nine or more consecutive years is required by the Articles of Association of the Company to stand down and offer himself or herself for re-election at each AGM. No Independent Director of the Company has been in office for more than nine years, each having been appointed in May 2014.

According to the written terms of appointment, each Director's service contract is terminable on three months' notice or, in the case of a serious breach, without notice and without compensation for loss of office.

Board vacancies

There has been no Board vacancy since the Company's admission to AIM. In the event that a vacancy arises, as will be the case for all Independent Director posts prior to May 2023, the Nomination Committee will oversee the process with due regard to the requirements of the Code and in accordance with the responsibilities set out in their report on [page 79](#).

Evaluation

The Nomination Committee reviews the composition of the Board and performance relating to attendance, appropriateness of skills and adequacy of time devoted to Board duties.

The Board is responsible for undertaking an annual review of its own performance, that of its Committees and of individual Directors. The division of responsibilities is also kept under review.

The Board is required to determine the independence of Directors in light of their character, judgement and relationships, authorising conflicts of interest where, and in the manner, permitted by the Company's Articles of Association.

In performing these reviews, the Board takes account of any feedback provided by shareholders, including through the Company's Nominated Adviser and Broker whose opinion is sought regularly. The evaluation of Prestbury's effectiveness as Investment Adviser is carried out only by the Directors who are independent of Prestbury.

The Board considers at least annually whether a formal, externally facilitated Board evaluation is required. Such an evaluation is not considered necessary at this stage as the Board has demonstrated its ability to deal effectively with a large volume of significant transactions including listing, secondary placings, acquisitions, disposals, lease variations, financings and refinancings. The appropriateness of an external Board evaluation will continue to be kept under review.

Development

Martin Moore, as Chairman, is responsible for ensuring that any ongoing training and development needs of the Directors are met, including those highlighted by any evaluation process. All Directors have been appointed since the time of the Company's listing and the listing process included an appropriate induction for all Directors. The remit of the Nomination Committee includes monitoring the skills and knowledge of the Directors and where necessary further support is provided to any Director who needs it.

Commitment

The Nomination Committee's report on [pages 77 to 79](#) includes confirmation that the commitment of each Director has been reviewed and confirmed as sufficient.

Corporate Governance Report continued

Audit, Risk and Internal Control

M. The board should establish formal and transparent policies and procedures to ensure the independence of and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

N. The board should present a fair, balanced and understandable assessment of the company's position and prospects.

O. The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long term strategic objectives.

Audit policy and procedures

The Board is committed to complying with all relevant regulations concerning the independence of the external auditor. The responsibility for ensuring the appropriate independence and effectiveness of the external auditor for recommendation to the Board rests with the Audit Committee which summarises its work in this respect in the report on [page 71](#).

Approach to ensuring the integrity of financial and narrative reporting

The Board controls the integrity of financial and narrative reporting by ensuring that the Board includes individuals with sufficient and diverse experience, which includes ensuring that the Board includes a number of members who have relevant qualifications. Specifically, the Chairman of the Audit Committee has, as required, relevant and recent experience in financial reporting matters. The appropriateness of the qualifications and experience of the Investment Adviser's finance team and of the resources available to them are reviewed each year as part of the internal control review conducted by the Audit Committee, the results of which are reported to the Board. The terms of the Investment Advisory Agreement also require that all financial and narrative reports are provided to the Board with sufficient time and in sufficient detail to enable their review and for the Board to interrogate the analyses provided.

The Audit Committee

The Audit Committee assists the Board in discharging its risk management and internal control responsibilities under written terms of reference. It comprises three Independent Directors: Leslie Ferrar, Jonathan Lane and Ian Marcus, whose biographies are shown on [pages 46 and 47](#).

The Committee is chaired by Leslie Ferrar, who the Board considers has recent and relevant financial experience including an appropriate professional qualification. Jonathan Lane and Ian Marcus both have many years' experience in real estate capital markets and financing and the Board considers this experience also to be both recent and relevant to the Committee's activities.

Only members of the Audit Committee have the right to attend Committee meetings. The members of the external audit team and key personnel from the Investment Adviser are invited to attend meetings and the Company Secretary and other non-members such as specialist advisers may be invited to attend all or part of any meeting as and when appropriate. The Committee chairman reports formally to the Board on proceedings after each meeting on all matters within the Committee's duties and responsibilities and demonstrates how it has discharged those responsibilities.

The Audit Committee meets at least twice each year at appropriate intervals in the financial reporting and audit cycle in addition to its twice yearly meetings with the external valuers and the auditors. Outside the formal meeting programme, the Committee chairman maintains a dialogue with key individuals involved in the Company's governance, including the Chairman, members of the Investment Adviser's finance team, the independent external valuers and the external audit partner. The Committee chairman attends the AGM (save in circumstances where this is not possible, such as during the Covid-19 restrictions in force at the time of the AGM held in 2020) and is otherwise available to shareholders to answer any queries about the work of the Committee.

Audit Committee's role and responsibility

More detail on the activities of the Audit Committee during the year, including a summary of its role and responsibilities, is provided in the Audit Committee Report on [pages 70 to 73](#).

Financial and business reporting

The Board is responsible for preparing this annual report and has reviewed whether, taken as a whole, it presents a fair, balanced and understandable representation of the Group's position and prospects and has concluded that it does. The Board has also concluded that this annual report provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy. This includes an explanation of how the Company aims to generate or preserve value in the long term, included in the Strategic Review on [page 32](#).

A description of the Directors' responsibilities regarding the financial statements is set out in the Directors' Report on [page 81](#) and a description of the auditors' responsibilities is set out in their report on [page 87](#).

Risk management, internal control and Group risk review

The Board is responsible for the internal controls of the Group, including operational and compliance controls and risk management systems, which are documented in a Board memorandum which is updated and reviewed at least annually. As with any risk management system, the Group's internal control framework is designed to manage risk but cannot give absolute assurance that there will never be any material misstatement or loss.

The Board has reviewed the risk management and internal control framework in the year using, in addition to their own experience and expertise, the approach documented in the ICAEW's Technical Release "Guidance on Financial Position and Prospects Procedures". External supporting evidence is obtained where appropriate. The Board has also had regard to the Financial Reporting Council's "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" dated September 2014. The Board memorandum on internal control includes the Group's risk register which includes explanations of any changes in risk assessment over time.

The Group's risk register underpins the Board's assessment of the principal risks facing the Group and how they may be mitigated, including consideration of matters that may in future threaten the performance of the Group, its business model or its viability. A robust assessment of emerging and principal risks is undertaken both on the basis of their relevance to the business on a steady state basis and their relevance to delivery of the Board's growth aspirations. The key risks identified in that review are described in the Strategic Review on [pages 37 to 43](#).

The Board requires that any weaknesses in the internal control framework of the Company identified by the external auditor or the Management Team are reported to the Audit Committee. Further, any weaknesses in the internal control framework of the Investment Adviser, including any identified by the external auditor of the Investment Adviser, are required to be reported to the Audit Committee. No material control weaknesses have been identified but, in the event that any are reported, the Audit Committee will bring them to the attention of the Board.

On the basis of this review, the Board believes the internal controls to be working effectively with no significant failings or weaknesses in the framework identified. The control framework documented and assessed in the Board memorandum was in place during the year and up to the date of approval of this annual report.

The Board has asked the Audit Committee to review whether an internal audit function should be established. The Audit Committee's approach to this review and their conclusions are set out in the report of the Audit Committee on [page 72](#).

Going concern and viability

Statements confirming the status of the Company and Group as a going concern and their longer term viability over a five year period are set out in the Strategic Review on [pages 44 and 45](#). These statements are made on the basis of reviews undertaken by the Management Team and evaluated in discussion with the Audit Committee which reports the results to the Board.

Corporate Governance Report continued

Remuneration

P. Remuneration policies and practices should be designed to support strategy and promote long term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long term strategy.

Q. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in determining their own remuneration outcome.

R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

The Remuneration Committee

The Board has appointed a Remuneration Committee comprised of three Independent Directors: Ian Marcus, who is Chairman of the Committee, Leslie Ferrar and Martin Moore. Their biographies are shown on [pages 46 and 47](#).

Only members of the Remuneration Committee have the right to attend Committee meetings, but other individuals and external advisers may be invited to attend for all or part of any meeting as and when appropriate. Appointments to the Committee are made by the Board. The Chairman of the Board may not be chairman of the Committee.

The Remuneration Committee meets at least once each year and otherwise as required, and the Committee chairman attends the AGM (save in circumstances where this is not possible, such as during the Covid-19 restrictions in force at the time of the AGM held in 2020) and is otherwise available to shareholders to answer any questions about the Committee's activities. The Remuneration Committee Report is included on [pages 74 to 76](#).

Policy responsibility

The responsibilities of the Remuneration Committee are set out in the report on [page 74](#) and include setting remuneration policy for the Chairman and the executive team, which for these purposes means the Investment Adviser.

The Board considers the appropriateness of the level of remuneration for all Directors each year, having regard to the time commitment and responsibilities involved. Directors' remuneration is periodically benchmarked by independent external advisers and annually benchmarked against publicly available information about other similar listed UK real estate companies. The assessment of the performance of the Chairman is determined by the other Directors.

Shareholder alignment

As an externally managed business, the shareholder alignment strategy for the management of the Company was carefully designed at the time of its listing in 2014 and has been kept under regular review since then. The Board continues to recognise the crucial importance and benefits of strong alignment between the Management Team and shareholders.

Under the terms of the Investment Advisory Agreement which is, as explained in the Remuneration Committee Report, kept under regular review, the Investment Adviser is rewarded for above target shareholder returns in any financial year. Any incentive fees are subject to appropriate safeguards for investors, including a priority shareholder return before any fee is earned, 'high water mark' provisions to prevent rebasing of incentives after periods of low or negative growth, a cap on incentive fees payable on the results of operations, and the payment of any fees in shares. These arrangements are explained in [note 25c](#) to the financial statements.

Alignment with the Code

Sales of any shares received by the Investment Adviser in satisfaction of incentive fees are restricted (save for certain limited exceptions), with the restriction lifted on a phased basis over a period from 18 to 42 months. This is shorter than the total vesting and holding period of five years recommended in the Code. The Code has been adopted subsequent to the most recent external benchmarking exercise for the incentive fee arrangements at which time the vesting and holding periods for shares awarded as incentive fees were considered to be appropriate and in line with the prevailing guidance at the time. Bringing the vesting and holding periods into line with the Code would require a change to the contractual arrangements. The broader terms of the contract will be subject to review in December 2022 and the appropriateness of arrangements, including their compliance with the Code, will be considered as part of that review.

The Code also recommends that the Committee formulates a formal policy for post employment shareholdings. Given the Company's external management structure, compliance with this aspect of the Code is not possible, as the Board does not control the Investment Adviser. However, we note the commentary on the Company's share dealing code below.

Share dealing code

The Board takes all reasonable steps to ensure compliance by the Directors with the provisions of the AIM rules relating to dealings in securities of the Company and has adopted a share dealing code for this purpose. Further, the Board has taken steps to ensure that directors of the Investment Adviser and staff engaged by the Investment Adviser and its delegates also comply with the terms of the share dealing code. The Board and Investment Adviser provide annual attestations in this respect, the most recent of which were completed in December 2021.

Avoidance of formulaic outcomes

In its most recent external benchmarking review of the Investment Advisory Agreement in 2018, the Remuneration Committee and its external advisers had regard to the risk of formulaic application of the fee calculations giving rise to a mismatch between returns achieved by shareholders and the Management Team as part of a wider review. As a result, the Company and the Management Team agreed to introduce a cap at 5% of net asset value on incentive fees arising on the Group's operations to avoid undesirable outcomes of this type. The approach of the Remuneration Committee to this aspect of the Code is explained in its report on [pages 74 and 75](#).

Pension contributions

The Company does not bear the cost of any pension contributions because no Director is entitled to Company funded pension contributions.

Notice periods and compensation for loss of office

The notice period for the Independent Directors is three months, save in the case of dismissal for cause which can be immediate and without compensation.

The Investment Advisory Agreement expires in December 2025 and is subject to its next scheduled review by the Remuneration Committee by December 2022. As explained at the time of the most recent independent benchmarking exercise, carried out in March 2018 with the assistance of AON's compensation practice, the period to December 2025 was considered an appropriate period over which to secure the services of the Management Team in the interests of shareholders as a whole. The agreement is terminable by the Company or the Investment Adviser in certain circumstances. The maximum fee payable, for example in the event of a change of control of the Company should either party elect to terminate the agreement at that time, would be one year's advisory fee. There are no break payments or renewal rights on either side at the end of the term.

Costs of the executive team and shareholder alignment

While the Company does not employ any executive management, the Independent Directors consider that the provisions underlying Principles P to R of the Code are in the main applicable to the Investment Advisory Agreement. The Remuneration Committee sets out in its report on [page 74](#) its assessment of how, specifically, the Company has complied with the provisions of the Code as to the assessment of remuneration policy.

Signed on behalf of the Board on 9 March 2022.

Leslie Ferrar

Director and Chairman of Audit Committee

ESG Committee Report

The Board acknowledges the importance of Environmental, Social and Governance (“ESG”) matters across our business. We are committed to delivering transparent reporting to our stakeholders on our ESG strategy in line with international reporting and verification standards including Global Reporting Initiative (“GRI”) and AA1000 standards. Our intention is for this to inform investment decision making, enable alignment with industry best practice and enhance our stakeholders’ understanding of the impact of ESG matters on our real estate. We are committed to publishing an annual report on ESG which at this stage is included within the annual report and also posting the ESG report on our website.

Our ESG Policy, a full copy of which is published on our website, focuses on four priority areas that incorporate environmental responsibility, social responsibility and corporate governance:

- Governance and disclosure – embedding ESG principles in our decisions; greenhouse gas emissions reporting
- Responsible investment – commitment to becoming a signatory of the United Nations Principles of Responsible Investment (“UNPRI”) in 2022
- Working collaboratively – continuing and enhancing our dialogue with tenants to achieve mutual ESG goals
- Meeting our legal obligations – Streamlined Energy & Carbon Reporting (“SECR”) and Taskforce for Climate Related Financial Disclosures (“TCFD”)

We comment on the link between our ESG Policies and our Investment Strategy within this report.

Governance of ESG matters

In 2021, we strengthened our existing governance of ESG matters by the creation of an ESG Committee. The Committee is chaired by the Company’s Chairman, Martin Moore, reflecting the importance we attribute to ESG. Other Committee members are Mike Brown and Ben Walford, both of whom are directors of and shareholders in the Investment Adviser. The ESG Committee, appointed by the Board, has access to expert advice where relevant and its principal responsibilities are to develop and monitor the Company’s ESG Policy, and to report on it to the Board.

The ESG Committee’s duties include:

- preparation for the Board’s approval at least annually of ESG policies to effectively manage the Group’s ESG risks and opportunities;
- development of appropriate KPIs or other appropriate targets and external benchmarks for recommendation to the Board, and monitoring and reporting on progress against them to the Board at least quarterly; and
- overseeing engagement with the Company’s key stakeholders on ESG matters.

The Committee chairman reports to the Board on Committee proceedings after each meeting.

The Committee annually reviews its report to shareholders on its activities, of which this is the inaugural report, for recommendation to the Board for inclusion in the annual report. The Committee’s most recent meeting was held in February 2022 and, including that meeting, it has met twice since its inception in September 2021.

ESG risk management

ESG risks are integrated into the Group’s risk management process and the Group risk register includes climate risk and risks from the transition to decarbonisation within one of the overarching risks faced by the business. The principal risks and uncertainties facing the business are reported on [pages 37 to 43](#).

Material issues

With reference to the GRI principle of materiality, we consider that a meaningful ESG strategy is one that is evidence-based and created with an understanding of the most material issues to our business and our stakeholders. We commissioned an independent specialist to carry out a materiality review in 2021. This review included a review of our shareholders’ priorities, our tenants’ priorities, relevant legislation and an assessment of peer companies in the UK real estate sector. The review was informed by best practice frameworks, including GRI, and conducted in conjunction with consideration of the United Nation’s Sustainable Development Goals (“UN SDGs”). The review identified the following UN SDGs as the most material for the Group:

Sustainable Cities & Communities (Goal 11)

The Group's investment properties provide social infrastructure for leisure, tourism and healthcare uses, generating employment and social value for communities.

Responsible Consumption & Production (Goal 12)

We work with our tenants to reduce the resources used in their operations, focused on energy, water and waste, and promote responsible fit out, refurbishment and development practices.

Climate Action (Goal 13)

We will be calculating, with actual data where possible, the Scope 1, 2 & 3 carbon emissions of the Group's investment properties. We are also encouraging and, where possible, working with our tenants to reduce these emissions in line with a net zero carbon future in the UK.

The material ESG issues are reviewed at least annually to ensure they remain relevant for the Group and are adjusted in response to any significant change to the Group's portfolio or operating environment.

ESG strategy

The Group's ESG strategy is summarised in the ESG policy that is considered by the Committee as part of the performance of their duties and presented to the Board for approval at least annually.

Strategy	Operating Context	Outputs	Value Created
Climate Action We will be measuring our Scope 1, 2 & 3 carbon emissions in support of this goal and are working with our tenants to reduce these emissions in line with a net zero carbon future in the UK	Real estate is one of the biggest contributors to climate change worldwide and one of the largest consumers of scarce natural resources and land	<ul style="list-style-type: none"> • Memorandums of understanding to be put in place with tenants • Measurement of Scope 1, 2 and 3 emissions to be undertaken • Climate risk an overarching theme in risk management • EPC assessment across portfolio to be obtained • Commitment to report to TCFD • Commitment to align with UNPRI 	Increased financial value from the long term resilience of our assets
Sustainable Cities & Communities We contribute to Goal 11 through the provision of social infrastructure for leisure, tourism and healthcare uses, that generate employment and social value for communities	Capital is allocated after taking into account an analysis of ESG factors	<ul style="list-style-type: none"> • Governance of diversity and inclusion • Reporting on human rights & supply chain in the statement on modern slavery, data protection and health, safety and wellbeing 	Stronger relationships with tenants, investors, the workforce and suppliers
Responsible Consumption & Production We contribute to Goal 12 by working with our tenants to reduce the resources used in their operations, focusing on energy, water and waste and promoting responsible fit out, refurbishment and development practices	There may be a premium in the market for buildings that meet ESG expectations of buyers and occupiers	<ul style="list-style-type: none"> • Planned measurement of tenant energy, water and waste data • "Green" lease clauses, principally formalising co-operation on ESG reporting • Working with tenants to achieve alignment with future EPC regulations 	Protection of the natural environment through improved environmental performance

ESG Committee Report continued

ESG strategy continued

The ESG strategy is integrated with the Group's investment strategy to provide long term, secure, inflation protected income and capital returns from Key Operating Assets. As a result, we focus on realising commercial benefits and protecting value in our investments over the long term. For example, we are working to understand the energy efficiency of the Group's investment properties, knowledge of which will help in the evaluation of both emerging regulatory implications for the Company as a landlord, as well as emerging regulatory obligations for our tenants. These range from current and predicted Minimum Energy Efficiency Standards for buildings, through to the UK's net zero carbon pathway, planned mandatory reporting of Taskforce for Climate-related Disclosures standards and the Streamlined Energy and Carbon Regulations.

We aim to achieve improvement in relation to ESG matters by working in collaboration with our stakeholders, primarily the Group's tenants, to influence them as their support is important in achieving our ESG strategy.

Best practice and responsible investment

We continue to embed and strengthen our approach to ESG through commitment to best practice and providing an objective validation of our overall approach. As well as reporting against the UN SDGs, we are in the process of further aligning with the UN PRI by the end of 2022, building on our existing compliance with its principles. We currently include ESG considerations in our investment decision making and due diligence process, including the EPC rating of specific assets and the overall strength of a prospective tenants' approach to ESG and the extent to which it aligns with our own (UN PRI Principle 1). Similarly, we consider ourselves active owners of our investments and regularly engage and communicate with tenants and other stakeholders on ESG issues (UN PRI Principles 2 and 3).

With an understanding of the risks and opportunities that climate change presents to our business, we are committed to addressing the TCFD recommendations. Following the Board's commitment to aligning with the TCFD framework, as disclosed in the 2020 Annual Report, we have made progress in the last 12 months against some of these recommendations, including:

- the continued inclusion of climate risk as one of two overarching themes in the Group's overall risk management assessment;
- the Board having full oversight of climate related risk at the most senior level within the business, through the creation of the Company's ESG Committee which is chaired by Martin Moore, Chairman of the Company; and
- commencement of work to compile the measurement of the Scope 1, 2 and 3 greenhouse gas emissions from the Group's investment properties.

We are committed to continuing to report further in line with the recommendations of TCFD and to conduct a deeper assessment of the impact of climate change on our business for our stakeholders, ahead of planned mandatory climate risk reporting to be introduced in the UK from April 2022.

Environmental and wider ESG impact

Operational control of the vast majority of the Group's assets, and therefore the vast majority of the impacts of our real estate including energy use, water use, resource use and waste, rests with our tenants as the Group's investment properties are let on Full Repairing and Insuring terms. However, we are in many cases our tenants' largest single landlord, or responsible for a significant proportion of their real estate portfolios, making us mutually significant stakeholders in each other's businesses. For example, we are landlord of one third of Ramsay Health Care's UK estate and two of Merlin Entertainment's top three UK resort theme parks.

The table below indicates the percentage of assets by Estimated Rental Value (“ERV”) where the tenants have full operational control:

	Leisure	Healthcare	Budget Hotels	Total
Number of assets	25	12	123	160
Lettable floor area	The nature of the great majority of the Group's assets is such that lettable area measured in square feet is not a relevant measure. As the assets are operational assets, lettable floor area is not monitored by the Board and so is not provided.			
Percentage by ERV of indirectly managed assets (where tenants have operational control)	98.9%	100%	100%	99.5%
Average occupancy rate by ERV	99.9%	100%	100%	100%

Co-operating with our tenants is inherent in the Group's business model of providing secure, high quality, long term returns. This approach is reciprocated by our tenants, who rely on us as owners of the real estate, which is essential for the delivery of their businesses, where barriers to entry are high and relocation is often unfeasible.

The deep rooted and enduring relationships we have with our tenants makes mutual co-operation and collaboration a necessity. Due to our long lease terms, the financial incentive for our tenants to improve the environmental performance of our assets is greater than in traditional landlord and tenant relationships, as our tenants will benefit for a much longer period from any improvements they make. This contrasts with the shorter leases and typically adversarial relationships which have historically been a barrier to progress in traditional landlord and tenant relationships in the UK real estate industry. The Company seeks to understand the downstream impact of its investments on climate change (UN SDG 13) and resource use (UN SDG 12).

Our influence as a critical stakeholder of our tenants, working with them to collectively address ESG matters for mutual benefit, is demonstrated by the following case study.

Case study - working collaboratively

The regear of Merlin's theme park leases, extending the unexpired term from 20.5 years to 55.5 years announced in December 2021, included mutually agreed “green lease” clauses to improve the environmental performance of the assets, share data and co-operate on EPC ratings. These clauses help to solidify the strong joint working relationship which already existed between us and our tenants and contribute to each party achieving their ESG objectives. Similar to the enhanced and formalised collaboration with Merlin, we are working towards entering into memorandums of understanding with our other key tenants to formalise the sharing of utility data and to cement the regular channels of communication with our tenants that already exist.

Tenants having operational control of our assets places a significant emphasis on understanding how they fulfil their ESG responsibilities when considering the long-lasting value of our investments. At least annually, we monitor all key tenants' ESG activities and we work very closely with our tenants with a view to achieving the best outcomes for our respective businesses. The information that we obtain in working with them allows us to understand our tenants' cumulative ESG impact, including from our assets. All of our major tenants have an ESG strategy or policy in place, which were used as an input in the materiality review that we conducted. There is a high degree of synergy between our and our tenants' ESG strategies, with widespread reporting of greenhouse gas emissions (Merlin, Ramsay and Travelodge); carbon reduction targets (Merlin and Ramsay); alignment with UN SDGs (Ramsay) and recognition of the risk of climate change (Merlin). As it would not be right for the Company to disclose more about our tenants' businesses than they themselves report publicly, we summarise below the key points from our major tenants' publicly available statements.

ESG Committee Report continued

Environmental and wider ESG impact continued

	Contractual rent per annum £m	Summary	Key commitments & achievements
Merlin Entertainments Limited	36.2	Merlin has a “Responsible Business” section on its website: www.MerlinEntertainments.Biz . This includes a “Corporate Responsibility” section in its annual reports and accounts on a range of ESG issues which are material to its business including: health, safety & security, people & communities, animal care & conservation, the environment and corporate governance. The company has an environmental policy.	<ul style="list-style-type: none"> • Use of 100% renewable electricity • A commitment to comply with and, where appropriate and practicable, to exceed all relevant environmental legislation • A carbon reduction target • A commitment to a circular economy and plastic use reduction • Inclusion of climate change risk in risk management
Ramsay Health Care Limited	35.4	Ramsay has a specific “Sustainability” section on its website: www.RamsayHealth.com . This covers in detail their various governance policies and includes their Global Sustainability Policy and Supplier Code of Conduct Policy. Ramsay also publishes a sustainability impact report, available on its website.	<ul style="list-style-type: none"> • Completion of a materiality assessment • Commitment to UN SDGs and UN Global Compact • 10% reduction in energy and greenhouse gas emissions intensity by 2026 • Gender balance targets at Board and Senior Executive level • Inclusion in the FTSE4Good Global Index • MSCI* ESG rating of AA
Travelodge Hotels Limited	30.3	Travelodge’s annual report and accounts include a section on “Sustainability” and focuses on material issues for its business including safety, information security, greenhouse gas emissions and social impact.	<ul style="list-style-type: none"> • Reporting on greenhouse gas emissions • BREEAM rating for new hotels
ASM Global (parent entity of SMG)	4.1	ASM’s corporate responsibility statement is available on the “Our Story” section of its website: www.ASMGlobal.com . This includes an overview of their environmental policy.	Measurement of greenhouse gas emissions, water consumption and waste reduction.
The Brewery on Chiswell Street Limited	3.8	The Brewery’s corporate social responsibility statement is available on a dedicated section of its website: www.TheBrewery.co.uk .	Both the tenant and venue have achieved ISO20121 certification for sustainability in event management.
Major tenants	109.8	94% of Group contractual rent.	

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Social and governance

While we use our influence and positive relationships to deliver the most material environmental aspects of our ESG strategy with our tenants, the direct impacts of our business are focused on social and governance issues over which we have direct control and accountability. We are also working during the next 12 months to understand the social impacts that we are able to enable with our tenants, to better understand how our social impacts extend beyond the boundaries of our own business.

Diversity and inclusion

The Company's diversity and inclusion policy appears on [page 52](#) and the Nomination Committee reports on its approach to diversity and inclusion on [page 78](#).

Human rights and supply chain integrity

The Company posts a statement on its responsibilities under the Modern Slavery Act 2015 on its website annually.

Health, safety and wellbeing

The Board's responsibility for the wellbeing of the workplace is set out in the Corporate Governance Report on [page 51](#) and the Remuneration Committee's report on workplace engagement appears on [page 75](#).

Signed on behalf of the ESG Committee on 9 March 2022.

Martin Moore

ESG Committee Chairman

Audit Committee Report

Role of the Audit Committee

The Audit Committee's primary responsibility is to monitor the integrity of the financial reporting of the Company and Group, covering the annual report and financial statements, the interim report and financial statements, and any other financial announcement made by the Company. The Committee reviews that information and reports to the Board on significant financial reporting issues, judgements and estimates, having regard to matters communicated to it by the external auditor and the Investment Adviser. In particular, the Committee reviews and challenges where necessary:

- the consistency of, and any changes to, accounting policies both from year to year and across the Group;
- the methods used to account for significant or unusual transactions where different approaches are possible;
- whether the accounts for the Group and Company reflect appropriate accounting standards and appropriate estimates and judgements, taking into account the views of the external auditor;
- the clarity and completeness of disclosure in the Group's and Company's financial reports and the context in which statements are made; and
- all material information presented with the financial statements, such as the business review, the corporate governance statements and those reports relating to the audit and to risk management.

The Audit Committee reviews the content of the annual and interim reports and financial statements to advise the Board whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The other key responsibilities of the Audit Committee are:

- overseeing the relationship with the external auditor, including an assessment of auditor independence and the effectiveness of the audit;
- assessing the skills, experience and independence of the Group's property valuers including meeting with them prior to the interim and annual results announcements to consider their work;
- at least annually, reviewing the Investment Adviser's report on regulatory compliance and the Group's risk register;
- reviewing the adequacy and effectiveness of the Company's internal controls and risk management systems, including those of the Investment Adviser and its delegates as far as they are relevant to the Company; and
- reviewing the adequacy and security of the Company's arrangements for any relevant party to raise concerns, in confidence, about possible wrongdoing in financial reporting, regulatory matters or other relevant matters (its whistleblowing policy).

In overseeing the relationship with the external auditor, the Committee considers and makes recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, reappointment or removal of the auditor. If an auditor resigns, the Committee is required to investigate the issues leading to that and to decide whether any action is required. The Committee also makes recommendations about the remuneration of the auditor, including fees for both audit and any non-audit services, ensuring that fees are appropriate to enable an effective and high quality audit to be conducted while remaining reasonably consistent with other comparable real estate companies. Where the auditor undertakes non-audit work, the Committee considers whether that work could be detrimental to the independence of the auditor. The Committee also approves the auditor's terms of engagement, including the scope of the audit, and on an annual basis assesses their independence and objectivity, taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services to the Group and any services to the Investment Adviser and its associated undertakings.

Composition of the Audit Committee

Leslie Ferrar, Jonathan Lane and Ian Marcus, whose biographies are shown on [pages 46 and 47](#), are the members of the Audit Committee and Leslie Ferrar is its Chairman. The Committee has assessed whether its members have the requisite skills to carry out their role and having regard to the experience and skills of the members believes that the composition of the Committee remains appropriate.

Meetings of the Audit Committee

The Audit Committee met twice in each of 2021 and 2020. In 2021, meetings were held at the conclusion of the 2020 audit at the reporting stage and just prior to the 2021 interim results announcement, and both meetings were attended by all members of the Committee. The Audit Committee meetings are held far enough ahead of the Board meetings that any matters arising or further work required can be accommodated. The Committee met prior to the approval of these financial statements in March 2022 and all members attended the meeting. Each year, part of a meeting takes place without the Investment Adviser being present but with the auditor, to provide a forum to discuss any issues arising

relating to the Investment Adviser, the results of which are communicated to the Board. In addition to the meetings, the auditor provides the Committee with an audit planning document prior to the commencement of the audit work each year. Committee members also met with the Group's independent external valuers prior to the finalisation of this report, the 2021 Interim Report and the 2020 Annual Report.

External audit

BDO LLP was appointed auditor of the Company on 10 August 2007. The audit partner is Richard Levy, who became Senior Statutory Auditor after the finalisation of the 2018 financial statements in March 2019. In order to maintain the independence of the audit, Richard Levy will step down as audit partner before 31 December 2024.

The Committee met formally with the auditor at each Committee meeting during the year. The Committee's review of the findings of the audit with the auditor included:

- consideration of the level of audit materiality;
- a discussion of any major issues which arose during the audit;
- a review of the key accounting and audit judgements;
- confirmation of the levels of any potential adjustments identified during the audit;
- an assessment of the overall control environment; and
- an assessment of the effectiveness of the audit process.

The Committee has considered the performance, effectiveness and objectivity of the auditor through its regular meetings and communications with them, with a view to ensuring that a high quality audit is delivered at reasonable cost to the Company. Through its discussions with the audit team at various stages of the reporting cycle, through reviewing the presentations (including written reports) of the auditor to the Committee and through seeking the opinion of the Investment Adviser on the quality and effectiveness of the audit, the Audit Committee is able to assess the depth of the audit team's understanding of the business and the risks that it faces, and to understand the scope and extent of the audit and the approach to audit testing. The Committee's assessment is that the auditor has the necessary experience, independence and qualifications to deliver an effective audit, and that the audit team's ability to challenge and review the decisions of the Investment Adviser and Board is sufficient and appropriate.

As the Committee has assessed that the performance of the auditor remains appropriate and that the fee levels represent a reasonable cost, and as independence is preserved through rotation of senior audit team members, there are no current plans for re-tendering the audit. The Committee recommends that shareholders vote in favour of the reappointment of the auditor and to agree their remuneration, which are proposed as ordinary resolutions (resolutions 10 and 11) at the Company's forthcoming AGM.

The Group's policy for non-audit services during the year ensures compliance with the requirements of the Financial Reporting Council's "Revised Ethical Standard 2020" applicable to public interest entities. Under that policy, non-audit services may only be carried out by the auditor if they are among the limited permitted services.

The total fees charged by the auditor to the Group during the year were £252,000 (2020: £319,000) as disclosed in [note 7](#) to the financial statements. This total includes £36,500 (2020: £35,000) for non-audit work during the year, all of which relates to the review of the interim report and financial statements which is work that is typically performed by a company's auditor. In the Committee's view, the auditor was best placed to most efficiently and cost-effectively carry out this non-audit service and the fees paid for this work are not considered a threat to auditor independence.

The Committee has also reviewed audit and any other fees payable to the auditor by the Investment Adviser and its associated undertakings and does not consider them to be at a level which is detrimental to the independence of the auditor.

Risk management and internal control

Since the approval of the 2020 Annual Report, the Audit Committee has twice updated its review of the Group's risk register, which is maintained by the Investment Adviser subject to the supervision and oversight of the Committee. The Audit Committee also commissioned and reviewed a report on the Group's internal control framework, prepared by the Investment Adviser, after which it was recommended for adoption by the Board. This Board memorandum is more fully described in the Corporate Governance Report on [page 61](#). Taking into account those reviews, together with the Committee members' knowledge of the business and their experience, the Committee has reviewed and approved any statements included in the annual report concerning internal controls and risk management.

Audit Committee Report continued

Risk management and internal control continued

At the audit planning stage each year, the auditor presents to the Committee the proposed approach to the audit for the financial year including an assessment of risk areas and of materiality. In weighing up whether or not they are satisfied with the auditor's proposed approach, the Audit Committee's assessment includes any risk to the business arising from deficiencies in internal controls or failures to operate controls consistently and effectively.

Taking together the relative simplicity of the business and the reviews of the internal control and compliance framework conducted in the year, the Committee has concluded that it remains appropriate for the Company not to have an internal audit function. The external auditor is aware that there is no internal audit function.

The Audit Committee has reviewed the adequacy of the Company's arrangements for any relevant party to raise concerns, in confidence, about possible wrongdoing in financial reporting, regulatory or other relevant matters. The Committee considers that these 'whistleblowing' arrangements allow confidential reporting, proportionate and independent investigation of any matters and appropriate follow up action. It has also reviewed the Company's and Investment Adviser's procedures for detecting fraud, for preventing bribery and corporate financial crime and for preservation of privacy through compliance with GDPR regulations and considers them all to be appropriate.

Significant matters and judgements relating to the financial statements

The significant matters and judgements that the Committee reviewed before recommending the financial statements to the Board for approval were as follows:

Investment property valuations <ul style="list-style-type: none">Investment Adviser's Report (page 11)Strategic Review risks and uncertainties (page 40)Note 11 to the Group financial statements	<p>Investment properties make up the majority of the Group's assets. Investment property valuations are inherently subjective, but the Group operates in mature and generally liquid property markets in the UK and Germany, jurisdictions with well developed valuation processes and methodologies.</p> <p>The opinion of independent external valuers is obtained at each reporting date, using recognised valuation techniques and the principles of IFRS 13 "Fair Value Measurement". The valuations at the balance sheet date were performed by CBRE Limited (91% of the portfolio by value) and Christie & Co (9% of the portfolio by value), each of whom the Audit Committee believes to be suitably independent, objective, competent and experienced to carry out the work. In weighing up the quality of the valuers' work, the Audit Committee also has regard to the basis of fees charged by the valuers and confirms that all valuations are performed on a fixed fee basis.</p> <p>Committee members attended meetings between the auditor and each of the valuers, which included detailed discussions of material fair value changes and a comparison of changes to relevant external sources and indices. The meetings also included a review of current conditions and recent, relevant transactions to provide a context for the valuations and to allow an assessment of the assumptions and judgements made by the valuers. The Committee's intention is to continue to meet with the valuers to discuss their six-monthly valuations.</p> <p>The Committee considers that the inputs provided by the Group to the valuers for the valuations adopted in the financial statements were accurately extracted from the Group's financial and property reporting systems. The Committee also reviewed the level of disclosure in note 11 to the financial statements and considers that it meets the requirements of IFRS 13.</p>
Revenue recognition relating to rent reviews <ul style="list-style-type: none">Investment Adviser's Report (page 16)Note 2b to the Group financial statements	<p>An open market rent review on the Ramsay hospitals, effective May 2018, remains outstanding. Rents cannot decrease as a result of the review. The Group's accounting policy is to include an estimate in the financial statements of how much, if any, additional revenue should be recognised from that review. The review is subject to a process run by an expert arbitrator who has not yet completed his assessment. Given the uncertainty about the amount of any uplift, the Committee considers that it is not appropriate to reflect any additional revenue in the 2021 financial statements as a result of the review. This is consistent with the independent external valuations of the relevant investment properties, which do not take account of any uplift.</p>

Going concern and viability statement

- Strategic Review (pages 44 and 45)
- Corporate Governance Report (page 61)
- [Note 2b](#) to the Group financial statements

The Board is required to consider whether the Group has adequate resources to continue in operational existence for the foreseeable future, which is considered to be at least 12 months from the date of approval of the annual report.

The Audit Committee has reviewed the Investment Adviser's work on going concern, which included a report on the Group's liquidity position, compliance with loan covenants and the financial strength of its tenants, together with forecasts of the Group's cash flow, liquidity and debt covenant compliance over the period to at least 31 March 2022. The review included:

- the identification of sources of any material uncertainties facing the Group including the risks of tenant defaults or distress, the resulting impact on Group cash flows and debt covenants and remedial action that may be taken including the extent of the resources available to the Company to cure covenant breaches, each of which is summarised in the report on Principal Risks and Uncertainties in the Strategic Review on [page 41](#); and
- stress tests, presented both on the basis of estimated reasonable ranges of outcomes (such as variations in investment property valuation yields, rental cash flows and exposure to any unexpected cash outflows), and reverse stress tests, where scenarios are presented to demonstrate the key inputs (principally rental flows and property valuation yields) that would be required to exhaust the Company's liquidity buffer to cure financial covenant breaches. An indication of the sensitivities to these stresses on the various debt covenants is disclosed in the Investment Adviser's Report on [pages 27 to 30](#).

The detailed scenarios are calculated by the Investment Adviser and presented to the Audit Committee for review, subject to challenge and debate as explained in the Corporate Governance Report on [page 61](#). Once reviewed in detail by the Audit Committee, recommendations on the form and content of the going concern and viability statements are presented to the Board for review and, if found to be appropriate, approval. The approach to stress testing and reverse stress testing is explained in the Strategic Review on [page 44](#).

Following its review of these scenarios and discussion of them with the Investment Adviser, the Board has concluded that the going concern basis remains appropriate. Key assumptions and conclusions reached are presented in the statement on going concern on [page 44](#).

The Committee has also reviewed the work of the Investment Adviser to support the viability statement included in the Strategic Review, which included forecasts of the Group's financial position over the period to 31 December 2026. These forecasts build on those used for the going concern review with substantially the same methodology, with enhanced analysis and stress testing of the longer term assumptions. In carrying out this review, the Committee considered the risks and assumptions relevant to those forecasts, together with various sensitivity scenarios and has presented its review and recommendations to the Board for consideration. The key uncertainties relevant to this longer review period are set out in the viability statement on [page 45](#). The Board has concluded that there is a reasonable expectation that the Group will be able to continue in business over the five year period of the assessment.

In all areas where judgement has been exercised in the presentation of the financial statements, the Audit Committee and Board have had regard to the actual or potential financial impact of climate change and associated decarbonisation transition risks, having taken into account the report of the ESG Committee.

Signed on behalf of the Audit Committee on 9 March 2022.

Leslie Ferrar
Audit Committee Chairman

Remuneration Committee Report

Role of the Remuneration Committee

The main responsibilities of the Remuneration Committee, which apply as necessary to the Company, its subsidiary undertakings and the Group as a whole, are:

- to determine and agree with the Board the framework or policy for any changes to the Investment Advisory Agreement, which is the contract which sets out the terms of appointment of the Investment Adviser; and
- to set the remuneration policy for the Company's Chairman.

The Committee operates under written terms of reference. Only members of the Committee have the right to attend Committee meetings but other individuals such as the Company Secretary and external advisers may be invited to attend all or part of any meeting as and when appropriate or necessary. The Committee meets at least once a year and otherwise as required, and the Committee chairman attends the AGM (save in circumstances where this is not possible, such as during the Covid-19 restrictions in force at the time of the AGM held in 2020) to answer any shareholder questions about the Committee's activities.

The Board determines the remuneration of the Directors within the £300,000 limit on aggregate annual fees set out in the Articles of Association, subject to that amount being varied by way of an ordinary resolution of shareholders. In determining remuneration policy, the Remuneration Committee takes into account all factors which it deems relevant, including the Company's strategy and the risk environment in which it operates, legal and regulatory requirements and the provisions and recommendations of the UK Corporate Governance Code. The objective is to attract, retain and motivate management of the quality required to run the Group successfully without paying more than is necessary, with a view to implementing policies that encourage alignment of the Management Team with the Company's long term strategic goals. In doing so the Committee has regard to the views of shareholders and other stakeholders and takes into account the risk appetite of the Company.

To obtain reliable, up to date information about remuneration in other companies of comparable scale and complexity, the Remuneration Committee may appoint remuneration consultants and commission or purchase any reports, surveys or information which it deems necessary, at the expense of the Company but within any budgetary constraints imposed by the Board.

Composition of the Remuneration Committee

The Remuneration Committee comprises Ian Marcus, Leslie Ferrar and Martin Moore, whose biographies are shown on [pages 46 and 47](#), and is chaired by Ian Marcus. All members of the Committee are Independent Directors.

Meetings of the Remuneration Committee

The Remuneration Committee met once during the year in March 2021 in connection with the approval of the 2020 Annual Report and has met once to date in 2022. Each meeting was attended by all members of the Committee.

Compliance with the provisions of the UK Corporate Governance Code

In reviewing the terms of the Investment Advisory Agreement (material terms of which are summarised in [note 25a](#) to the financial statements), the Committee has considered the extent to which the outcome for shareholders and management is consistent with the provisions of the UK Corporate Governance Code.

- Clarity and transparency is achieved by way of the structure of the fee provisions which compensate the executive through the advisory fee to cover all overheads and running costs relating to the Group, and which provides strong shareholder alignment through the potential to earn further shares in the Company by way of incentive fees.
- The structure of and rationale behind the Investment Adviser's fees are designed to be simple and not to require subjectivity or discretion in their calculation and are explained in [note 25](#) to the financial statements.
- From a risk management perspective, the Committee has been careful to ensure that the target for any incentive fee is well aligned with the interests of shareholders and not subject to undue influence or manipulation by the Investment Adviser. The advisory fee can go down as well as up, with the Management Team's remuneration linked directly to the performance of the Company, as evidenced by the reduction in advisory fee in 2020 following the reduction in the Group's net asset value during that year. The Investment Advisory Agreement can be terminated with no compensation in the event that the Investment Adviser fails to meet its material obligations.
- Given the simple arithmetic underlying the fee calculations, the range of potential outcomes is straightforward to calculate and not subject to discretion. While the Code recommends oversight of the level of reward to individual team members, this is not appropriate in the case of an externally managed structure where the Independent Directors do not control the workforce.

- Poor performance is not rewarded. Total Accounting Return is considered to be an appropriate measure of performance as the basis for calculating any incentive fees and the incentive fee has been designed to first deliver appropriate priority returns to shareholders and then to ensure that cumulative performance is taken into account in calculating any share awards through the mechanism of the high water mark, where performance must always exceed the level at which an incentive fee was last earned, plus 10% per annum. In this way, a decline in the Group's net asset value does not rebase the management incentives or reward poor performance and the deficit of any decline in returns in any year must be made good before incentive fees are earned again.
- The fee package is considered to be well aligned to the overall purpose, values and strategy of the Company by way of the focus on delivery of Total Accounting Return above a benchmark level and, subject to the high water mark mechanism, by always prioritising shareholder returns before any incentive fee is paid, and by paying any such fee in shares that are restricted from sale (save in limited circumstances) and only released from restriction on a phased basis between 18 and 42 months.

The Board's ESG policy has a bearing on these areas of compliance with the Code. The Committee considers that the Investment Adviser's ability to ensure that the Group's property portfolio aligns with good practice in terms of environmental regulation and reporting, in particular, will ultimately manifest itself in the valuation of those assets. As the Investment Adviser's fee is linked to Net Asset Value, the Committee considers that this mechanism aligns the Management Team with the delivery of the ESG Policy along with the wider Group strategy. However, when the terms of the agreement are next reviewed, the Committee will monitor the extent to which it would be appropriate to link remuneration to achievement of ESG goals.

The Committee has sought and received confirmation from the Investment Adviser that it complies with all governance requirements relevant to it.

Management contract term and fee arrangements

There were no changes to the Investment Advisory Agreement during the year. Material terms of the agreement are summarised in [note 25a](#) to the financial statements.

The Board has agreed that the next independent benchmarking of the Investment Advisory Agreement will, as recommended by the Committee, be commissioned by December 2022 and the Committee will report on the results of that review in the 2022 Annual Report.

Workforce engagement

The Committee is responsible for ensuring that engagement between the Independent Directors and the employees of the Investment Adviser and its associated service provider (together "Prestbury") is appropriate and that the workplace culture of Prestbury is aligned with the values of the Company and appropriate for the delivery of the Company's strategy. Ian Marcus has specific responsibility for workforce engagement and makes himself available to any member of the workforce who wishes to provide feedback.

Remuneration Committee Report continued

Directors' fees

The Independent Directors receive fixed fees for their services. The Directors connected to Prestbury share, with the other members of the Prestbury team, in the advisory fees (out of which they first meet the majority of the Group's overheads) and any incentive fees paid by the Company. They do not receive any Directors' fees or other remuneration from the Company. The advisory and incentive fees are calculated in accordance with the Investment Advisory Agreement and are disclosed in [notes 25b and 25c](#) to the Group financial statements.

The remuneration of the Chairman was externally benchmarked at the time of the Company's listing in June 2014 and again in 2018. The Chairman's remuneration has remained unchanged at £75,000 per annum since listing. The Directors' remuneration for the year, all of which represents fees for services provided, was last reviewed in 2018. The Independent Directors' fees will be independently benchmarked by December 2022 and the results of that review will be reported on in the 2022 Annual Report. The Committee also expects to receive relevant feedback about market rates for the Independent Directors' roles through the Board succession programme being overseen by the Nomination Committee and commented on within its report.

	Year to 31 December 2021 £000	Year to 31 December 2020 £000
Martin Moore (Chairman of the Company and the ESG Committee)	75	75
Mike Brown	-	-
Leslie Ferrar (Chairman of the Audit Committee)	45	45
Sandy Gumm	-	-
Jonathan Lane (Chairman of the Nomination Committee)	40	40
Nick Leslau	-	-
Ian Marcus (Chairman of the Remuneration Committee and Senior Independent Director)	40	40
Total	200	200

Signed on behalf of the Remuneration Committee on 9 March 2022.

Ian Marcus

Remuneration Committee Chairman

Nomination Committee Report

Role and responsibilities of the Nomination Committee

The Board as a whole is responsible for ensuring adequate succession planning so as to maintain an appropriate balance of skills on the Board. Any changes to the structure, size and composition of the Board may be made following recommendations from the Nomination Committee.

The Committee operates under written terms of reference. Only members of the Committee have the right to attend meetings of the Committee but other individuals such as the Company Secretary and external advisers may be invited to attend all or part of any meeting as and when appropriate or necessary. The Committee meets at least once a year and otherwise as required, and the Committee chairman attends the AGM (save in circumstances where this is not possible, such as during the Covid-19 restrictions in force at the time of the AGM held in 2020) to answer any shareholder questions about the Committee's activities.

The responsibilities of the Nomination Committee are:

- to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes;
- to give full consideration to succession planning for Directors and the Investment Adviser in the course of its work, taking into account the challenges and opportunities facing the Company, and the skills and expertise expected to be needed on the Board in the future;
- to keep under review the leadership needs of the Group, with a view to ensuring the continued ability of the Group to compete effectively;
- to keep up to date and fully informed about strategic issues and commercial changes affecting the Group and the market in which it operates; and
- to be responsible for identifying and nominating for Board approval candidates considered appropriately qualified to fill Board vacancies.

Before any appointment is made by the Board, the Nomination Committee is required to evaluate the balance of skills, knowledge, experience and diversity on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the Committee shall consider whether it is appropriate to use open advertising or the services of external advisers to facilitate the search; consider candidates from a wide range of backgrounds assuming such candidates put themselves forward; and consider candidates on merit, against objective criteria and with due regard for the benefits of diversity on the Board, in all cases taking care that appointees have enough time available to devote to the position. Additional requirements apply for the appointment of the Chairman, including the preparation of a job specification.

The Committee is required to make recommendations to the Board concerning:

- plans for succession for Directors, in particular for the key role of Chairman, and for the Investment Adviser;
- suitable candidates for the role of Senior Independent Director;
- membership of the Audit and Remuneration Committees and any other Board committees as appropriate, in consultation with the chairmen of those committees;
- the reappointment of any Director at the conclusion of their specified term of office, having given due regard to their performance and ability to continue to contribute to the Board in the light of knowledge, skills and experience required;
- the re-election by shareholders of Directors under the annual re-election provisions of the UK Corporate Governance Code, having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required and the need for progressive refreshing of the Board, particularly in relation to Directors being re-elected for a term beyond six years;
- any matters relating to the continuation in office of any Director at any time; and
- the appointment of any person as a Director.

Composition of the Nomination Committee

Since the Company's listing, the Nomination Committee comprised Jonathan Lane (chairman of the Committee), Nick Leslau and Mike Brown. Leslie Ferrar was appointed to the Committee in May 2021 ahead of the commencement of the Board succession programme. Biographies of the members of the Committee are shown on [pages 46 and 47](#). Jonathan Lane and Leslie Ferrar are independent of the Investment Adviser, while Nick Leslau and Mike Brown are Chairman and Chief Executive, respectively, of the Investment Adviser.

Nomination Committee Report continued

Report on the Committee's Activities

The Committee met in March 2021 ahead of the approval of the 2020 report and accounts and held one further formal meeting in 2021 specifically to deal with succession planning well in advance of the planned retirement of the existing Independent Directors from the Board over the coming year. The Committee has met once in the year to date, in March 2022. All meetings were attended by all members of the Committee. In addition to the formal meetings, the Committee members have met frequently to deal with certain aspects of the succession planning programme.

Commitment

A review by the Committee has established that all Directors are able to allocate sufficient time to the Company to discharge their responsibilities effectively. All Directors were advised prior to their appointment of the expected time required to fulfil their roles and each Director has confirmed that they remain able to commit the time required to discharge their duties. Any material change in a Director's commitments outside the Company are required to be, and where relevant have been, disclosed to the Chairman of the Company prior to the acceptance of any such appointment. Material commitments of the Directors are shown in their biographies on [pages 46 and 47](#).

Development

The Chairman is responsible for ensuring that any ongoing training and development needs of the Directors that are relevant for their role in the Company are met. All Directors were appointed at the time of the Company's listing and the listing process included an appropriate induction for all Directors. The remit of the Nomination Committee includes monitoring the skills and knowledge of the Directors and identifying whether necessary further support is provided. There are no training or development activities conducted in the year that are considered material to report.

Evaluation

The Nomination Committee reviews the composition of the Board and performance relating to attendance, appropriate skills and adequacy of time devoted to Board duties.

In performing these reviews, the Committee has taken account of any feedback provided by shareholders, including through the Company's Nominated Adviser and Broker. No concerns about any Director or member of the Management Team (individually or collectively) have been raised in the year by external stakeholders. During the year the Committee conducted a review of the balance of skills on the Board in the context of the risks identified in the Group's risk register and confirmed that the balance of skills, knowledge, experience and diversity on the Board is appropriate to the Group, its operations and the risks that it faces.

Diversity and inclusion policy

The Company's diversity and inclusion policy is set out in the Corporate Governance Report on [page 52](#). The Committee has sought and obtained confirmation from the Investment Adviser that its diversity and inclusion policy aligns with that of the Company and has been applied throughout the year.

The Committee has considered the need for diversity on the Board and confirms that it will be seeking to achieve a balance of ethnicity by conducting the search for replacement directors as part of the Board succession plan (explained further below) amongst a broad pool of candidates. Given the current requirements of the business, the Committee does not consider that an earlier, additional Board appointment is in the best interests of shareholders at this time and that the matter is best addressed when vacancies next arise.

Succession planning

All Directors have served since May 2014 and all have expressed a willingness and ability to continue in office. The Investment Adviser is appointed under a contract which expires in December 2025 and which is further commented on in the Remuneration Committee Report on [page 75](#).

In conducting the annual review of the size, structure and composition of the Board, the Committee has also had regard to the likely future needs of the Company including the terms of service for Directors recommended by the Code. The Board has identified a range of key skills required for the effective delivery of the Company's strategy and the management of risks and has set out in a matrix on [page 55](#) in the Corporate Governance Report how those skills are currently balanced amongst the Directors. In filling the vacancies that will arise on the Board, the Committee will have regard to maintaining the required balance of skills in a way that meets the needs of the business. This does not necessarily mean replicating the current matrix of skills but the objective will be to achieve an appropriate balance among the various Board members, appropriate to the strategy of the Group and the risk environment in which it operates.

The Committee has commenced the process of planning for the recruitment of four Independent Directors to replace the current Independent Directors who are all due to retire from the Board by May 2023, consistent with good corporate governance practice. The process commenced with consultation with the Company's Nominated Adviser in April 2021; a competitive process to select appropriately qualified search consultants was conducted in December 2021; and, following Board approval, Heidrick & Struggles was appointed in January 2022 and commenced their search in February 2022.

The search consultants' mandate includes having full regard to the Company's diversity and inclusion policy and to finding suitable candidates to provide an appropriate balance of skills and experience. Heidrick & Struggles is an accredited search firm under the FTSE Women Leaders Enhanced Code of Conduct and is a signatory to Change the Race Ratio. A job specification has been prepared for each role and the selection process involves input from current Board members including the Prestbury Directors and the wider Management Team. The search and selection process has commenced with the Chairman and Audit Committee Chairman roles being prioritised initially. The first long lists are to be presented in late March 2022, with the process expected to continue to run throughout the year and potentially into 2023 before all four roles are filled. Announcements will be made as and when appointments are confirmed.

In order to assist with a smooth transition between Directors and between committee chair roles, we envisage that new appointments will be made on a staged basis over the next year with an expectation that incoming and outgoing Directors will overlap for up to six months to allow sufficient time for appropriate induction and handover for each role.

The Committee does not consider there to be any requirement for Investment Adviser succession at this time.

Signed on behalf of the Nomination Committee on 9 March 2022.

Jonathan Lane

Nomination Committee Chairman

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 December 2021. The Corporate Governance Report on [pages 50 to 63](#) forms part of this Directors' Report.

Directors

All Directors are non-executive directors and their biographies are set out [pages 46 and 47](#). Details of the fees paid to Directors in the year are set out in the Remuneration Committee Report on [page 76](#).

All Directors are standing for re-election at the AGM. Their biographies and a summary of their skills and experience is included in the notes to the AGM on [pages 146 and 147](#).

The Company maintains £15 million of Directors' and Officers' Liability insurance cover for the benefit of the Directors, which was in place throughout the year and which continues in effect at the date of this report.

The beneficial interests of the Directors and their families in the ordinary shares of the Company as at 31 December 2021 and at the date of this report were as follows:

	Number of shares	Percentage of issued share capital
Nick Leslau ^{1, 2}	18,342,009	5.68%
Mike Brown ²	1,183,580	0.37%
Sandy Gumm ²	192,574	0.06%
Martin Moore	127,226	0.04%
Ian Marcus	95,875	0.03%
Jonathan Lane	57,471	0.02%
Leslie Ferrar	26,286	0.01%

- 1 comprising 16,850,300 shares held by an entity in which he has a 95% indirect interest and 1,491,709 shares held in a company which he wholly owns
- 2 in addition to these amounts, as at 31 December 2021, 1,184,551 shares, representing 0.37% of the issued share capital, were owned by Prestbury Investment Partners Limited, the Investment Adviser to the Group, and 19,262,042 shares, representing 5.94% of the issued share capital, were owned by Prestbury Incentives Limited. Nick Leslau, Mike Brown and Sandy Gumm are shareholders in and directors of both Prestbury Investment Partners Limited and the immediate parent undertaking of Prestbury Incentives Limited.

Dividends paid on the shareholdings above are disclosed in [note 25e](#) to the financial statements.

Significant shareholdings

As at 9 March 2022 the Directors have been notified that the following shareholders have a disclosable interest of 3% or more in the ordinary shares of the Company:

	Number of shares	Percentage of issued share capital
Artemis Fund Managers Limited	58,689,282	18.1%
Aegon NV	25,191,124	7.8%
Prestbury Incentives Limited*	19,262,042	5.9%
PIHL Property LLP*	16,850,300	5.2%
Dominic Silvester	12,527,087	3.9%
Investec Wealth & Investment Limited	12,516,310	3.9%

- * entities associated with the Management Team, with interests totalling 11.1%. A further 1.3% is held separately by Management Team members, bringing the total Management Team interest to 12.4%

Emissions and energy consumption

The Company and Group are externally managed and have no premises. The Group therefore had no direct energy consumption to report during the current and prior years. Almost all energy consumption on the Group's portfolio of investment properties is incurred directly by tenants or recharged to them, so the Group is considered to be a low energy user and is therefore not required to make any disclosures under the Streamlined Energy and Carbon Reporting Framework.

Political contributions

The Group made no political contributions during the current or prior year.

Other disclosures

Disclosures of financial risk management objectives and policies and exposure to financial risks are included in [note 17c](#) to the financial statements. An indication of likely future developments in the business is set out in the Strategic Report and disclosure of post balance sheet events is included in [note 26](#) to the financial statements.

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the Group financial statements in accordance with UK-adopted International Accounting Standards, and the Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Company is required to make the annual report and financial statements available on a website. The Company's website address is www.SecureIncomeREIT.co.uk. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from such legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Disclosure of information to auditor

All of the Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the auditor for the purposes of the audit and to establish that the auditor is aware of that information. The Directors are not aware of any relevant audit information of which the auditor is unaware.

Auditor

A resolution to reappoint BDO LLP as auditor to the Company will be proposed at the AGM.

Signed by order of the Board on 9 March 2022.

Sandy Gumm

Company Secretary

Independent Auditor's Report to the Members of Secure Income REIT Plc

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Secure Income REIT Plc (the "Parent Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2021 which comprise the Group Income Statement, the Group Statement of Other Comprehensive Income, the Group and Company Statements of Changes in Equity, the Group and Company Balance Sheets, the Group Cash Flow Statement and notes to the Group and Company financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 *The Financial Reporting Standard in the United Kingdom and Republic of Ireland*.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- assessment of the appropriateness and accuracy of cash flow forecasts by reference to current cash reserves, available finance, contractual rental income, debt service cost obligations and other committed or expected cash flows.
- evaluation of the Group's ability to successfully refinance any debt facilities falling due within the going concern period.
- evaluation of the Directors' assessment as to the ability of each material tenant to satisfy its contractual rent obligations, with particular focus on the actual and potential impact of the Covid-19 pandemic on those tenants' businesses.
- evaluation of the sensitivity analyses and stress tests performed in relation to the Group's liquidity and loan covenant compliance.
- assessment of the identified options that would be available to mitigate the impact of any future non-payment of rent on the Group and Parent Company's liquidity and the Group's ability to continue to operate within its loan covenants.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Parent Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors consider it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage	100% (2020: 100%) of Group revenue 100% (2020: 100%) of Group profit before tax 100% (2020: 100%) of Group total assets		
Key audit matters ("KAMs")		2021	2020
	Valuation of investment property	✓	✓
	Revenue recognition – lease amendments	n/a	✓
	Revenue recognition – lease amendments is no longer considered a KAM as the key judgements and considerations relating to these amendments were concluded in the prior year.		
Materiality	Group financial statements as a whole £22.5m (2020: £20m) based on 1% (2020: 1%) of total assets		

An overview of the scope of our audit

Our audit of the Group was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, applicable legal and regulatory framework and the industry in which it operates, and assessing the risks of material misstatement at the Group level. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Group operates in one segment, investment property, structured through a number of subsidiary entities and therefore we treated the Group as one significant component. The Group audit engagement team performed all the work necessary to issue the Group and Parent Company audit opinion, including undertaking all of the audit work on the risks of material misstatement identified in the key audit matters section below.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report to the Members of Secure Income REIT Plc continued

Key audit matter	How we addressed the key audit matter in the audit
<p>Valuation of investment properties</p> <p>As detailed in note 11, the Group owns a portfolio of investment properties which are carried at their fair value.</p> <p>The Group's accounting policy for these properties is described in note 2d.</p> <p>The key judgements and estimates in arriving at the fair values are set out in notes 2b and 11.</p> <p>The determination of the fair value of investment properties is a key area of estimation.</p> <p>The Group engaged independent external valuers to undertake the valuation of its investment property portfolio.</p> <p>The valuation of the Group's investment properties requires significant judgements to be made by the valuers. Any input inaccuracies, unreasonable valuation judgements or management bias could result in a material misstatement of the Group's income statement and balance sheet.</p> <p>The valuation of investment properties was therefore considered to be a key audit matter.</p>	<p>Our audit work included, but was not restricted to, the following:</p> <p>Experience of the valuer and relevance of its work</p> <ul style="list-style-type: none"> We assessed the competence, qualifications, independence and objectivity of the external valuers engaged by the Group and reviewed the terms of their engagement for any unusual arrangements or evidence of management bias therein or limitations in the scope of their work. Real estate experts within our team read the valuation reports and confirmed that all valuations had been prepared in accordance with applicable valuation guidelines and were therefore appropriate for determining the carrying value in the Group's financial statements. <p>Data provided to the valuer</p> <ul style="list-style-type: none"> We tested, on a portfolio basis, the accuracy of the key observable valuation inputs supplied to and used by the external valuers. This primarily involved agreeing that the passing rental income and lease terms were consistent with the information that we had audited. <p>Assumptions and estimates used by the valuer</p> <ul style="list-style-type: none"> We developed yield expectations for each property using available independent industry data, reports and details of relevant comparable transactions in the market around the year end date. We compared the key valuation assumptions against our independently formed market expectations and challenged the external valuers where significant variances from these expectations were identified. We corroborated their responses to supporting documentation where appropriate. The key valuation assumptions were the market capitalisation rates, which we evaluated by reference to market data based on the location and specifics of each property. Real estate experts within our team met with the Group's external valuers to discuss and challenge the valuation methodology and key assumptions and considered if there were any indicators of undue management influence on the valuations. <p>Related disclosures in the financial statements</p> <ul style="list-style-type: none"> We reviewed the appropriateness of the Group's disclosures within the financial statements in relation to valuation methodology, key valuation assumptions and valuation sensitivity.
	<p>Key observations</p> <p>We did not identify any indicators to suggest that the valuation of the Group's investment properties is inappropriate.</p>

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent Company financial statements	
	2021	2020	2021	2020
Materiality	£22.5 million	£20.0 million	£8.5 million	£8.8 million
Basis for determining materiality	Materiality for the Group and Parent Company's financial statements was set at 1% of total assets (2020: 1%).			
Rationale for benchmark applied	Total assets was selected as the benchmark for determining materiality since we consider it to be one of the principal considerations for the users of the financial statements in assessing the financial performance of the Group and Parent Company.			
Performance materiality (% of materiality)	75%	75%	75%	75%
Basis for determining materiality	On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality for the Group should be 75% (2020: 75%) of materiality.			

Specific materiality

We also determined that for the Group's Adjusted EPRA earnings, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result, we determined materiality of £1.7 million (2020: £1.7 million), based on 5% (2020: 5%) of Adjusted EPRA earnings, to apply to those classes of transactions and balances which impact the calculation of those earnings. We further applied a performance materiality level of 75% (2020: 75%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them any individual audit differences in excess of £75,000 (2020: £75,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Independent Auditor's Report to the Members of Secure Income REIT Plc continued

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Corporate governance statement

As the Group has voluntarily adopted the UK Corporate Governance Code 2018 we are required to review the Directors' statement in relation to going concern, longer term viability and that part of the Corporate Governance Statement relating to the Parent Company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer term viability	<ul style="list-style-type: none">• The Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified (set out on page 44); and• The Directors' explanation as to their assessment of the entity's prospects, the period this assessment covers and why they believe this period is appropriate (set out on page 45).
Other Code provisions	<ul style="list-style-type: none">• Directors' statement on fair, balanced and understandable set out on page 61;• The Board's confirmation that it has carried out a robust assessment of the emerging and principal risks (set out on page 61);• The section of the annual report that describes the review of effectiveness of risk management and internal control systems (set out on page 61); and• The section describing the work of the Audit Committee (set out on page 61).

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report to the Members of Secure Income REIT Plc continued

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud.
- We considered the Group's compliance with laws and regulations that have a direct impact on the financial statements including, but not limited to, relevant accounting standards, UK company law, tax legislation (including the UK REIT regime requirements) and the AIM Rules, and we considered the extent to which non-compliance might have a material effect on the Group financial statements.
- We designed audit procedures to identify instances of non-compliance with such laws and regulations. Our procedures included reviewing the financial statement disclosures against the requirements of the accounting standards and company law and agreeing those disclosures to underlying supporting documentation where necessary. We reviewed minutes of all Board and Committee meetings held during and subsequent to the year for any indicators of non-compliance and made enquiries of management and of the Directors as to the risks of non-compliance and any instances thereof. We also made similar enquiries of advisers to the Group, where information from that adviser has been used in the preparation of the Group financial statements.
- We considered the valuation of the investment property portfolio and management override of internal controls to be significant risks to the audit. Our response to the valuation of investment properties is set out in the key audit matter section above. We addressed the risk of management override of internal controls, including testing journal entries processed during and subsequent to the year and evaluating whether there was evidence of bias by management or the Directors that represented a risk of material misstatement due to fraud.
- We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.FRC.org.uk/AuditorsResponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Levy (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
London, United Kingdom

9 March 2022

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

Group Income Statement

	Notes	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Revenue	<u>3,4</u>	122.4	121.7
Property outgoings	<u>5</u>	(0.6)	(1.5)
Gross profit		121.8	120.2
Administrative expenses	<u>6</u>	(15.2)	(17.0)
Investment property revaluation	<u>11</u>	140.2	(166.7)
Operating profit/(loss)	<u>7</u>	246.8	(63.5)
Net finance costs	<u>8</u>	(50.0)	(49.9)
Profit/(loss) before tax		196.8	(113.4)
Tax credit/(charge)	<u>9</u>	2.8	(0.3)
Profit/(loss) for the year		199.6	(113.7)
		Pence per share	Pence per share
Earnings per share			
Basic and diluted	<u>10</u>	61.6	(35.1)

All amounts relate to continuing activities.

The notes on [pages 94 to 123](#) form part of these financial statements.

Group Statement of Other Comprehensive Income

	Notes	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Profit/(loss) for the year		199.6	(113.7)
Items that may subsequently be reclassified to profit or loss:			
Currency translation differences	<u>21</u>	(3.6)	2.1
Fair value movements in derivatives	<u>13, 21</u>	1.6	(0.6)
Other comprehensive (loss)/income		(2.0)	1.5
Total comprehensive income/(loss) for the year		197.6	(112.2)

The notes on [pages 94 to 123](#) form part of these financial statements.

Group Statement of Changes in Equity

	Share capital £m	Share premium reserve £m	Other reserves £m	Retained earnings £m	Total £m
Year to 31 December 2021					
At 1 January 2021	32.4	523.2	3.7	662.2	1,221.5
Profit for the year	-	-	-	199.6	199.6
Other comprehensive loss	-	-	(2.0)	-	(2.0)
Total comprehensive income	-	-	(2.0)	199.6	197.6
Interim dividends of 15.2 pence per share	-	-	-	(49.3)	(49.3)
At 31 December 2021	32.4	523.2	1.7	812.5	1,369.8
	Share capital £m	Share premium reserve £m	Other reserves £m	Retained earnings £m	Total £m
Year to 31 December 2020					
At 1 January 2020	32.3	518.4	7.1	826.7	1,384.5
Loss for the year	-	-	-	(113.7)	(113.7)
Other comprehensive income	-	-	1.5	-	1.5
Total comprehensive loss	-	-	1.5	(113.7)	(112.2)
Issue of shares	0.1	4.8	(4.9)	-	-
Interim dividends of 15.7 pence per share	-	-	-	(50.8)	(50.8)
At 31 December 2020	32.4	523.2	3.7	662.2	1,221.5

The notes on [pages 94 to 123](#) form part of these financial statements.

Group Balance Sheet

	Notes	31 December 2021 £m	31 December 2020 £m
Non-current assets			
Investment properties	<u>3,11</u>	2,158.2	1,975.6
Headlease rent deposits		2.8	2.8
Property, plant and equipment		0.2	0.2
Interest rate derivatives	<u>13</u>	0.1	-
		2,161.3	1,978.6
Current assets			
Cash and cash equivalents	<u>14</u>	198.4	219.7
Trade and other receivables	<u>15</u>	2.8	20.0
		201.2	239.7
Total assets		2,362.5	2,218.3
Current liabilities			
Trade and other payables	<u>16</u>	(41.3)	(32.9)
Secured debt	<u>17</u>	(373.8)	(5.0)
Interest rate derivatives	<u>13</u>	(0.2)	(0.5)
Current tax liability		(0.1)	(0.1)
		(415.4)	(38.5)
Non-current liabilities			
Secured debt	<u>17</u>	(538.6)	(916.6)
Head rent obligations under finance leases	<u>18</u>	(30.6)	(28.7)
Deferred tax liability	<u>19</u>	(8.0)	(11.9)
Interest rate derivatives	<u>13</u>	(0.1)	(1.1)
		(577.3)	(958.3)
Total liabilities		(992.7)	(996.8)
Net assets		1,369.8	1,221.5
Equity			
Share capital	<u>20</u>	32.4	32.4
Share premium reserve	<u>21</u>	523.2	523.2
Other reserves	<u>21</u>	1.7	3.7
Retained earnings	<u>21</u>	812.5	662.2
Total equity		1,369.8	1,221.5
		Pence per share	Pence per share
Basic and diluted NAV per share	<u>23</u>	422.7	377.0
EPRA NTA per share	<u>23</u>	424.1	379.3

The notes on [pages 94 to 123](#) form part of these financial statements.

The Group financial statements were approved and authorised for issue by the Board of Directors on 9 March 2022 and were signed on its behalf by:

Martin Moore
Chairman

Sandy Gumm
Director

Group Cash Flow Statement

	Notes	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Operating activities			
Profit/(loss) before tax		196.8	(113.4)
Investment property revaluation	<u>11</u>	(155.5)	142.5
Finance income	<u>8</u>	-	(0.4)
Finance costs	<u>8</u>	50.0	50.3
Cash flows from operating activities before changes in working capital		91.3	79.0
Changes in working capital:			
Trade and other receivables		17.0	(18.8)
Trade and other payables		5.5	(5.5)
Cash generated from operations		113.8	54.7
Tax paid		(0.3)	(0.4)
Cash flows from operating activities		113.5	54.3
Investing activities			
Leisure lease incentive payments		(30.5)	-
Disposal of investment properties		0.1	2.6
Interest received		-	0.4
Acquisition of property, plant and equipment		-	(0.2)
Cash flows from investing activities		(30.4)	2.8
Financing activities			
Dividends paid		(49.3)	(50.8)
Interest and finance costs paid	<u>24</u>	(47.7)	(47.9)
Scheduled repayment of secured debt	<u>24</u>	(7.3)	(4.4)
Repayment of secured debt from proceeds of disposal of investment properties	<u>24</u>	-	(1.5)
Cash flows from financing activities		(104.3)	(104.6)
Decrease in cash and cash equivalents		(21.2)	(47.5)
Cash and cash equivalents at the beginning of the year		219.7	267.1
Currency translation movements		(0.1)	0.1
Cash and cash equivalents at the end of the year	<u>14</u>	198.4	219.7

The notes on [pages 94 to 123](#) form part of these financial statements.

Notes to the Group Financial Statements

1. General information about the Group

The financial information set out in this report covers the year to 31 December 2021 with comparative figures relating to the year to 31 December 2020. It includes the results and net assets of the Company and its subsidiaries, together referred to as the Group.

The Company is incorporated in the United Kingdom and listed on the AIM market of the London Stock Exchange. The address of the registered office and principal place of business is Cavendish House, 18 Cavendish Square, London W1G 0PJ. The nature and scope of the Group's operations and principal activities are described in the Strategic Report on [pages 2 to 45](#).

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

2. Basis of preparation and material accounting policies

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards.

b) Basis of preparation

The Group financial statements are presented in Sterling as this is the currency of the primary economic environment in which the Group operates. Amounts are rounded to the nearest hundred thousand pounds unless otherwise stated.

Euro denominated results of the German operations have been converted to Sterling at the average exchange rate for the year of €1:£0.86 (2020: €1:£0.89), which is not considered to produce materially different results from using the actual rates at the date of the transactions. Year end balances have been converted to Sterling at the 31 December 2021 exchange rate of €1:£0.84 (2020: €1:£0.90). The accounting policy for foreign currency translation is in [note 2g](#).

The financial statements have been prepared on the historical cost basis, except for investment properties and derivatives which are stated at fair value. The accounting policies have been applied consistently in all material respects.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis of accounting in preparing the financial statements. Further details are given in the Strategic Review on [page 44](#).

Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements requires the Directors to make judgements, estimates and assumptions that may affect the application of accounting policies and reported amounts of assets and liabilities as at each balance sheet date and the reported amounts of revenue and expenses during any financial year. Any estimates and assumptions are based on experience and any other factors that are believed to be relevant under the circumstances and which the Board considers reasonable. Actual outcomes may differ from these estimates.

The principal area of estimation uncertainty is the investment property valuation where, as described in [note 11](#), the opinion of independent external valuers has been obtained at each reporting date using recognised valuation techniques and the principles of IFRS 13 "Fair Value Measurement".

The principal areas of judgement relate to revenue recognition. Consistent with the prior year, one specific area of judgement is the recognition of any additional revenue in the year as a result of an outstanding May 2018 open market rent review on the Ramsay hospitals. The review is under arbitration and the nature of the assets mean that there is little comparative information on which to base an assessment. The Directors consider that it is not possible at present to make a reasonably certain estimate of any uplift that might result, and the financial statements therefore do not reflect any additional revenue arising as a result of this rent review. This position has not changed from that disclosed in the 2020 financial statements.

The Group's accounting policies for property valuation and revenue recognition are set out in paragraph 2d. Other policies material to the Group are set out in paragraphs 2c and 2e to 2i.

Adoption of new and revised standards

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

During the year, the Group adopted the amendments to IFRS 16 that extended the period over which the amendments issued in the prior year were applicable, and the amendments to IFRS 9, IAS 39 and IFRS 7 representing phase two of the interest rate benchmark reform transition. There was no material change to the Group's accounting policies and disclosures as a result.

There were no other new or amended standards issued by the International Accounting Standards Board ("IASB") during the year, and none of the interpretations issued by the IFRS Interpretations Committee ("IFRIC") have led to any material changes in the Group's accounting policies or disclosures during the year.

Standards and interpretations in issue not yet adopted

The IASB and IFRIC have issued or revised IFRS 1, IFRS 3, IFRS 9, IFRS 16, IFRS 17, IAS 1, IAS 8, IAS 12, IAS 16, IAS 37, IAS 41 and IFRS Practice Statement 2. These are not expected to have a material effect on the reported results or financial position of the Group.

c) Basis of consolidation

Subsidiaries are those entities controlled directly or indirectly by the Company. The Company has control within the meaning of this policy when it has power over an entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to use its power over the entity to affect those returns.

The consolidated financial statements include the financial statements of the Company's subsidiaries prepared to 31 December under the same accounting policies as the Group as a whole, using the acquisition method. All intra-group balances and transactions are eliminated on consolidation.

All Group entities were wholly owned throughout the current year and the prior year.

d) Property portfolio

Investment properties

Investment properties are properties ultimately owned by the Company, directly or indirectly, which are held for capital appreciation, rental income or both. They are initially recorded at cost and subsequently valued at each balance sheet date at fair value as determined by professionally qualified independent external valuers.

Valuations are calculated, in accordance with RICS Valuation – Global Standards 2020, by applying market capitalisation rates to future rental cash flows with reference to data from comparable market transactions, together with an assessment of the security of income. Gains or losses arising from changes in the fair value of investment properties are recognised in the income statement in the period in which they arise. Depreciation is not charged in respect of investment properties.

Occupational leases

The Directors exercise judgement in considering the potential transfer of the risks and rewards of ownership in accordance with IFRS 16 "Leases" for all occupational leases and headleases, to determine whether or not such leases are operating leases. A lease is classified as a finance lease if substantially all of the risks and rewards of ownership transfer to the lessee. In the case of properties where the Group has a leasehold interest, this assessment is made by reference to the Group's right of use asset arising under the headlease rather than by reference to the underlying asset. If the Group substantially retains those risks, a lease is classified as an operating lease. All occupational leases reflected in these financial statements are classified as operating leases.

Notes to the Group Financial Statements continued

2. Basis of preparation and material accounting policies continued

Headleases

Where an investment property is held under a leasehold interest, the headlease is initially recognised as an asset at cost plus the present value of minimum ground rent payments. The corresponding rental liability to the head leaseholder is included in the balance sheet as a finance lease obligation. Cash flows arising under headleases are classified under operating activities before changes in working capital in the cash flow statement. Cash deposits held by head leaseholders as guarantees of headlease obligations are held on the balance sheet as non-current assets, and any movements in deposits are disclosed as changes in working capital within cash generated from operations in the cash flow statement.

Rental income

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

Any lease incentives, including payments made to a tenant, and initial direct costs incurred in obtaining a lease are added to the carrying amount of the underlying asset and recognised as expenses over the lease term on the same basis as the relevant lease income.

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

Rent Smoothing Adjustments are not considered to be financial assets as the amounts are not yet contractually due. As such, the requirements of IFRS 9 (including the expected credit loss model) are not applied to those balances.

Cash flows from rental income are included in the cash flow statement within cash flows from operating activities.

e) Financial assets and liabilities

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits with maturities of three months or less held with banks or financial institutions. Returns on cash and cash equivalents are included in the cash flow statement under investing activities.

Borrowings and finance costs

Secured debt is initially recognised at its fair value, net of any arrangement fees and other transaction costs directly attributable to its issue. Subsequently, secured debt is carried at amortised cost. Finance costs are charged to the income statement over the term of the debt using the effective interest method. Loan issue costs are initially recognised as a reduction in the proceeds of the relevant loan and are amortised as a charge to the income statement over the term of the loan as part of the Group's finance costs. Cash flows relating to borrowings and finance costs are included in the cash flow statement within financing activities.

Interest rate derivatives

The Group has used interest rate derivatives to hedge its exposure to cash flow interest rate risk. Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently measured at fair value.

Derivatives are classified either as derivatives in effective hedges or derivatives held at fair value through profit and loss. It is anticipated that any hedging arrangements will generally be “highly effective” within the meaning of IFRS 9 “Financial Instruments” and that the criteria necessary for applying hedge accounting will therefore be met.

Hedges are assessed upon inception and on an ongoing basis to identify whether they continue to be effective. The gain or loss on the revaluation of the portion of an instrument that qualifies as an effective hedge of cash flow interest rate risk is recognised directly in other comprehensive income. Amounts accumulated in equity will be reclassified to the income statement in the period when the hedged items affect the income statement. The gain or loss on the revaluation of any derivative that is not an effective hedge is recognised directly in the income statement.

The Group ceases to use hedge accounting if a forecast transaction being hedged is no longer expected to occur. In such circumstances, the cumulative amounts in other comprehensive income are reclassified from equity to the income statement.

f) Tax

Tax is included in the income statement except to the extent that it relates to income or expense items recognised through reserves, in which case the related tax is recognised either in other comprehensive income or directly in reserves.

Current tax is the expected tax payable on taxable income for a reporting period at the blended tax rate for the period, using tax rates enacted or substantively enacted at the balance sheet date, together with any adjustment in respect of previous periods. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Tax paid is classified under cash flows from operating activities in the cash flow statement.

g) Foreign currency translation

The results of Group undertakings with a functional currency other than Sterling are translated into Sterling at the actual exchange rates prevailing at the time of the transaction, unless the average rate for the reporting period is not materially different from the actual rate, in which case that average rate is used.

The gains or losses arising on the end of year translation of the net assets of such Group undertakings at closing rates and the difference between translating the results at average rates compared to the closing rates are taken to other reserves. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date with any gains or losses arising on translation recognised in the income statement.

h) Equity dividends

Equity dividends are recognised when they become legally payable: interim dividends when paid and final dividends when approved by shareholders at an annual general meeting.

i) Share based payments

The fair value of payments to non-employees that are to be settled by the issue of shares is determined on the basis of an estimate of the value of the services provided over the relevant accounting period. The estimated number of shares to be issued in satisfaction of the services provided is calculated using the average daily closing share price of the Company for that period.

Notes to the Group Financial Statements continued

3. Operating segments

IFRS 8 "Operating Segments" requires operating segments to be identified in the financial statements on a basis consistent with internal reports about components of the Group that are reviewed by the chief operating decision maker to make decisions about resources to be allocated between segments and assess their performance. The Company's chief operating decision maker is its Board.

The Group owned 160 properties at 31 December 2021 (2020: 161), originally acquired in five separate portfolios. Although certain information about these portfolios is described on a portfolio basis within the Investment Adviser's Report or grouped by property type (Healthcare, Leisure and Budget Hotels), when considering resource allocation and performance the Board reviews quarterly management accounts prepared on a basis which aggregates the performance of the portfolios and focuses on the Group's Total Accounting Return. The Board has therefore concluded that the Group has operated in, and was managed as, one reportable segment of property investment in both the current and prior year.

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

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Revenue		
UK	114.2	113.2
Germany	8.2	8.5
	122.4	121.7

	31 December 2021 £m	31 December 2020 £m
Investment properties		
UK	2,023.5	1,860.3
Germany	134.7	115.3
	2,158.2	1,975.6

Revenue by tenant comprises:

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Revenue including Rent Smoothing Adjustments		
Ramsay Healthcare UK Operations Limited, guaranteed by Ramsay Health Care Limited	37.2	37.2
Travelodge Hotels Limited	29.5	29.4
Merlin Attractions Operations Limited, guaranteed by Merlin Entertainments Limited	29.1	28.3
Other tenants (each less than 10% of revenue)	26.6	26.8
Reported revenue	122.4	121.7

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Revenue excluding Rent Smoothing Adjustments		
Ramsay Healthcare UK Operations Limited, guaranteed by Ramsay Health Care Limited	35.0	34.1
Travelodge Hotels Limited	19.7	14.0
Merlin Attractions Operations Limited, guaranteed by Merlin Entertainments Limited	43.1	14.1
Other tenants (each less than 10% of revenue)	23.6	16.1
Revenue on Adjusted EPRA earnings basis	121.4	78.3

4. Revenue

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Rent receivable	105.6	96.0
Rent Smoothing Adjustments:		
Smoothing of contractual uplifts	7.4	8.9
Smoothing of temporary Covid-19 rent concessions	7.4	14.8
Adjustment for Healthcare back rent	0.4	0.4
Recovery of head rent and service charge costs from occupational tenants (note 5)	1.6	1.6
	122.4	121.7

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

These Rent Smoothing Adjustments include the impact of the temporary rent reductions agreed to assist tenants as a result of the Covid-19 pandemic, which in the short term resulted in rental income being recognised in the income statement ahead of cash flows but which, after the end of each relevant concession period, reverse so that rental income recognised in the income statement will be lower than cash rents received on those leases. These are further described in [note 11](#) and in the Unaudited Supplementary Information following these financial statements. Rent Smoothing Adjustments also include the back rent received during a prior year from a May 2017 rent review on the Healthcare portfolio, which is being recognised in revenue over the remaining lease term despite the cash having been received in 2017, and in future years will also reverse the reduction in rental income that results from spreading the cost of the Leisure lease incentive payments, which were paid just before the year end, over the extended term of the relevant leases.

£17.7 million of rent on the Leisure portfolio, receipt of which was deferred from 2020 to 2021, was excluded from revenue on an Adjusted EPRA earnings in the prior year and included instead in the current year, net of a £0.1 million reduction caused by foreign exchange movements on the Euro element of the balance, because although it was recognised in the income statement in 2020 it had not been received in cash. Receipt of a further £1.8 million of cash rent from the Leisure and Budget Hotels portfolios has been deferred from 2021 to 2022.

In calculating Adjusted EPRA earnings, the amounts included in revenue that are recovered from occupational tenants for head rent and service charge costs are reclassified against the equivalent costs in property outgoings. As a result of these adjustments, revenue reconciles between the IFRS basis and Adjusted EPRA earnings basis as follows:

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
IFRS revenue	122.4	121.7
Rent Smoothing Adjustments:		
Relating to contractual uplifts	(7.4)	(8.9)
Relating to temporary Covid-19 rent concessions	(7.4)	(14.8)
Adjustment for Healthcare back rent	(0.4)	(0.4)
	(15.2)	(24.1)
Rent deferrals:		
Leisure portfolio	17.7	(17.7)
Currency translation difference on Leisure rent deferral	(0.1)	-
Other Leisure and Budget Hotels rent deferrals	(1.8)	-
	15.8	(17.7)
Recovery of head rent and service charge costs reclassified to property outgoings	(1.6)	(1.6)
Adjusted EPRA earnings revenue	121.4	78.3

The Group's accounting policy for revenue recognition is disclosed in [note 2d](#).

Notes to the Group Financial Statements continued

5. Property outgoings

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Property outgoings in the income statement	0.6	1.5
Finance element of head rent included in finance costs (note 8)	1.8	1.7
Movement in headlease liabilities included in property revaluations (note 11)	0.1	0.1
Property outgoings	2.5	3.3
Recovery of head rents and service charge costs from occupational tenants, included in revenue (note 4)	(1.6)	(1.6)
Net property outgoings	0.9	1.7

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Property outgoings net of tenant recoveries		
Head rents net of amounts recovered from occupational tenants	0.6	0.6
Irrecoverable property costs	0.2	0.3
Managing agent costs and other net property outgoings	0.1	0.2
Cost of documenting rent concessions	-	0.6
	0.9	1.7

Amounts shown above include any irrecoverable VAT.

The Group's accounting policy for headleases is disclosed in [note 2d](#).

6. Administrative expenses

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Advisory fees (note 25b)	13.2	13.7
Other administrative expenses	1.5	2.8
Corporate costs	0.5	0.5
	15.2	17.0

Amounts shown above include any irrecoverable VAT.

7. Operating profit

Audit fees, which are included within administrative expenses, relate to:

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Audit of the Company's consolidated and individual financial statements	0.1	0.1
Audit of subsidiaries, pursuant to legislation	0.2	0.2
Total fees	0.3	0.3

Amounts shown above include any irrecoverable VAT. The fees payable to the auditor, excluding VAT, in the year were £0.2 million (2020: £0.3 million), of which £36,500 (2020: £35,000) related to non-audit work comprising the review of the Group's interim financial statements.

The Group had no employees in either the current or prior year. The key management personnel of the Company are the Directors, who are appointed under letters of appointment for services. Directors' remuneration, all of which represents fees for services provided and is included within administrative expenses, was as follows:

	Year to 31 December 2021 £000	Year to 31 December 2020 £000
Martin Moore (Chairman)	75	75
Leslie Ferrar (Chairman of Audit Committee)	45	45
Jonathan Lane	40	40
Ian Marcus	40	40
	200	200

Administrative expenses also include £23,000 (2020: £23,000) of National Insurance contributions paid in connection with the Directors' remuneration above.

Mike Brown, Sandy Gumm and Nick Leslau received no Directors' remuneration from the Group in either the current or prior year.

8. Finance income and costs

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Finance income		
Interest on cash deposits	-	0.4
Finance costs		
<i>Cash costs:</i>		
Interest on secured debt	(44.5)	(45.6)
Interest charge on headlease liabilities (note 5)	(1.8)	(1.7)
Cash settlement of interest rate derivatives, transferred from other reserves	(0.8)	(0.3)
Loan agency fees and other lender costs	(0.5)	(0.3)
<i>Non-cash movements:</i>		
Amortisation of loan arrangement costs	(2.3)	(2.3)
Fair value adjustment of interest rate derivatives (note 13)	(0.1)	(0.1)
Total finance costs	(50.0)	(50.3)
Net finance costs recognised in the income statement	(50.0)	(49.9)
Fair value adjustment of interest rate derivatives	0.8	(0.9)
Cash settlement of interest rate derivatives, transferred to the income statement	0.8	0.3
Net finance income/(cost) recognised in other comprehensive (loss)/income (note 13)	1.6	(0.6)

Net finance costs analysed by the categories of financial asset and liability shown in [note 17b](#) are as follows:

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Financial assets at amortised cost	-	0.4
Financial liabilities at amortised cost	(49.1)	(50.2)
Derivatives in effective hedges	(0.9)	(0.1)
Net finance costs recognised in the income statement	(50.0)	(49.9)

Notes to the Group Financial Statements continued

8. Finance income and costs continued

The Group's sensitivity to changes in interest rates, on the basis of a ten basis point change in Sterling Overnight Interbank Average Rate ("SONIA"), was as follows:

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Effect on profit/(loss) for the year	0.2	0.2
Effect on other comprehensive (loss)/income and equity	0.1	0.1

The Group receives interest on its cash and cash equivalents so an increase in deposit rates would increase finance income. An increase in SONIA up to the maximum capped rate of 1.65% would increase finance costs relating to the £23.3 million (2020: £23.3 million) of the secured debt that is hedged by interest rate caps. A further £50.0 million (2020: £50.0 million) of the secured debt is hedged with interest rate swaps, and movements in SONIA would only have an impact on the fair value of those interest rate swaps, which would be reflected in other comprehensive income. There would be no effect from a change of SONIA on the remaining £843.5 million (2020: £855.0 million) of the secured debt which is at fixed rates, other than on the fair value of that debt which is disclosed in [note 17b](#). The Group's sensitivity to interest rates has not changed significantly in the year.

The Group's accounting policy for finance costs is disclosed in [note 2e](#).

9. Tax

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Current tax – Germany		
Corporation tax charge	0.4	0.4
Adjustments in respect of prior years	-	(0.1)
Deferred tax – Germany		
Deferred tax credit (note 19)	(3.2)	-
	(2.8)	0.3

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

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Profit/(loss) before tax	196.8	(113.3)
Tax charge/(credit) at the standard rate of corporation tax in the UK for the financial year of 19% (2020: 19%)	37.4	(21.5)
<i>Effects of:</i>		
Investment property revaluation not (taxable)/allowable	(23.6)	29.9
Qualifying property rental business not taxable under UK REIT rules	(10.3)	(8.9)
Deferred tax credit from revision of assessment	(7.7)	-
Unutilised tax losses carried forward	0.8	0.2
German current tax charge for the year	0.4	0.4
Finance costs disallowed under corporate interest restriction rules	0.2	0.3
Adjustments in respect of prior years	-	(0.1)
Tax (credit)/charge for the year	(2.8)	0.3

The Company and its subsidiaries operate as a UK Group REIT. Subject to continuing compliance with certain rules, the UK REIT rules exempt the profits of the Group's UK and German property rental business from UK corporation tax. Capital gains on the Group's UK and German properties are also generally exempt from UK corporation tax, provided they are not held for trading.

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

The Group is subject to German corporation tax on its German property rental business at an effective rate of 12.5% (2020: 12%), resulting in a tax charge of £0.4 million (2020: £0.4 million). A deferred tax liability of £8.0 million (2020: £11.9 million) is recognised for the German capital gains tax that would potentially be payable on the sale of the relevant investment properties. Movements in deferred tax are disclosed in [note 19](#).

The German tax assets have been subject to a routine tax audit by the German tax authorities since January 2021. The maximum tax liability that might arise on the areas that are currently the subject of the enquiry, including interest up to the balance sheet date but excluding any penalties, is estimated at no more than £0.8 million. The Board, having taken advice from the Group's tax advisers including their specialist German tax team, considers that there are strong arguments to counteract those made by the German tax authorities and that the matter should be resolved with an outcome of substantially less tax payable than the potential maximum, if any. No allowance has been made in these financial statements for any liability that might arise. Should any additional tax become payable, it will be recognised in the year in which the German tax authorities conclude their review.

The Group's accounting policy for tax is disclosed in [note 2f](#).

10. Earnings per share

Basic EPS

Earnings per share ("EPS") is calculated as the profit attributable to ordinary shareholders of the Company for each year divided by the weighted average number of ordinary shares in issue throughout the relevant year. Since no incentive fee has been recognised for either the current year or the prior year, there are no shares to be issued and diluted EPS is therefore the same as basic EPS.

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Profit/(loss) for the year	199.6	(113.7)
	Number	Number
Weighted average number of shares in issue	324,035,146	324,035,146
	Pence per share	Pence per share
Basic and Diluted EPS	61.6	(35.1)

Notes to the Group Financial Statements continued

10. Earnings per share continued

EPRA EPS

The European Public Real Estate Association ("EPRA") publishes guidelines for calculating a measure of earnings designed to represent core operational activities. EPRA EPS is calculated in accordance with the EPRA Guidance currently in force.

An Adjusted EPRA earnings calculation has also been presented. This adjusted measure was designed to reflect the fact that, as a Group with unusually long leases and a high proportion of fixed or minimum rental increases to spread over the lease terms, the Company's Dividend Cover would be artificially high if calculated on the basis of EPRA EPS. Adjusted EPRA EPS removes the effect of the Rent Smoothing Adjustments, including the impact of temporary Covid-19 rent concessions, and recognises the cash flow impact of any deferrals of rent. It also excludes any non-recurring costs or income which do not relate to the Group's routine operations, such as costs incurred for share placings, though there have been no such costs since 2016. The adjusted measure also excludes any incentive fees which are paid in shares, as they are considered to be linked to revaluation movements and are therefore best treated consistently with revaluations which are excluded from EPRA EPS, though no incentive fee has been payable since 2019.

EPRA and Adjusted EPRA earnings are calculated as:

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
IFRS profit/(loss) for the year	199.6	(113.7)
<i>EPRA adjustments:</i>		
Investment property revaluation (note 11)	(140.3)	166.5
Deferred tax on German investment property revaluations (note 9)	(3.2)	-
EPRA earnings	56.1	52.9
<i>Other adjustments:</i>		
Rent Smoothing Adjustments (note 4)	(15.2)	(23.7)
Rent deferrals – theme parks	17.6	(17.7)
Rent deferrals – other Leisure and Budget Hotels	(1.8)	-
Adjusted EPRA earnings	56.7	11.5

In calculating Adjusted EPRA EPS, the weighted average number of shares is calculated using the actual date on which any shares are issued during the year so as not to create a mismatch between the basis of calculation of Adjusted EPRA EPS and the dividends per share paid in the year. In this way the Group's measure of Dividend Cover is considered to be more meaningful. The weighted average number of shares applied in calculating Adjusted EPRA EPS has been calculated as follows:

	Year to 31 December 2021 Number	Year to 31 December 2020 Number
Shares in issue throughout the year	324,035,146	322,850,595
Pro rata adjustment for shares issued in March 2020 in settlement of 2019 incentive fee	-	925,633
Adjusted EPRA EPS: weighted average shares in issue	324,035,146	323,776,228

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

	Pence per share	Pence per share
EPRA EPS	17.3	16.3
Adjusted EPRA EPS	17.5	3.5

11. Investment properties

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Freehold investment properties		
At the start of the year	1,705.8	1,802.4
Leisure lease incentive payments	33.6	-
Revaluation movement	141.7	(102.9)
Currency translation movement	(8.3)	6.3
Disposals	(0.1)	-
At the end of the year	1,872.7	1,705.8
Leasehold investment properties		
At the start of the year	269.8	308.9
Revaluation movement	13.8	(39.6)
Increase in headlease liabilities	2.0	0.6
Revaluation movement in headlease liabilities	(0.1)	(0.1)
At the end of the year	285.5	269.8
Total investment properties		
At the start of the year	1,975.6	2,111.3
Leisure lease incentive payments	33.6	-
Revaluation movement	155.5	(142.5)
Currency translation movement	(8.3)	6.3
Increase in headlease liabilities	2.0	0.6
Revaluation movement in headlease liabilities	(0.1)	(0.1)
Disposals	(0.1)	-
At the end of the year	2,158.2	1,975.6

As at 31 December 2021 the properties were valued at £2,127.6 million (2020: £1,946.9 million) by CBRE Limited or Christie & Co in their capacity as independent external valuers. Of the total fair value, £134.7 million (2020: £115.3 million) relates to the Group's German investment properties, the valuations of which are translated into Sterling at the year end exchange rate.

The valuations were prepared on a fixed fee basis, independent of the portfolio value, and were undertaken in accordance with RICS Valuation – Global Standards 2020 on the basis of fair value, supported by reference to market evidence of transaction prices for similar properties where available.

The Royal Institution of Chartered Surveyors mandated that valuations in certain sectors should be subject to "material valuation uncertainty" as at 31 December 2020. This applied to the Group's Leisure and Budget Hotels portfolios, which accounted for 61% of the Group's property assets by value at that date. The 31 December 2020 valuations of the Healthcare assets, (39% of the Group's property assets by value), did not carry such a proviso. None of the 31 December 2021 valuations in any sector were subject to material valuation uncertainty.

During the year, the Group agreed to pay £33.5 million (2020: £nil) to certain Leisure tenants as an incentive to enter into lease extensions, £3.0 million (2020: £nil) of which remained outstanding at the balance sheet date and is included in accruals and other payables (note 16). Along with capitalised costs of the transaction totalling £0.1 million (2020: £nil), £33.6 million (2020: £nil) was added to the carrying value of the relevant investment properties as a result.

The historic cost of the Group's investment properties as at 31 December 2021 was £1,516.8 million (2020: £1,479.6 million).

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

Notes to the Group Financial Statements continued

11. Investment properties continued

Under the Group's accounting policy, in line with IFRS, the carrying value of leasehold properties is grossed up by the present value of minimum headlease payments. The corresponding liability to the head leaseholder is included in the balance sheet as a finance lease obligation. The reconciliation between the carrying value of the investment properties and their independent external valuation is as follows:

	31 December 2021 £m	31 December 2020 £m
Carrying value	2,158.2	1,975.6
Gross-up of headlease liabilities (note 18)	(30.6)	(28.7)
Independent external valuation	2,127.6	1,946.9

Included within the carrying value of investment properties at 31 December 2021 is £191.1 million (2020: £181.4 million) in respect of Rent Smoothing Adjustments (described in [note 4](#) and in the Unaudited Supplementary Information following these financial statements), representing the amount of the net mismatch between rent included in the income statement and cash rents actually receivable. This net receivable increases over broadly the first half of each lease term, in the case of fixed or minimum uplifts, or the period of the temporary rent reductions agreed with tenants in light of Covid-19. The balance then unwinds, reducing to zero by the end of the lease term. The difference between rents on a straight line basis and rents actually receivable is included within, but does not increase over fair value, the carrying value of investment properties. Also included is the impact of back rent received during a prior year from a rent review on the Healthcare portfolio, which is being recognised in revenue over the remaining lease term despite the cash having been received in 2018, together with movements on the headlease liabilities.

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Revaluation movement	155.5	(142.5)
Rent Smoothing Adjustments (note 4)	(15.2)	(24.1)
Movement in headlease liabilities (note 5)	(0.1)	(0.1)
Revaluation movement in the income statement	140.2	(166.7)

All of the Group's revenue reflected in the income statement is derived either from rental income or the recovery of head rent and other costs on investment properties. As shown in [note 5](#), property outgoings arising on investment properties, all of which generated rental income in each year, were £2.5 million (2020: £3.3 million), of which £0.9 million (2020: £1.7 million) was not recoverable from occupational tenants.

Other than the future minimum headlease payments disclosed in [note 18](#), the majority of which are recoverable from tenants, the Group did not have any contractual investment property obligations at either balance sheet date. All responsibility for property liabilities including repairs and maintenance resides directly with the tenants, except at Manchester Arena where such costs relating to the structure and common areas are liabilities of the Group in the first instance. However, since the majority of these costs are currently recoverable from tenants the net cost to the Group in the year was £0.3 million (2020: £0.3 million). In addition, the car park at Manchester Arena is run under an operating agreement which means the Group is responsible for the costs of running the car park to the extent that they are not covered by the revenue it generates. The net contribution from the car park in 2021 was £0.2 million (2020: net cost of £0.1 million, as the car park was largely closed as a result of Covid related restrictions).

The Board determines the Group's valuation policies and procedures and is responsible for overseeing the valuations. Valuations performed by the Group's independent external valuers are based on information extracted from the Group's financial and property reporting systems, such as current rents and the terms and conditions of lease agreements, together with assumptions used by the valuers (based on market observation and their professional judgement) in their valuation models. The Audit Committee assesses the valuation process, including meetings with the independent external valuers and evaluating their expertise and independence, and reports the results of these assessments to the Board.

At each reporting date, certain directors of the Investment Adviser, who have recognised professional qualifications and are experienced in valuing the types of property owned by the Group, initially analyse the independent external valuers' assessments of movements in the property valuations from the prior reporting date or, if later, the date of acquisition. Positive or negative fair value changes over a certain materiality threshold are considered and are also compared to external sources, such as the MSCI indices and other relevant benchmarks, for reasonableness. Once the Investment Adviser has considered the valuations, the results are discussed with the independent external valuers, focusing on properties with unexpected fair value changes or any with unusual characteristics. The Audit Committee assesses the valuation process, including meetings with the independent external valuers and evaluating their expertise and independence, and reports the results of these assessments to the Board.

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

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

Portfolio	Fair value £m	Key unobservable input	Inputs	
			Range	Blended yield
At 31 December 2021:				
Leisure – UK	794.6	Net Initial Yield	4.3% – 7.0%	5.0%
		Running Yield in 12 months	4.3% – 7.0%	5.2%
Healthcare	790.4	Net Initial Yield	3.9% – 4.5%	4.5%
		Running Yield in 12 months	4.0% – 4.6%	4.6%
Budget Hotels	438.5	Net Initial Yield	5.5% – 16.0%	6.8%
		Running Yield in 12 months	5.8% – 16.0%	7.3%
Leisure – Germany	134.7	Net Initial Yield	4.8%	4.8%
		Running Yield in 12 months	4.9%	4.9%
	2,158.2			
At 31 December 2020:				
Leisure – UK	687.7	Net Initial Yield	4.8% – 7.3%	5.5%
		Running Yield by January 2022	4.8% – 7.4%	5.7%
Healthcare	769.1	Net Initial Yield	3.9% – 4.5%	4.5%
		Running Yield by January 2022	4.0% – 4.6%	4.6%
Budget Hotels	403.5	Topped Up Net Initial Yield	5.3% – 13.9%	7.1%
		Running Yield by January 2022	5.8% – 15.5%	7.2%
Leisure – Germany	115.3	Net Initial Yield	5.8%	5.8%
		Running Yield by January 2022	5.9%	5.9%
	1,975.6			

As described in [note 2b](#), the Group's investment property valuations are subject to estimation uncertainty. Decreases in Net Initial Yield and increases in inflation expectations will increase the fair value and vice versa. The sensitivities of the Group's investment property valuations to variations in the significant unobservable outputs for Net Initial Yield is as follows:

(Decrease)/increase in fair value	31 December 2021 £m	31 December 2020 £m
Net Initial Yield + 0.25%	(99.2)	(85.8)
Net Initial Yield – 0.25%	109.3	94.1

The Group's accounting policy for investment properties is disclosed in [note 2d](#).

Notes to the Group Financial Statements continued

12. Subsidiaries

The companies listed below are the subsidiary undertakings of the Company at 31 December 2021, all of which are wholly owned. Save where indicated, all subsidiary undertakings are incorporated in England with their registered office at Cavendish House, 18 Cavendish Square, London W1G 0PJ.

	Nature of business
SIR Theme Park Subholdco Limited ¹	Intermediate parent company and borrower under mezzanine secured debt facility
Charcoal Midco 2 Limited	Intermediate parent company
SIR Theme Parks Limited	Intermediate parent company and borrower under senior secured debt facility
SIR ATH Limited	Property investment – leisure
SIR ATP Limited	Property investment – leisure
SIR HP Limited	Property investment – leisure and borrower under senior secured debt facility (incorporated in England, operating in Germany)
SIR TP Limited	Property investment – leisure
SIR WC Limited	Property investment – leisure
SIR Hospital Holdings Limited ¹	Intermediate parent company
SIR Umbrella Limited	Intermediate parent company
SIR Hospitals Propco Limited	Intermediate parent company and borrower under secured debt facility
SIR Duchy Limited	Property investment – healthcare
SIR Springfield Limited	Property investment – healthcare
SIR Healthcare 1 Limited	Intermediate parent company
SIR Healthcare 2 Limited	Intermediate parent company and borrower under secured debt facility
SIR Fitzwilliam Limited	Property investment – healthcare
SIR Fulwood Limited	Property investment – healthcare
SIR Lisson Limited	Property investment – healthcare
SIR Midlands Limited	Property investment – healthcare
SIR Oaklands Limited	Property investment – healthcare
SIR Oaks Limited	Property investment – healthcare
SIR Pinehill Limited	Property investment – healthcare
SIR Rivers Limited	Property investment – healthcare
SIR Woodland Limited	Property investment – healthcare
SIR Yorkshire Limited	Property investment – healthcare
Thomas Rivers Limited	Property investment – healthcare
SIR Hotels 1 Limited ¹	Intermediate parent company
SIR Hotels Jersey Limited ²	Intermediate parent company
SIR Unitholder 1 Limited ²	Intermediate parent company
SIR Unitholder 2 Limited ²	Intermediate parent company
Grove Property Unit Trust 6 ²	Property investment – budget hotels and borrower under secured debt facility
Grove Property Unit Trust 7 ²	Property investment – budget hotels and borrower under secured debt facility
Grove Property Unit Trust 9 ²	Property investment – budget hotels and borrower under secured debt facility
Grove Property Unit Trust 11 ²	Property investment – budget hotels and borrower under secured debt facility
Grove Property Unit Trust 12 ²	Property investment – budget hotels and borrower under secured debt facility
Grove Property Unit Trust 16 ²	Property investment – budget hotels and borrower under secured debt facility
SIR Hotels 2 Limited ¹	Intermediate parent company
SIR Hotels Jersey 2 Limited ²	Intermediate parent company
SIR Unitholder 3 Limited ²	Intermediate parent company
SIR Unitholder 4 Limited ²	Intermediate parent company
Grove Property Unit Trust 2 ²	Property investment – budget hotels and borrower under secured debt facility
Grove Property Unit Trust 5 ²	Property investment – budget hotels and borrower under secured debt facility
Grove Property Unit Trust 13 ²	Property investment – budget hotels and borrower under secured debt facility
Grove Property Unit Trust 14 ²	Property investment – budget hotels and borrower under secured debt facility
Grove Property Unit Trust 15 ²	Property investment – budget hotels and borrower under secured debt facility
SIR Maple 4 Limited	Property investment – budget hotels and borrower under secured debt facility

1 directly owned by the Company; all other entities are indirectly owned

2 incorporated in Jersey with their registered office at 26 New Street, St Helier, Jersey JE2 3RA

Nature of business

SIR Maple Holdco Limited ¹	Intermediate parent company
SIR Maple 1 Limited ²	Intermediate parent company
SIR Unitholder 5 Limited ²	Intermediate parent company
MIF I Unit Trust ³	Property investment – leisure and borrower under secured debt facility
SIR Maple 2 Limited	Property investment – leisure and borrower under secured debt facility
SIR Maple 3 Limited	Property investment – leisure and borrower under secured debt facility
SIR New Hall Limited ¹	Dormant
SIR MTL Limited ¹	Dormant
Charcoal Bidco Limited ¹	Dormant
SIR Hotels 2 Holdco Limited ²	Dormant
SIR Hotels 2 GP Limited ²	Dormant
SIR Hotels 2 Nominee Limited ²	Dormant
SIR Hotels 2 LP ²	Dormant
SIR Newco Limited ¹	Dormant
SIR Newco 2 Limited ¹	Dormant

- 1 directly owned by the Company; all other entities are indirectly owned
2 incorporated in Jersey with the registered office at 26 New Street, St Helier, Jersey JE2 3RA
3 incorporated in Jersey with the registered office at 44 Esplanade, St Helier, Jersey JE4 9WG

The terms of the secured debt facilities may, in the event of a covenant breach, restrict the ability of certain subsidiaries to transfer distributable reserves or assets including cash to the Company, which is itself outside all security groups.

The subsidiary undertakings below are taking advantage of the exemption from audit under section 479a of the Companies Act 2006, and as a result Secure Income REIT Plc will provide a statutory guarantee for any outstanding liabilities of these undertakings as at 31 December 2021, all of which have been included in these consolidated financial statements:

	Registered number
SIR Hospital Holdings Limited	05863307
SIR Healthcare 1 Limited	09736611
SIR Umbrella Limited	09736612
SIR Hotels 1 Limited	10236666
SIR Hotels 2 Limited	11206064

Notes to the Group Financial Statements continued

13. Interest rate derivatives

	31 December 2021 £m	31 December 2020 £m
Notional amounts		
Interest rate swaps (weighted average rate 1.3%) in effective hedges	50.0	50.0
Interest rate caps (weighted average rate 1.5%):		
In effective hedges	23.3	23.3
Classified as held at fair value through profit and loss	3.2	3.2
	76.5	76.5
Fair value		
Interest rate swaps:		
Falling due within one year	(0.2)	(0.6)
Falling due in more than one year	(0.1)	(1.1)
	(0.3)	(1.7)
Interest rate caps:		
Falling due in more than one year	0.1	-
	(0.2)	(1.7)
Movement in fair value		
At the start of the year	(1.7)	(1.0)
Charge to the income statement (note 8)	(0.1)	(0.1)
Credit/(charge) to other comprehensive income (note 8)	1.6	(0.6)
At the end of the year	(0.2)	(1.7)

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

The entire £50.0 million notional amount of the interest rate swaps and £10.0 million of the notional amount of the interest rate caps are used to hedge cash flow interest rate risk on £60.0 million of the floating rate loans shown in [note 17a](#). The notional amounts of the interest rate derivatives equal the loan principal balance, and their maturity dates also match. £3.3 million of the notional amount of the interest rate caps was not designated for hedge accounting to allow for any future loan prepayments and as a result, although the entire cash flow interest rate is hedged, the hedges as measured for the purposes of IFRS 9 were expected on inception to be 94.5% effective throughout their lives.

The remaining £16.5 million notional amount of the interest rate caps is used to hedge cash flow interest rate risk on the remaining £13.3 million (2020: £13.3 million) of the floating rate loans shown in [note 17a](#). Following rebalancing of the hedging arrangements on £3.2 million (2020: £3.2 million) of the notional amount of the interest rate caps in prior years, matching the loan principal that has been repaid from the proceeds of investment property sales, the notional amounts of the interest rate caps designated for hedge accounting equal the loan principal balance and their maturity dates also match. As a result, the interest rate cap hedges, which have a fair value of £26,000 (2020: £6,000), are expected to be 100% effective throughout their terms. The remaining interest rate caps, which have a fair value of £7,000 (2020: £1,000), have been classified as held at fair value through profit and loss.

The floating rate loans and interest rate derivatives were previously contractually linked to LIBOR, a market rate which became unavailable from the end of 2021. The Investment Adviser worked with the Group's lenders and derivative counterparties to transition to an alternative benchmark rate, Sterling Overnight Index Average, during the year and the transition did not have a material impact on the results or financial position of the Group. There was no change to the effectiveness of the Group's hedges.

The Group's accounting policy for interest rate derivatives is disclosed in [note 2e](#).

14. Cash and cash equivalents

	31 December 2021 £m	31 December 2020 £m
Free cash and cash equivalents	168.5	196.6
Secured cash	29.9	23.1
	198.4	219.7

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

The Group's accounting policy for cash and cash equivalents is disclosed in [note 2e](#).

15. Trade and other receivables

	31 December 2021 £m	31 December 2020 £m
Trade receivables	0.2	0.6
Accrued income	1.7	18.4
Prepayments	0.7	0.6
Other receivables	0.2	0.4
	2.8	20.0

Having been reviewed for expected credit losses, an impairment of £22,500 (2020: £nil) was considered necessary for trade receivables and accrued income at either balance sheet date.

16. Trade and other payables

	31 December 2021 £m	31 December 2020 £m
Trade payables	0.3	1.0
Rent received in advance and other deferred income	24.6	19.6
Interest payable	7.9	8.0
Accruals and other payables	5.3	2.0
Tax and social security	3.2	2.3
	41.3	32.9

Notes to the Group Financial Statements continued

17. Financial assets and liabilities

a) Borrowings

	31 December 2021 £m	31 December 2020 £m
Amounts falling due within one year		
Fixed rate secured debt	375.9	7.3
Unamortised finance costs	(2.1)	(2.3)
	373.8	5.0
Amounts falling due in more than one year		
Fixed rate secured debt	467.6	847.7
Floating rate secured debt	73.3	73.3
Unamortised finance costs	(2.3)	(4.4)
	538.6	916.6

The Group had no undrawn, committed borrowing facilities at either balance sheet date.

The debt is secured by charges, within six ring-fenced security groups, over the Group's investment properties and by fixed and floating charges over the other assets of certain Group companies, not including the Company itself save for a limited share charge over the parent company of one of the ring-fenced subgroups.

During the year and the prior year, certain financial covenants were amended or waived to accommodate the temporary Covid-19 rent concessions on the Leisure and Budget Hotels portfolios described in the Strategic Report on [page 10](#). All covenant amendments and waivers had expired by the balance sheet date. There were no defaults or breaches of any loan covenants during the current or any prior year.

As described in [note 26](#), since the balance sheet date £372.4 million of the fixed rate secured debt falling due within one year has been refinanced with loan maturing in March 2026. The remainder of the balance falling due within one year represents the scheduled amortisation on other loans.

The analysis of borrowings by currency is as follows:

	31 December 2021 £m	31 December 2020 £m
Sterling denominated		
Secured debt	857.3	863.9
Unamortised finance costs	(4.3)	(6.4)
	853.0	857.5
Euro denominated		
Secured debt	59.5	64.4
Unamortised finance costs	(0.1)	(0.3)
	59.4	64.1

The Group's accounting policy for borrowings is disclosed in [note 2e](#).

b) Categories of financial instruments

	31 December 2021 £m	31 December 2020 £m
Financial assets		
Financial assets at amortised cost:		
Cash and cash equivalents (note 14)	198.4	219.7
Headlease deposits	2.8	2.8
Accrued income (note 15)	1.7	18.4
Trade receivables (note 15)	0.2	0.6
Other receivables	-	0.2
Derivatives in effective hedges:		
Interest rate caps (note 13)	0.1	-
	203.2	241.7
Financial liabilities		
Financial liabilities at amortised cost:		
Secured debt	(912.4)	(921.6)
Headlease liabilities (note 18)	(30.6)	(28.7)
Interest payable (note 16)	(7.9)	(8.0)
Accruals and other payables (note 16)	(5.3)	(2.0)
Trade payables (note 16)	(0.3)	(0.9)
Derivatives in effective hedges:		
Interest rate swaps (note 13)	(0.3)	(1.7)
	(956.8)	(962.9)

At each balance sheet date, all financial assets and liabilities other than derivatives in effective hedges and derivatives classified as held at fair value through profit and loss were measured at amortised cost.

As at 31 December 2021 the fair value of the Group's secured debt was £928.1 million (2020: £969.2 million) and the fair value of the other financial liabilities was equal to their book value. Fair value is not the same as a liquidation valuation, the amount required to prepay the loans at the balance sheet date, and therefore does not represent an estimate of the cost to the Group of prepaying the debt before the scheduled maturity date, which would be materially higher.

The secured debt was valued in accordance with IFRS 13 by reference to interbank bid market rates as at the close of business on the balance sheet date by Chatham Financial Europe Limited. All secured debt was classified as level 2 in the fair value hierarchy as defined in IFRS 13 and its fair value was calculated using the present values of future cash flows, based on market benchmark rates (interest rate swaps) and the estimated credit risk of the Group for similar financings. There were no transfers to or from other levels of the fair value hierarchy during the current or prior year.

The Group's accounting policy for material financial assets and liabilities is disclosed in [note 2e](#).

Notes to the Group Financial Statements continued

17. Financial assets and liabilities continued

c) Financial risk management

Through the Group's operations and use of debt financing it is exposed to certain risks. The Group's financial risk management objective is to manage the effect of these risks, for example by using fixed rate debt and interest rate derivatives to manage exposure to fluctuations in interest rates.

The exposure to each financial risk considered potentially material to the Group, how it would arise and the policy for managing it is summarised below.

Market risk

Market risk in financial assets and liabilities is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group's market risk arises from open positions in interest bearing assets, liabilities and foreign currencies, to the extent that these are exposed to general and specific market movements.

(a) Market risk – interest rate risk

The Group's interest bearing financial assets comprise only cash and cash equivalents. Changes in market interest rates therefore affect the Group's finance income. The Group's interest bearing financial liabilities comprise only secured debt. Changes in market interest rates therefore affect the Group's finance costs.

The Group's policy is to mitigate interest rate risk on its financial liabilities by entering into interest rate derivatives, which at the balance sheet date included interest rate swaps on £50.0 million (2020: £50.0 million) of floating rate debt and interest rate caps on the remaining £23.3 million (2020: £23.3 million) of floating rate debt. Under the interest rate swaps, the Group agrees to exchange with an institutional counterparty, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed schedule of notional principal amounts. The Group's fixed rate debt and debt where the interest rate risk is hedged by way of interest rate swaps, together totalling £893.5 million (2020: £905.0 million), are therefore not subject to interest rate risk. Under the interest rate caps, the Group agrees a similar exchange if the variable interest rate exceeds the contractual strike rate of the derivative. The Group is therefore exposed to limited cash flow interest rate risk on the £23.3 million (2020: £23.3 million) of floating rate debt where this risk is hedged by way of interest rate caps. Interest on those loans is payable at variable rates up to the maximum established by the cap strike rate, which averaged 1.5% (2020: 1.5%) in the year.

The Group's sensitivity to changes in interest rates is disclosed in [note 8](#).

Trade and other payables are interest free as long as they are paid in accordance with their terms, and have payment terms of less than one year, so there is considered to be no material interest rate risk associated with these financial liabilities.

(b) Market risk – foreign currency exchange risk

The Group prepares its financial statements in Sterling. On an IFRS basis, 4.9% (2020: 3.5%) by value of the Group's net assets are Euro denominated and as a result the Group is subject to foreign currency exchange risk. On an EPRA NTA basis, the Euro exposure is 5.0% (2020: 3.9%). This risk is partially hedged because within the Group's German operations, rental income, interest costs and the majority of both assets and liabilities are Euro denominated. An unhedged currency risk remains on the value of the Group's net investment in, and net returns from, its German operations.

The Group's sensitivity to changes in foreign currency exchange rates, calculated on the basis of a 10% increase in average and closing Sterling rates against the Euro, was as follows, with a 10% decrease having the opposite effect:

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Investment property revaluation net of deferred tax	2.2	(0.1)
Other income statement movements	0.2	0.2
Increase in profit/(loss) for the year	2.4	0.1
Increase in other comprehensive income and equity	3.9	4.1

Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty fails to meet its contractual obligations. The principal counterparties at each balance sheet date are the Group's tenants (in respect of trade receivables and accrued income arising under operating leases), banks and financial institutions (as holders of the Group's cash deposits and hedging counterparties).

The credit risk of trade receivables is considered low because the counterparties to the operating leases are believed by the Board to be capable of discharging their lease obligations and any lease guarantors are also of appropriate financial strength. On the 72% of the portfolio (at 31 December 2021 valuations) that has been owned by Group entities since 2007, over the last 14 years the rent has always been paid by the due date. Rent collection statistics are benchmarked in internal reports to identify any problems at any early stage, and if necessary and where possible (in the absence, for example, of a Government imposed moratorium on the enforcement of rent collection) rigorous credit control procedures are applied to facilitate the recovery of trade receivables.

As at 31 December 2021, the Group held financial assets with a carrying value of £22,500 (2020: £0.4 million) which were past due, all of which were trade receivables and had been impaired by £22,500. The Group did not hold any financial assets that were impaired at the prior year balance sheet date.

The credit risk on cash deposits is considered to be limited because the counterparties are banks and financial institutions with credit ratings which are acceptable to the Board and which are kept under review at least each quarter and more often if required.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and its ability to meet its liabilities as they fall due, principally the finance costs and principal repayments on its secured debt.

The Board seeks to manage liquidity risk by ensuring that sufficient cash is available to meet the Group's foreseeable needs. Financing costs and scheduled amortisation have been met during the year, with only limited exceptions during a rent concession period for one tenant, out of rental income which, in all cases, provides headroom over the relevant amounts payable. Before entering into any financing arrangements, the Board assesses the resources that are expected to be available to the Group to meet its liabilities when they fall due, including repayments at loan maturity. These assessments are made on the basis of both base case and stress tested scenarios.

Other liquidity needs are relatively modest and are managed principally through the deduction of much of the direct operating costs from rental receipts before any surplus is applied in payment of interest and loan amortisation as permitted by the facility agreements relating to the Group's secured debt.

Performance against budgets and working capital forecasts are reviewed by the Board at least quarterly to assess liquidity requirements and compliance with loan covenants. The Board keeps under review the maturity profile of the Group's cash deposits, in order to have reasonable assurance that cash will be available for the settlement of liabilities or to deploy in investment opportunities when they fall due.

The following maturity analysis has been drawn up based on the undiscounted cash flows of financial liabilities, including future interest payments, with reference to the earliest date on which the Group can be required to pay. During the year, 74% (2020: 73%) of the Group's headlease liabilities were recoverable from tenants and are not included in this analysis to the extent that they are recoverable.

Notes to the Group Financial Statements continued

17. Financial assets and liabilities continued

31 December 2021	Effective interest rate	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Financial assets						
Cash and cash equivalents	0.02%	198.4	-	-	-	198.4
Headlease deposits		-	-	-	2.8	2.8
Accrued income		1.7	-	-	-	1.7
Trade and other receivables		0.2	-	-	-	0.2
Interest rate derivatives		-	0.1	-	-	0.1
		200.3	0.1	-	2.8	203.2
Financial liabilities						
Fixed rate secured debt	5.1%	(418.8)	(135.2)	(387.2)	-	(941.2)
Floating rate secured debt	2.0%	(2.1)	(74.7)	-	-	(76.8)
Headlease liabilities		(0.5)	(0.5)	(1.6)	(7.4)	(10.0)
Accrued interest		(7.9)	-	-	-	(7.9)
Trade payables and accruals and other payables		(5.3)	-	-	-	(5.3)
Interest rate derivatives	1.3%	(0.2)	(0.1)	-	-	(0.3)
		(434.8)	(210.5)	(388.8)	(7.4)	(1,041.5)
31 December 2020						
	Effective interest rate	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Financial assets						
Cash and cash equivalents	0.2%	219.7	-	-	-	219.7
Accrued income		18.4	-	-	-	18.4
Headlease deposits		-	-	-	2.7	2.7
Trade and other receivables		0.8	-	-	-	0.8
		238.9	-	-	2.7	241.6
Financial liabilities						
Fixed rate secured debt	5.1%	(50.8)	(425.3)	(524.3)	-	(1,000.4)
Floating rate secured debt	2.4%	(1.7)	(1.7)	(74.5)	-	(77.9)
Headlease liabilities		(0.5)	(0.5)	(1.6)	(7.3)	(9.9)
Accrued interest		(8.0)	-	-	-	(8.0)
Trade payables and accruals and other payables		(3.0)	-	-	-	(3.0)
Interest rate derivatives	1.3%	(0.6)	(0.7)	(0.4)	-	(1.7)
		(64.6)	(428.2)	(600.8)	(7.3)	(1,100.9)

Inflation risk

Inflation risk arises from the impact of inflation on the Group's income and expenditure. 58% (2020: 58%) of the Group's contractual passing rent before concessions at 31 December 2021 is subject to inflation-linked rent reviews, though those rents are subject to nil or upwards review, never downwards. 41% (2020: 41%) of contractual passing rent before concessions is subject to fixed rental uplifts and is not exposed to fluctuations in the inflation rate, with 1% (2020: 1%) subject to upwards only open market rent reviews. As a result, the Group is not exposed to any fall in rent in deflationary conditions. Given the high proportion of inflation-linked rental income, inflationary conditions present an opportunity in terms of increasing revenues.

In November 2020, the UK Government and UK Statistics Authority announced changes to RPI such that it will align with the Consumer Prices Index ("CPIH") from February 2030. The exact impact on the RPI clauses in the Group's leases will depend on precisely how the UK Statistics Agency implements the change. On a downside basis, if rents were to follow CPIH which has been on average 0.9 percentage points lower than RPI over the past ten years and assuming a differential continues, the rent uplifts from 2030 onwards would be lower than they would otherwise have been. However, the Group's lease provisions may provide protection so that there would be no change in some or all cases. In the event that rental uplifts do change from 2030, any valuation impact in such circumstances would be expected to be insignificant as the market tends not to differentiate materially between RPI and CPIH lease structures, with the other property characteristics carrying greater weight in establishing pricing. During the year, 25% of Group rents moved from RPI to CPI-linked reviews, reducing exposure to this change.

The Group is exposed to inflation risk on its running costs, which (with the exception of any advisory and incentive fees, the calculation of which is based on EPRA NAV as described in [note 25b](#)) could increase in inflationary conditions. These costs totalled £2.0 million (2020: £3.3 million) in the current year (13% (2020: 20%) of total administrative expenses), and therefore the impact of any significant increase in inflation on the financial results or position of the Group would be relatively limited.

d) Capital risk management in respect of the financial year

The Board's primary risk management objective when monitoring capital is to preserve the Group's ability to continue as a going concern, while ensuring it remains within its secured debt covenants to safeguard shareholders' equity and avoid financial penalties. Borrowings are secured on each of six (2020: six) property portfolios by way of fixed charges over property assets, over the shares in the parent company of each ring-fenced borrower subgroup, and also by floating charges on the assets of the relevant subsidiary companies within each distinct subgroup. The suitability of the extent of asset cover in the secured facilities forms a key part of debt negotiations and ongoing monitoring.

At 31 December 2021 and 31 December 2020, the capital structure of the Group consisted of secured debt ([note 17a](#)), cash and cash equivalents ([note 14](#)), and equity attributable to the shareholders of the Company (comprising share capital, retained earnings and the other reserves described in [notes 20 and 21](#)).

In managing the Group's capital structure, the Board considers the Group's cost of capital. In order to maintain or adjust the capital structure, the Board keeps under review the amount of any dividends or other returns to shareholders and monitors the extent to which the issue of new shares, repurchases of share capital or the realisation of assets may be advisable or required.

Details of significant accounting policies are disclosed in the accounting policies in [note 2](#). This includes the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument.

Notes to the Group Financial Statements continued

18. Headlease liabilities

Headlease obligations in respect of amounts payable on leasehold properties are as follows:

	31 December 2021 £m	31 December 2020 £m
Minimum headlease payments		
Within one year	2.0	1.8
Between one and five years	7.8	7.3
More than five years	164.6	158.0
	174.4	167.1
Less future finance charges	(143.8)	(138.4)
	30.6	28.7

The earliest expiry date of all the headlease obligations is in more than five years. All but £0.5 million (2020: £0.5 million) of the minimum headlease payments due within one year are recoverable from occupational tenants.

The Group's accounting policy for headleases is disclosed in [note 2d](#).

19. Deferred tax liability

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

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
At the start of the year	11.9	11.3
Deferred tax charge from investment property revaluation, net of tax depreciation	4.5	-
Deferred tax credit from revision of assessment	(7.7)	-
Net credit to the income statement (note 9)	(3.2)	-
(Credit)/charge to other comprehensive income	(0.7)	0.6
At the end of the year	8.0	11.9

The Group has tax losses of £95.8 million (2020: £93.7 million) available for offset against future profits of the residual business. £12.1 million (2020: £10.6 million) of these tax losses relate to the Company. A deferred tax asset has not been recognised in respect of any of these losses due to the uncertainty of realising future taxable profits in the residual business.

The Group's accounting policy for deferred tax is disclosed in [note 2f](#).

20. Share capital

Share capital represents the aggregate nominal value of fully paid ordinary shares of 10 pence each in issue.

	Year to 31 December 2021 Number	Year to 31 December 2020 Number
At the start of the year	324,035,146	322,850,595
Issue of ordinary shares in settlement of 2019 incentive fee	-	1,184,551
At the end of the year	324,035,146	324,035,146

21. Reserves

The share premium reserve represents the surplus of the gross proceeds of share issues over the nominal value of the shares, net of the direct costs of those equity issues.

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

Other reserves represent:

- the cumulative exchange gains and losses on translation of foreign earnings and net assets;
- the cumulative gains or losses on effective cash flow hedging instruments; and
- the impact on equity of any shares to be issued after the balance sheet date, as described in [note 25d](#), under the terms of the incentive fee arrangements.

Movements in other reserves comprise:

	Currency translation differences £m	Cash flow hedging instruments £m	Shares to be issued £m	Total £m
Year to 31 December 2021				
At the start of the year	5.4	(1.7)	-	3.7
Currency translation movements	(3.6)	-	-	(3.6)
Fair value of derivatives (note 13)	-	1.6	-	1.6
Other comprehensive (loss)/income	(3.6)	1.6	-	(2.0)
At the end of the year	1.8	(0.1)	-	1.7
Year to 31 December 2020				
At the start of the year	3.3	(1.1)	4.9	7.1
Currency translation movements	2.1	-	-	2.1
Fair value of derivatives (note 13)	-	(0.6)	-	(0.6)
Other comprehensive income/(loss)	2.1	(0.6)	-	1.5
Shares issued in the year	-	-	(4.9)	(4.9)
At the end of the year	5.4	(1.7)	-	3.7

Notes to the Group Financial Statements continued

22. Operating leases

The majority of the Group's assets are investment properties leased to third parties under non-cancellable operating leases. The weighted average remaining lease term at 31 December 2021 is 30.0 years (2020: 20.2 years), the increase reflecting a number of lease extensions in the Leisure portfolio during the year, and there are no tenant break options. The leases contain either fixed or minimum uplifts, or upwards only inflation-linked uplifts, alongside periodic upwards only open market reviews and variable income on 1% (2020: 1%) of the Group's contractual passing rent.

RPI-linked uplifts on 35% (2020: 37%) of the Group's passing rent as at 31 December 2021 resulted in the settlement of £0.8 million (2020: £0.9 million) of contingent rental income that was recognised in the income statement in the year.

Future minimum rents receivable are as follows:

	31 December 2021 £m	31 December 2020 £m
Within one year	117.6	104.9
Between one and two years	118.8	115.5
Between two and three years	120.7	116.9
Between three and four years	121.1	118.5
Between four and five years	122.7	118.5
More than five years	4,407.2	2,045.2
	5,008.1	2,619.5

The Group's accounting policy for operating leases is disclosed in [note 2d](#).

23. Net asset value per share

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

EPRA, the European Public Real Estate Association, publishes guidelines for the calculation of three measures of NAV to enable consistent comparisons of different property companies. The Group uses EPRA Net Tangible Assets ("EPRA NTA") as the most meaningful measure of long term performance, which is the measure adopted by the majority of UK REITs establishing it as the industry standard benchmark. It excludes items that are considered to have no impact in the long term, such as movements in the fair value of derivatives and a portion of the deferred tax on investment properties held for long term benefit.

	31 December 2021		31 December 2020	
	£m	Pence per share	£m	Pence per share
Basic NAV and EPRA NTA				
Basic and diluted NAV	1,369.8	422.7	1,221.5	377.0
<i>EPRA adjustments:</i>				
Adjustment for deferred tax on German investment property revaluations*	4.0	1.3	6.0	1.8
Fair value of interest rate derivatives	0.3	0.1	1.7	0.5
EPRA NTA	1,374.1	424.1	1,229.2	379.3

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

24. Reconciliation of changes in financial liabilities arising from financing activities

	Secured debt due within one year (note 17a) £m	Secured debt due in more than one year (note 17a) £m	Headlease liabilities (note 18) £m	Interest payable (note 16) £m	Derivatives (note 13) £m	Total £m
Year to 31 December 2021						
At the start of the year	5.0	916.6	28.7	8.0	1.7	960.0
<i>Cash flows:</i>						
Interest and finance costs paid	-	-	(1.8)	(45.3)	(0.6)	(47.7)
Scheduled repayment of secured debt	(7.3)	-	-	-	-	(7.3)
<i>Non-cash movements:</i>						
Finance costs in the income statement	2.3	-	1.8	45.1	0.8	50.0
Finance costs in other comprehensive income	-	-	-	-	(1.6)	(1.6)
Increase in headlease liabilities	-	-	2.0	-	-	2.0
Revaluation movement in headlease liabilities	-	-	(0.1)	-	-	(0.1)
Currency translation movements	-	(4.2)	-	-	-	(4.2)
Reclassifications	373.8	(373.8)	-	0.1	(0.1)	-
At the end of the year	373.8	538.6	30.6	7.9	0.2	951.1
Year to 31 December 2020						
At the start of the year	2.1	919.5	28.2	8.0	1.0	958.8
<i>Cash flows:</i>						
Interest and finance costs paid	-	-	(1.7)	(45.8)	(0.4)	(47.9)
Scheduled repayment of secured debt	(4.4)	-	-	-	-	(4.4)
Repayment of secured debt from property sales	-	(1.5)	-	-	-	(1.5)
<i>Non-cash movements:</i>						
Finance costs in the income statement	2.3	0.1	1.7	45.7	0.5	50.3
Finance costs in other comprehensive income	-	-	-	-	0.6	0.6
Increase in headlease liabilities	-	-	0.6	-	-	0.6
Revaluation movement in headlease liabilities	-	-	(0.1)	-	-	(0.1)
Currency translation movements	-	3.5	-	0.1	-	3.6
Reclassifications	5.0	(5.0)	-	-	-	-
At the end of the year	5.0	916.6	28.7	8.0	1.7	960.0

Notes to the Group Financial Statements continued

25. Related party transactions and balances

a) Relationship between Company and Investment Adviser

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

b) Basis of calculation of fees

EPRA introduced new methods of calculation of EPRA net asset value with effect from 1 January 2020. In considering that change, the Remuneration Committee concluded that, in order for the calculation of the advisory and incentive fees to remain consistent with the way that those fees had been calculated since the Company's listing in 2014 and as set out in the Investment Advisory Agreement, the fees would continue to be calculated on the basis of the EPRA NAV methodology in place at the time of the agreement. That basis is set out in the EPRA Guidance issued in 2016, referred to in these financial statements as "2016 basis EPRA NAV".

In addition, following a proposal made by the Investment Adviser, with effect from 1 April 2020 the advisory fee was reduced to the extent that the 2016 basis EPRA NAV includes surplus cash realised on the disposal of a portfolio of hospitals in August 2019. The balance of the surplus cash at 1 April 2020 was £158.3 million and as at 31 December 2021 was £88.1 million (31 December 2020: £113.9 million). Since the balance sheet date, the remainder of that surplus cash has been committed to the refinancing of one of the Group's secured debt facilities in April 2022.

The fees are calculated every quarter, on the basis of the simple average NAV over the quarter.

	31 December 2021		31 December 2020	
	£m	Pence per share	£m	Pence per share
EPRA NTA	1,374.1	424.1	1,229.2	379.3
Adjustment to deferred tax on German investment property revaluations	4.0	1.2	5.9	1.9
NAV for purposes of incentive fee calculation (2016 basis EPRA NAV)	1,378.1	425.3	1,235.1	381.2
Adjustment for surplus cash	(88.1)	(27.2)	(113.9)	(35.2)
NAV for purposes of advisory fee calculations	1,290.0	398.1	1,121.2	346.0

c) Advisory fees payable

Advisory fees payable to the Investment Adviser are calculated as:

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

During the year, advisory fees of £12.4 million (2020: £12.8 million) plus VAT were payable in cash, of which £0.1 million was outstanding as at the balance sheet date (2020: £nil). The impact of adopting 2016 basis EPRA NAV is that fees payable in the current year were £42,000 (2020: £44,000) higher than they would have been under EPRA NTA.

d) Incentive fee

The Investment Adviser may become entitled to an incentive fee intended to reward growth in Total Accounting Return ("TAR") above an agreed benchmark and to maintain strong alignment of the Investment Adviser's interests with those of shareholders. TAR is measured as growth in 2016 basis EPRA NAV per share plus dividends paid in the year.

The fee entitlement is calculated annually on the basis of the Group's audited financial statements, with any fee payable settled in shares in the Company (subject to certain limited exceptions, none of which have yet applied). Sales of these shares are restricted (save for certain limited exceptions), with the restriction lifted on a phased basis over a period from 18 to 42 months from the date of issue. Shares may be released from the sale restriction in the event that shares need to be sold to settle the tax liability on the receipt of those shares, although this exemption has never been requested.

The incentive fee is calculated by reference to growth in TAR: if that growth exceeds a hurdle rate of 10% per annum since the last year in which an incentive fee was earned, an incentive fee equal to 20% of this excess is payable in shares to the Investment Adviser. In the event of an incentive fee being payable, a high water mark is established, represented by the 2016 basis EPRA NAV per share at the end of the relevant financial year, after the impact of the incentive fee, which is then the starting point for the cumulative hurdle calculations for future periods. The hurdle is set at the higher of the 2016 basis EPRA NAV at the start of the year plus 10% or the high water mark 2016 basis EPRA NAV plus 10% per annum. In this way, the incentive fee is never rebased as a result of a year of low or negative growth, maintaining strong alignment of management and shareholder interests. Dividends or other distributions paid in any period are treated as payments on account against achievement of the hurdle rate of return. The incentive fee payable in any year is subject to a cap of 5% of 2016 basis EPRA NAV, save for a fee payable in the event of a change of control of the Company which is uncapped.

A high water mark 2016 basis EPRA NAV per share of 431.1 pence per share was established at 31 December 2019 when an incentive fee was last earned. At 31 December 2020, 2016 basis EPRA NAV was 381.2 pence per share which meant that TAR had to exceed 124.4 pence per share for the year to 31 December 2021 for a fee to be earned. After dividends of 15.2 pence per share were paid in the year, this equated to a 2016 basis EPRA NAV per share of 491.4 pence per share (£1,592.3 million) at 31 December 2021. Since 2016 basis EPRA NAV is below this level at 425.3 pence per share, no incentive fee is payable for the current year.

Assuming no changes in the Company's capital structure, growth in net assets together with dividends paid will have to have reached a 2016 basis EPRA NAV of 540.5 pence per share by 31 December 2022 before an incentive fee is earned for that year.

e) Dividends paid to related parties and key management personnel

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Prestbury Incentives Limited ¹	2.9	3.0
Nick Leslau ²	2.8	2.9
Mike Brown	0.2	0.2
Prestbury Investment Partners Limited ¹	0.2	0.1
Other Directors (Sandy Gumm, Martin Moore, Ian Marcus, Jonathan Lane and Leslie Ferrar)	0.1	0.1
	6.2	6.3

- 1 Nick Leslau, Mike Brown and Sandy Gumm are shareholders and directors of both Prestbury Investment Partners Limited and the parent undertaking of Prestbury Incentives Limited, together with other key management personnel, Tim Evans and Ben Walford. Other senior members of the Prestbury team also have equity interests in those companies
- 2 comprising dividends from 16,850,300 ordinary shares held by an entity in which Nick Leslau has a 95% indirect interest and 1,491,709 shares held by a company which he wholly owns

26. Events after the balance sheet date

On 3 March 2022, certain Group companies entered into committed credit agreements for £232.0 million and €60.2 million of senior debt, scheduled to be drawn on 29 April 2022, subject to certain conventional conditions precedent. The proceeds of the loans and an estimated £108.2 million of the Group's cash reserves will be applied to prepay secured debt facilities due to mature in October 2022.

On 4 March 2022, the Company paid an interim dividend of 3.95 pence per share amounting to £12.8 million.

Company Balance Sheet

Registered number: 6064259

	Notes	31 December 2021 £m	31 December 2020 £m
Fixed assets			
Investment in subsidiary undertakings	C	419.3	394.5
Current assets			
Loans to subsidiary undertakings	D	290.5	292.9
Other debtors		0.4	0.8
Cash at bank and in hand		164.7	194.2
		455.6	487.9
Creditors: amounts falling due within one year			
Trade creditors		(0.1)	(0.1)
Loans from subsidiary undertakings	E	(15.4)	(24.3)
Accruals and deferred income		(0.2)	(0.3)
Net current assets		439.9	463.2
Total assets less current liabilities		859.2	857.7
Net assets		859.2	857.7
Capital and reserves			
Share capital	E	32.4	32.4
Share premium reserve		523.2	523.2
Retained earnings		303.6	302.1
Shareholders' funds		859.2	857.7

The Company has taken advantage of the exemption within section 408 of the Companies Act 2006 not to present its own profit and loss account. The profit for the year dealt with in the financial statements of the Company was £50.8 million (2020: loss of £15.8 million). As at 31 December 2021, the entire balance of £303.6 million (2020: £302.1 million) in retained earnings represents distributable reserves.

The notes on [pages 126 and 127](#) form part of the Company financial statements.

The Company financial statements were approved and authorised for issue by the Board of Directors on 9 March 2022 and were signed on its behalf by:

Martin Moore
Chairman

Sandy Gumm
Director

Company Statement of Changes in Equity

	Share capital £m	Share premium reserve £m	Other reserves £m	Retained earnings £m	Total £m
Year to 31 December 2021					
At 1 January 2021	32.4	523.2	–	302.1	857.7
Profit and total comprehensive income for the year	–	–	–	50.8	50.8
Interim dividends of 15.2 pence per share	–	–	–	(49.3)	(49.3)
At 31 December 2021	32.4	523.2	–	303.6	859.2
	Share capital £m	Share premium reserve £m	Other reserves £m	Retained earnings £m	Total £m
Year to 31 December 2020					
At 1 January 2020	32.3	518.4	4.9	368.7	924.3
Loss and total comprehensive loss for the year	–	–	–	(15.8)	(15.8)
Interim dividends of 15.7 pence per share	–	–	–	(50.8)	(50.8)
Issue of shares	0.1	4.8	(4.9)	–	–
At 31 December 2020	32.4	523.2	–	302.1	857.7

The notes on [pages 126 and 127](#) form part of the Company financial statements.

Notes to the Company Financial Statements

A. Basis of preparation

The Company's financial statements have been prepared in accordance with FRS 102 The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland.

The principal accounting policies relevant to the Company are:

- investments in subsidiaries are stated at cost less provision for any impairment;
- loans to subsidiaries are stated at cost less provision for any impairment; and
- shares to be issued in settlement of incentive fees are disclosed in other reserves.

In preparing the Company's financial statements, advantage has been taken of the following disclosure exemptions available in FRS 102:

- no cash flow statement has been presented;
- disclosures in respect of the Company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group;
- no reconciliation of the number of shares outstanding at the beginning and end of the year has been presented as it is identical to the reconciliation for the Group shown in [note 20](#) to the Group financial statements; and
- no disclosure has been given for the aggregate remuneration of the key management personnel of the Company as their remuneration is shown in [note 7](#) to the Group financial statements.

In the year to 31 December 2022, the Company intends to continue to use these disclosure exemptions unless objections are received from the holders of at least 5% of the shares in the Company.

B. Auditors' remuneration

The auditor's remuneration in respect of the audit of the Company for the year was £51,000 (2020: £48,000). Fees payable for non-audit services provided to the Company and the rest of the Group are disclosed in [note 7](#) to the Group financial statements.

C. Investment in subsidiary undertakings

The Company's wholly owned direct subsidiaries are SIR Theme Park Subholdco Limited, SIR Hospital Holdings Limited, SIR Hotels 1 Limited, SIR Hotels 2 Limited, SIR Maple Holdco Limited, SIR MTL Limited, SIR New Hall Limited and Charcoal Bidco Limited, all of which are incorporated and operating in England. The full list of subsidiary entities indirectly owned by the Company is disclosed in [note 12](#) to the Group financial statements. The movement in the year was as follows:

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
At the start of the year	394.5	457.6
Reversal of impairment/(impairment)	24.8	(63.1)
At the end of the year	419.3	394.5

The impairment reflected the impact of investment property valuation falls in the prior year on the carrying value of certain subsidiaries that hold properties in the Budget Hotels and Leisure portfolios, which was partially reversed in the current year following valuation increases in those portfolios.

D. Loans to subsidiary undertakings

Loans to subsidiary undertakings are unsecured, bear no interest and are repayable on demand. The movement in the year was as follows:

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
At the start of the year	292.9	288.1
Net loans (repaid)/advanced	(2.4)	4.8
At the end of the year	290.5	292.9

E. Loans from subsidiary undertakings

Loans from subsidiary undertakings are unsecured, bear no interest and are repayable on demand. The movement in the year was as follows:

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
At the start of the year	24.3	58.1
Net loans repaid	(8.9)	(33.8)
At the end of the year	15.4	24.3

F. Share capital

Details of the share capital of the Company are disclosed in [note 20](#) to the Group financial statements.

G. Related party transactions

Details of related party transactions are disclosed in [note 25](#) to the Group financial statements.

H. Events after the balance sheet date

On 4 March 2022, the Company paid an interim dividend of 3.95 pence per share amounting to £12.8 million.

Unaudited Supplementary Information

Shareholder Returns

Total Shareholder Return

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

TAR – EPRA NTA performance

	Year to 31 December 2021 Pence per share	Year to 31 December 2020 Pence per share
EPRA NTA per share:		
at the start of the year	379.3	429.4
at the end of the year	424.1	379.3
Movement in EPRA NTA per share	44.8	(50.1)
Dividends per share	15.2	15.7
Movement in EPRA NTA per share plus dividends per share	60.0	(34.4)
TAR	15.8%	(8.0)%

	Period from 30 June 2014 to 31 December 2021 Pence per share	Period from 30 June 2014 to 31 December 2020 Pence per share
EPRA NTA per share:		
at the start of the period	183.5	183.5
at the end of the period	424.1	379.3
Movement in EPRA NTA per share	240.6	195.8
Dividends per share	80.5	65.3
Movement in EPRA NTA per share plus dividends per share	321.1	261.1
TAR per annum since 30 June 2014	15.4%	15.3%

TSR – share price performance

	Year to 31 December 2021 Pence per share	Year to 31 December 2020 Pence per share
Mid market closing share price:		
at the start of the year	300.0	434.0
at the end of the year	425.0	300.0
Movement in share price	125.0	(134.0)
Dividends per share	15.2	15.7
Movement in share price plus dividends per share	140.2	(118.3)
TSR	46.7%	(27.3)%

	Period from June 2014 listing to 31 December 2021 Pence per share	Period from June 2014 listing to 31 December 2020 Pence per share
Listing price	174.0	174.0
Mid market closing share price at the end of the period	425.0	300.0
Movement in share price	251.0	126.0
Dividends per share	80.5	65.3
Movement in share price plus dividends per share	331.5	191.3
TSR per annum since listing	16.3%	12.8%

Unaudited Supplementary Information

EPRA Measures

EPRA measures

	31 December 2021	31 December 2020
EPRA Net Tangible Assets (EPRA NTA) per share	424.1p	379.3p
EPRA Net Reinstatement Value per share	469.6p	421.7p
EPRA Net Disposal Value per share	419.3p	364.3p
EPRA Net Initial Yield	5.1%	4.7%
EPRA Topped Up Net Initial Yield	5.1%	5.4%
EPRA Vacancy Rate	0%	0%
	Year to 31 December 2021	Year to 31 December 2020
EPRA EPS	17.3p	16.3p
EPRA Capital Expenditure	£0.2m	£0.5m
EPRA Cost Ratio excluding direct vacancy costs	12.6%	14.8%
EPRA Cost Ratio including direct vacancy costs	12.8%	15.1%

Adjusted EPRA measures

	Year to 31 December 2021	Year to 31 December 2020
Adjusted EPRA EPS (note 10 to the financial statements)	17.5p	3.5p
Adjusted EPRA Cost Ratio excluding direct vacancy costs	14.4%	18.4%
Adjusted EPRA Cost Ratio including direct vacancy costs	14.7%	18.7%

EPRA Net Tangible Assets

	31 December 2021		31 December 2020	
	£m	Pence per share	£m	Pence per share
Basic NAV (note 23)	1,369.8	422.7	1,221.5	377.0
EPRA adjustments:				
Adjustment for deferred tax on German investment property revaluations*	4.0	1.3	6.0	1.8
Fair value of derivatives	0.3	0.1	1.7	0.5
EPRA NTA	1,374.1	424.1	1,229.2	379.3

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

EPRA Net Reinstatement Value

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

	31 December 2021		31 December 2020	
	£m	Pence per share	£m	Pence per share
Basic NAV	1,369.8	422.7	1,221.5	377.0
EPRA adjustments:				
Adjustment for real estate transfer taxes	143.6	44.3	131.5	40.5
Deferred tax on investment property revaluations	8.0	2.5	11.9	3.7
Fair value of interest rate derivatives	0.3	0.1	1.7	0.5
EPRA Net Reinstatement Value	1,521.7	469.6	1,366.6	421.7

EPRA Net Disposal Value

The EPRA Net Disposal Value represents the Group's value under a disposal scenario, with deferred tax and financial instruments (including fixed rate debt) shown to the full extent of their liability, calculated as follows:

	31 December 2021		31 December 2020	
	£m	Pence per share	£m	Pence per share
Basic NAV	1,369.8	422.7	1,221.5	377.0
EPRA adjustments:				
Fair value of fixed rate debt	(11.3)	(3.4)	(40.9)	(12.7)
EPRA Net Disposal Value	1,358.5	419.3	1,180.6	364.3

The fair value of the fixed rate debt is defined by EPRA as a mark to market adjustment measured in accordance with IFRS 9 in respect of all debt not held at fair value in the balance sheet, as disclosed in [note 17b](#) to the financial statements. The fair value of debt is not the same as a liquidation valuation, so the fair value adjustment above does not reflect the liability that would crystallise if the debt was prepaid on the balance sheet date, which would be materially higher.

EPRA Net Initial Yield and EPRA Topped Up Net Initial Yield

	31 December 2021 £m	31 December 2020 £m
Investment property, all of which is completed and wholly owned, at independent external valuation (note 11)	2,127.6	1,946.9
Allowance for estimated purchasers' costs	143.6	131.5
Grossed up completed property portfolio valuation	2,271.2	2,078.4
Annualised cash passing rental income	116.8	98.3
Annualised non-recoverable property outgoings	(1.1)	(1.0)
Annualised net rents for EPRA Net Initial Yield	115.7	97.3
Notional rent increase on expiry of rent concessions, rent free periods and other lease incentives	0.1	15.0
Annualised net rents for Topped Up EPRA Net Initial Yield	115.8	112.3
EPRA Net Initial Yield	5.1%	4.7%
EPRA Topped Up Net Initial Yield	5.1%	5.4%

The EPRA Net Initial Yield in the prior year reflected temporary rent concessions on the Budget Hotels portfolio arising as a result of the Covid-19 pandemic.

EPRA Vacancy Rate

	31 December 2021 £m	31 December 2020 £m
ERV of vacant space	0.1	0.1
ERV of portfolio	116.9	111.5
EPRA Vacancy Rate	0.03%	0.04%

The only vacant space is a restaurant unit at Manchester Arena, part of the ancillary office and leisure space at Manchester Arena which in total comprises approximately 2% of Group ERV. Other than this ancillary office and leisure space, the Group's portfolio is entirely let on long leases with no expiries before 2037, so there is not expected to be any significant change in the EPRA Vacancy Rate until that date.

Unaudited Supplementary Information

EPRA Measures continued

EPRA EPS

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Basic earnings attributable to shareholders	199.6	(113.7)
<i>EPRA adjustments:</i>		
Investment property revaluation (note 11)	(140.3)	166.5
Deferred tax credit (note 9)	(3.2)	-
EPRA earnings	56.1	52.9
<i>Non-EPRA adjustments:</i>		
Rent Smoothing Adjustments (note 4)	(15.2)	(23.7)
Rent deferrals	15.8	(17.7)
Adjusted EPRA earnings	56.7	11.5
Weighted average number of shares in issue	Number	Number
EPRA EPS	324,035,146	324,035,146
Adjustment for weighting of shares issued during the year*	-	(258,918)
Diluted EPRA EPS	324,035,146	323,776,228

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

	Pence per share	Pence per share
EPRA EPS	17.3	16.3
Adjusted EPRA EPS	17.5	3.5

EPRA Capital Expenditure

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Wholly owned property		
Acquisitions	-	-
Development	-	-
Expenditure on completed investment property held throughout the year:		
Creation of additional lettable area	-	-
Enhancing existing space	-	-
Other	0.2	0.5
EPRA Capital Expenditure	0.2	456

The Group does not have any joint ventures or other partial interests in investment property so any EPRA capital expenditure relates to wholly owned properties. The Group does not capitalise any overheads or interest into its property portfolio and it does not develop properties.

The Group's properties are let on full repairing and insuring leases, so the Group incurs no routine ongoing capital expenditure on its property portfolio except at Manchester Arena, where such costs relating to the structure and common areas are liabilities of the Group in the first instance. The EPRA Capital Expenditure in the current period represents £0.2 million (2020: £0.2 million) for capital works at Manchester Arena within the service charge that is not recoverable from tenants. The remaining expenditure in the prior year comprised £0.3 million for the acquisition of car park equipment.

EPRA Cost Ratio

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
Revenue (note 4)	122.4	121.7
Tenant contributions to property outgoings (note 4)	(1.6)	(1.7)
EPRA gross rental income	120.8	120.0
Non-recoverable property operating expenses (note 5)*	0.9	1.7
Less headlease costs included in non-recoverable property operating expenses (note 5)	(0.6)	(0.6)
Administrative expenses (note 6)	15.2	17.0
EPRA costs including direct vacancy costs	15.5	18.1
Direct vacancy costs	(0.3)	(0.3)
EPRA costs excluding direct vacancy costs	15.2	17.8
EPRA Cost Ratio including direct vacancy costs	12.8%	15.1%
EPRA Cost Ratio excluding direct vacancy costs	12.6%	14.8%

* included within the £2.5 million (2020: £3.3 million) of property costs payable by the Group are £1.6 million (2020: £1.7 million) of headlease and other costs that are recoverable from tenants

The Group capitalises the initial direct costs incurred in obtaining a lease, which are then charged to the income statement over the term of the relevant lease. During the year, lease incentive payments of £33.5 million (2020: £nil) and costs of £122,000 (2020: £54,000) were capitalised, of which £10,000 (2020: £nil) and £6,000 (2020: £4,000) was respectively released from the capitalised balances and charged to the income statement. Non-recoverable property costs include £33,000 (2020: £568,000) for negotiating and documenting Covid-19 rent concessions, and rent review and other letting costs of £46,000 (2020: £35,000). A further £6,000 (2020: £106,000) relating to the amendment of loan facilities as a result of the Covid-19 rent concessions is included in finance costs.

The Group has no capitalised overheads or other operating expenses and does not capitalise interest.

Adjusted EPRA Cost Ratio excluding non-cash items

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

	Year to 31 December 2021 £m	Year to 31 December 2020 £m
EPRA gross rental income	120.8	120.0
Rent Smoothing Adjustments (note 4)	(15.2)	(23.6)
Adjusted EPRA gross rental income excluding non-cash items	105.6	96.4
EPRA costs including direct vacancy costs	15.5	18.1
Direct vacancy costs	(0.3)	(0.3)
Adjusted EPRA costs excluding direct vacancy costs	15.2	17.8
Adjusted EPRA Cost Ratio including direct vacancy costs	14.7%	18.7%
Adjusted EPRA Cost Ratio excluding direct vacancy costs	14.4%	18.4%

Unaudited Supplementary Information

EPRA Measures continued

Like for like rental growth by portfolio

	Leisure portfolio £m	Healthcare portfolio £m	Budget Hotels portfolio £m	Total portfolio £m
Passing rent				
At 1 January 2021	47.5	36.6	29.2	113.3
Movement in Euro exchange rate	(0.5)	-	-	(0.5)
Like for like passing rent	47.0	36.6	29.2	112.8
Rental uplifts	1.7	1.0	1.0	3.7
New letting	0.3	-	-	0.3
At 31 December 2021	49.0	37.6	30.2	116.8
Increase in like for like passing rent	4.1%	2.8%	3.7%	3.6%
Portfolio valuation at 31 December 2021	919.2	790.4	418.0	2,127.6
Passing rent				
At 1 January 2020	46.8	35.6	28.3	110.7
Movement in Euro exchange rate	0.4	-	-	0.4
Like for like passing rent	47.2	35.6	28.3	111.1
Rental uplifts	1.1	1.0	0.9	3.0
Lease expiry and new letting	(0.8)	-	-	(0.8)
At 31 December 2020	47.5	36.6	29.2	113.3
Increase in like for like passing rent	0.8%	2.8%	2.9%	2.0%
Portfolio valuation at 31 December 2020	793.0	769.1	384.8	1,946.9

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

The rental uplifts, all of which are upwards only, included in the tables above comprise:

	Leisure portfolio £m	Healthcare portfolio £m	Budget Hotels portfolio £m	Total portfolio £m
Year to 31 December 2021				
Annual RPI uplifts (uncapped)	0.9	-	-	0.9
Annual RPI uplifts (capped)	0.1	-	-	0.1
Annual fixed uplifts	0.2	1.0	-	1.2
Five-yearly RPI uplifts (uncapped)	0.1	-	1.0	1.1
Five-yearly RPI uplifts (capped)	-	-	-	-
Five-yearly fixed uplifts	0.4	-	-	0.4
	1.7	1.0	1.0	3.7
Year to 31 December 2020				
Annual RPI uplifts (uncapped)	0.6	-	-	0.6
Annual RPI uplifts (capped)	0.1	-	-	0.1
Annual fixed uplifts	0.2	1.0	-	1.2
Five-yearly RPI uplifts (uncapped)	-	-	0.9	0.9
Five-yearly RPI uplifts (capped)	0.2	-	-	0.2
Five-yearly fixed uplifts	-	-	-	-
	1.1	1.0	0.9	3.0

Like for like rental growth by country

	UK £m	Germany £m	Total portfolio £m
Passing rent			
At 1 January 2021	106.2	7.1	113.3
Movement in Euro exchange rate	-	(0.5)	(0.5)
Like for like passing rent	106.2	6.6	112.8
Rental uplifts	3.5	0.2	3.7
New letting	0.3	-	0.3
At 31 December 2021	110.0	6.8	116.8
Increase in like for like passing rent	3.6%	3.3%	3.6%
Portfolio valuation at 31 December 2021	1,992.9	134.7	2,127.6
	UK £m	Germany £m	Total portfolio £m
Passing rent			
At 1 January 2020	104.2	6.5	110.7
Movement in Euro exchange rate	-	0.4	0.4
Like for like passing rent	104.2	6.9	111.1
Rental uplifts	2.0	0.2	2.2
At 31 December 2020	106.2	7.1	113.3
Increase in like for like passing rent	1.9%	3.3%	2.0%
Portfolio valuation at 31 December 2020	1,831.6	115.3	1,946.9

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

Unaudited Supplementary Information

Rent Smoothing Adjustments

The Group's revenue recognition accounting policy set out in [note 2d](#), in line with IFRS, requires the impact of any fixed or minimum rental uplifts to be spread evenly over the term of a lease, and as a result there is a material mismatch between the rental cash flows and rental revenues shown in the income statement. The adjustments relate to the 41% of portfolio rents that are subject to fixed uplifts, the 31% of portfolio rents with minimum uplifts on inflation-linked reviews, and the temporary Covid-19 rent concessions agreed with the tenants of the Budget Hotels and Pubs portfolios in 2020 which represented lease modifications under IFRS 16.

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

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

The impact of the Rent Smoothing Adjustments on the Group's balance sheet as at 31 December 2021 is as follows:

	Receivable at 31 December 2021 £m	Maximum receivable £m	Date of maximum receivable
<i>Fixed/minimum uplifts recognised ahead of cash receipt:</i>			
Healthcare – Ramsay hospitals	110.1	111.8	March 2023
Leisure – German theme parks*	36.8	251.6	September 2052
Healthcare – Lisson Grove hospital	12.8	20.6	March 2035
Leisure – The Brewery	5.0	23.5	June 2041
Leisure – Manchester Arena	3.4	8.9	June 2032
Leisure – Pubs	0.6	2.0	March 2030
Leisure – UK theme parks	0.2	145.8	December 2050
	168.9	564.2	
<i>Covid-19 related rent concessions:</i>			
Budget Hotels	21.1	21.1	December 2021
Leisure – Pubs	1.1	1.1	September 2020
	191.1	586.4	

* at the year end exchange rate of €1:£0.84

The future impact of this adjustment would change if there were acquisitions, disposals, further rent concessions or lease variations of properties with fixed or minimum inflation-linked rental uplifts, as was the case during the year with lease extensions and other changes on the UK and German theme parks in the Leisure portfolio. Assuming no change in the portfolio, the adjustment to rental income that was recognised during the current year and is expected for each of the next three financial years is as follows:

	Fixed/minimum uplifts £m	Covid-19 rent concessions £m	Total £m
2021	7.4	7.4	14.8
2022	26.1	(1.1)	25.0
2023	24.4	(1.2)	23.2
2024	22.8	(1.1)	21.7

* with the German adjustment translated at the 2021 average exchange rate of €1:£0.86

The other areas where accounting policies result in a material mismatch between the rental cash flows and rental revenues shown in the income statement are:

- rent received during a prior year from a May 2017 rent review on the Healthcare portfolio, where £0.4 million of rent is being recognised in revenue each year over the remaining lease term to 2037, despite the cash having been received in 2017
- the cost of the lease incentives granted for the extension of the theme parks leases in 2021, where going forward revenue will be reduced by £0.6 million per annum to reflect the spreading of that cost over the extended lease term to 2077

As for the Rent Smoothing Adjustments above, the movements in revenue are offset against property revaluation movements so there is no change the Group's retained earnings or net assets from this accounting treatment, and they are reversed in the calculation of Adjusted EPRA EPS.

Unaudited Supplementary Information

RPI Methodology

Change in RPI calculation methodology from 2030

In November 2020, the UK Government and UK Statistics Authority announced changes to its calculation of RPI to align it with the Consumer Prices Index (“CPIH”) from February 2030. CPIH has been on average 0.9 percentage points lower than RPI over the past ten years. The exact impact on the Group will depend on precisely how the UK Statistics Agency implements the change because that will have a bearing on how any change interacts with the specific terms of the leases. On a downside basis, if CPIH continues to run below RPI the rental uplifts from 2030 onwards would be lower than they would otherwise have been. However, depending on how the change is implemented, lease provisions may provide protection resulting in there being no change in some or all cases. In the event that rental uplifts do change from 2030, any valuation impact in such circumstances is expected to be insignificant as the market tends not to differentiate materially between RPI and CPIH lease structures, with the other property characteristics carrying greater weight in establishing pricing.

33% of the Group’s annual rents as at 31 December 2021 are subject to RPI-linked reviews. This is reduced since 31 December 2020, as 25% of the Group’s rents were subject to lease variations in 2021 whereby upwards only RPI reviews were changed to collared CPI reviews which are not affected by this change in methodology.

We note that, to date, long income investment transactions have demonstrated limited yield differentials between leases with RPI-linked reviews and those linked to CPI, with other property, income and tenant covenant characteristics carrying greater weight in the assessment of value.

Property Portfolio as at 9 March 2022

Property	Portfolio	Region	Address
Values over £100 million			
Alton Towers theme park	Leisure	Rest of England	Alton, Staffordshire ST10 4DB
Rivers hospital	Healthcare	Rest of England	High Wych Road, Sawbridgeworth CM21 0HH
Springfield hospital	Healthcare	Rest of England	Lawn Lane, Springfield, Chelmsford CM1 7GU
Thorpe Park theme park	Leisure	Rest of England	Staines Road, Chertsey KT16 8PN
Values between £50-100 million			
Alton Towers hotel	Leisure	Rest of England	Alton, Staffordshire ST10 4DB
The Brewery	Leisure	London	52 Chiswell Street, London EC1Y 4SD
Fitzwilliam hospital	Healthcare	Rest of England	Milton Way, South Bretton, Peterborough PE3 9AQ
Heide Park theme park	Leisure	Germany	29614 Soltau, Lower Saxony, Germany
Manchester Arena, including adjacent offices, parking and ancillary space	Leisure	Rest of England	Victoria Station, Manchester M3 1AR
Nightingale hospital	Healthcare	London	11-19 Lisson Grove, Marylebone, London NW1 6SH
Oaks hospital	Healthcare	Rest of England	120 Mile End Road, Colchester CO4 5XR
Pinehill hospital	Healthcare	Rest of England	Benslow Lane, Hitchin SG4 9QZ
Warwick Castle	Leisure	Rest of England	Warwick CV34 4QU
Yorkshire clinic	Healthcare	Rest of England	Bradford Road, Bingley BD16 1TW
Values between £25-50 million			
Duchy hospital	Healthcare	Rest of England	Peventinnie Lane, Treliske, Truro TR1 3UP
Fulwood hospital	Healthcare	Rest of England	Midgery Lane, Fulwood, Preston PR2 9SZ
Heide Park hotel	Leisure	Germany	29614 Soltau, Lower Saxony, Germany
West Midlands hospital	Healthcare	Rest of England	Coleman Hill, Halesowen B63 2AH
Woodlands hospital	Healthcare	Rest of England	Rothwell Road, Kettering NN16 8XF
Values between £10-25 million			
Bath Central Travelodge	Budget hotels	Rest of England	York Buildings, Bath BA1 2EB
Edinburgh Central Travelodge	Budget hotels	Scotland	33 St Mary's Street, Edinburgh EH1 1TA
London Wimbledon Travelodge	Budget hotels	London	Epsom Road, Morden SM4 5PH
Manchester Central Travelodge	Budget hotels	Rest of England	11 Blackfriars Street, Salford, Manchester M3 5AL
Oaklands hospital	Healthcare	Rest of England	19 Lancaster Road, Salford, Manchester M6 8AQ
Oxford Peartree Travelodge	Budget hotels	Rest of England	Woodstock Road, Yarnton, Kidlington, Oxford OX2 8JZ
Values between £5-10 million			
Birmingham Central Travelodge	Budget hotels	Rest of England	230 Broad Street, Birmingham B15 1AY
Cambridge Fourwentways Travelodge	Budget hotels	Rest of England	Abington, Cambridge CB21 6AP
Dartford Travelodge	Budget hotels	London	Charles Street, Dartford DA2 9AP
Ely Travelodge	Budget hotels	Rest of England	Witchford Road, Ely CB6 3NN
Exeter M5 Travelodge	Budget hotels	Rest of England	Moto Service Area, M5 Motorway, Exeter EX2 7HF
Glasgow Central Travelodge	Budget hotels	Scotland	5-11 Hill Street, Glasgow G3 6RP
Heathrow Heston M4 Westbound Travelodge	Budget hotels	London	Moto Service Area, M4 Motorway, Phoenix Way, Heston, Hounslow TW5 9NB
London Park Royal Travelodge	Budget hotels	London	614 Western Avenue, London W3 0TE
Milton Keynes Central Travelodge	Budget hotels	Rest of England	199 Grafton Gate, Milton Keynes MK9 1AL
Northampton Upton Way Travelodge	Budget hotels	Rest of England	Upton Way, Northampton NN5 4EG
Nottingham Riverside Travelodge	Budget hotels	Rest of England	Nottingham Riverside Retail Park, Tottle Road, Queen's Drive, Nottingham NG2 1RT
Reading Central Travelodge	Budget hotels	Rest of England	60 Oxford Road, Reading RG1 7LT
Southampton Travelodge	Budget hotels	Rest of England	144 Lodge Road, Southampton SO14 6QR
York Tadcaster Travelodge	Budget hotels	Rest of England	A64, Bilbrough, York LS24 8EQ

Property Portfolio as at 9 March 2022 continued

Property	Portfolio	Region	Address
Values between £2-5 million			
Aberdeen Bucksburn Travelodge	Budget hotels	Scotland	Inverurie Road, Bucksburn, Aberdeen AB21 9LZ
Alfreton Travelodge	Budget hotels	Rest of England	Old Swanwick, Colliery Road, Alfreton, Swanwick DE55 1JH
Arundel Fontwell Travelodge	Budget hotels	Rest of England	Arundel Road, Fontwell, Arundel BN18 OSB
Basildon Travelodge	Budget hotels	Rest of England	Festival Leisure Park, Basildon SS14 3WB
Basingstoke Travelodge	Budget hotels	Rest of England	Winchester Road, Basingstoke RG22 6HN
Bedford Arms, Southampton	Leisure	Rest of England	23 Bedford Place, Southampton SO15 2DB
Bedford Marston Moretaine Travelodge	Budget hotels	Rest of England	Beancroft Road, Marston Moretaine, Bedford MK43 0QZ
Bedford Wyboston Travelodge	Budget hotels	Rest of England	A1 North Black Cat Roundabout, Chawston, Bedford MK44 3BE
Birmingham Sutton Coldfield Travelodge	Budget hotels	Rest of England	Boldmere Road, Sutton Coldfield B73 5UP
Blue Bell Hotel, Middlesbrough	Leisure	Rest of England	Acklam Road, Middlesbrough TS5 7HL
Bracknell Travelodge	Budget hotels	Rest of England	London Road, Binfield, Bracknell RG42 4AA
Bradford Travelodge	Budget hotels	Rest of England	Midpoint, Thornbury, Bradford BD3 7AY
Brentwood East Horndon Travelodge	Budget hotels	Rest of England	A127, East Horndon, Brentwood CM13 3LL
Bristol Cribbs Causeway Travelodge	Budget hotels	Rest of England	Cribbs Causeway, Bristol BS10 7TL
Bristol Severn View M48 Travelodge	Budget hotels	Rest of England	Moto Service Area, M48 Motorway, Severn Bridge, Bristol BS35 4BH
Canterbury Whitstable Travelodge	Budget hotels	Rest of England	Thanet Way, Faversham ME13 9EL
Chippenham Leigh Delamere M4 Eastbound Travelodge	Budget hotels	Rest of England	Moto Service Area, Leigh Delamere, Chippenham SN14 6LB
Dorking Travelodge	Budget hotels	Rest of England	Reigate Road, Dorking RH4 1QB
Frimley Travelodge	Budget hotels	Rest of England	114 Portsmouth Road, Camberley GU15 1HS
Glasgow Paisley Road Travelodge	Budget hotels	Scotland	251 Paisley Road, Glasgow, G5 8RA
Great Yarmouth Acle Travelodge	Budget hotels	Rest of England	A47 Roundabout, Acle Bypass, Acle, Norwich NR13 3BE
Haydock St. Helens Travelodge	Budget hotels	Rest of England	Piele Road, Haydock, St Helens WA11 9TL
Heathrow Heston M4 Eastbound Travelodge	Budget hotels	London	Moto Service Area, M4 Motorway, Phoenix Way, Heston, Hounslow TW5 9NB
Hellingly Eastbourne Travelodge	Budget hotels	Rest of England	Boship Roundabout, Hellingly, Hailsham BN27 4DP
Inverness Travelodge	Budget hotels	Scotland	Stonyfield, A96 Inverness Road, Inverness IV2 7PA
Kettering Thrapston Travelodge	Budget hotels	Rest of England	Junction 13, A14 Eastbound, Thrapston NN14 4UR
Leeds Central Travelodge	Budget hotels	Rest of England	Blayd's Court, Blayd's Yard Swinegate, Leeds LS1 4AD
Lincoln Thorpe on the Hill Travelodge	Budget hotels	Rest of England	A46 Newark/Lincoln Road, Thorpe on the Hill LN6 9AJ
Liverpool Docks Travelodge	Budget hotels	Rest of England	Brunswick Dock, Sefton Street, Liverpool L3 4BN
Medway M2 Travelodge	Budget hotels	Rest of England	Moto Service Area, M2 Motorway, Rainham, Gillingham ME8 8PQ

Property	Portfolio	Region	Address
Values between £2-5 million (continued)			
Milton Keynes Old Stratford Travelodge	Budget hotels	Rest of England	Towcester Road, Old Stratford, Milton Keynes MK19 6AQ
Newbury Tot Hill Travelodge	Budget hotels	Rest of England	Tot Hill Services, A34 Newbury Bypass, Burghclere, Newbury RG20 9BX
Oxford Wheatley Travelodge	Budget hotels	Rest of England	London Road, Wheatley, Oxford OX33 1JL
Perth Crieff Road Travelodge	Budget hotels	Scotland	Crieff Road, Perth PH1 3JJ
Plymouth Derriford Travelodge	Budget hotels	Rest of England	8-9 Howeson Lane, Plymouth PL6 8BD
Reading M4 Eastbound Travelodge	Budget hotels	Rest of England	Moto Service Area, Burghfield, Reading RG30 3UQ
Reading M4 Westbound Travelodge	Budget hotels	Rest of England	Moto Service Area, Burghfield, Reading RG30 3UQ
Reading Whitley Travelodge	Budget hotels	Rest of England	387 Basingstoke Road, Whitley, Reading RG2 0JE
Saltash Travelodge	Budget hotels	Rest of England	Callington Road, Carkell, Saltash PL12 6LF
Slug & Lettuce, Farnham	Leisure	Rest of England	9-11 East Street, Farnham, GU9 7RX
Southampton Eastleigh Travelodge	Budget hotels	Rest of England	Ham Farm, Twyford Road, Eastleigh SO50 4LF
Stoke Talke Travelodge	Budget hotels	Rest of England	Newcastle Road, Talke, Stoke-on-Trent ST7 1UP
Stratford Alcester Travelodge	Budget hotels	Rest of England	Oversley Mill, Alcester B49 6PQ
Swansea M4 Travelodge	Budget hotels	Wales	Moto Service Area, M4 Motorway, Penllergaer, Swansea SA4 9GT
Towcester Silverstone Travelodge	Budget hotels	Rest of England	A43 Towcester Bypass, Towcester NN12 6TQ
Warminster Travelodge	Budget hotels	Rest of England	A36/A350 Bypass, Bath Road, Warminster BA12 7RU
Warrington Travelodge	Budget hotels	Rest of England	Kendrick Street, Warrington WA1 1UZ
Warrington Lowton Travelodge	Budget hotels	Rest of England	322 Newton Road, Lowton, Warrington WA3 1HD
Widnes Travelodge	Budget hotels	Rest of England	Fiddlers Ferry Road, Widnes WA8 0HA
William Gladstone, Liverpool	Leisure	Rest of England	18-20 North John Street, Liverpool L2 9RL
Worksop Travelodge	Budget hotels	Rest of England	St Anne's Drive, Worksop S80 3QD
Yates's, Preston	Leisure	Rest of England	144 Church Street, Preston PR1 3AB
Yeovil Podimore Travelodge	Budget hotels	Rest of England	Podimore Services, A303, Yeovil BA22 8JG
York Hull Road Travelodge	Budget hotels	Rest of England	Hull Road, York YO10 3LF

In addition to the properties listed above, the Group owns a further 54 Budget Hotels (four in Scotland, one in Wales and the remainder in the Rest of England) and a further 11 pubs in the Leisure portfolio (one in London, one in Scotland and the remainder in the Rest of England), each of which is valued at less than £2 million.

Five year summary

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Net income summary					
Revenue net of property costs*	107.0	96.6	120.7	114.4	95.2
Net finance costs	(50.0)	(49.9)	(83.5)	(54.5)	(51.8)
Administrative expenses	(15.2)	(17.0)	(22.1)	(20.6)	(29.5)
Property revaluations*	155.0	(143.0)	86.3	109.1	124.8
Profit on disposal of investment properties	-	-	53.1	0.2	-
Other	2.8	(0.3)	(1.1)	(1.1)	(1.5)
IFRS profit/(loss) for the year	199.6	(113.7)	153.4	147.5	137.2
EPRA adjustments	(143.5)	166.5	(98.7)	(97.6)	(112.1)
EPRA earnings	56.1	52.9	54.7	49.9	25.1
Non-EPRA adjustments	0.6	(41.4)	(5.3)	(5.6)	6.1
Adjusted EPRA earnings	56.7	11.5	49.4	44.3	31.2

* stated without the distorting effect of the Rent Smoothing Adjustments, which results in a reduction in gross rental income and gross profit while increasing property revaluations by the same amount in a given period

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Net assets summary					
Properties at independent external valuation	2,127.6	1,946.9	2,083.1	2,306.7	1,770.2
Net debt	(718.3)	(708.5)	(663.6)	(990.8)	(878.5)
Other net liabilities (IFRS basis)	(39.5)	(16.9)	(35.0)	(34.3)	(31.1)
IFRS net assets	1,369.8	1,221.5	1,384.5	1,281.6	860.6
Adjustment for deferred tax on German investment property revaluations	4.0	6.0	5.7	5.5	5.1
Fair value of interest rate derivatives	0.3	1.7	1.1	0.2	-
EPRA NTA	1,374.1	1,229.2	1,391.3	1,287.3	865.7

	2021	2020	2019	2018	2017
Summary of key performance indicators					
EPRA NTA per share	424.1p	379.3p	429.4p	398.7p	370.4p
Adjusted EPRA EPS	17.5p	3.5p	15.3p	14.7p	13.6p
Total Accounting Return	15.8%	(8.0)%	11.8%	12.1%	18.7%
Total Shareholder Return	46.7%	(27.3)%	19.4%	8.3%	18.7%
Net LTV Ratio	33.8%	36.4%	31.9%	43.0%	49.6%
Headroom on debt covenants before any preventative cash cure or remedial action:					
Valuation headroom before tightest LTV default test is triggered	35%	32%	38%	32%	30%
Rent headroom before tightest interest cover default test is triggered	31%	29%	33%	32%	28%
Uncommitted Cash	£159.9m	£192.0m	£234.2m	£66.4m	£60.6m
Weighted Average Unexpired Lease Term	30.0 years	20.2 years	21.0 years	20.9 years	22.2 years

	2021	2020	2019	2018	2017
Portfolio					
Number of properties	160	161	161	175	81

Annualised returns since listing: IRR to 31 December 2021

Total Accounting Return since 30 June 2014	15.4% p.a.
Total Shareholder Return from 174p issue price at listing	16.3% p.a.

Glossary

Adjusted EPRA EPS	EPRA EPS adjusted to exclude non-cash items and non-recurring costs, calculated on the basis of the time-weighted number of shares in issue
AGM	Annual General Meeting
CVA	Company Voluntary Arrangement, a process under UK insolvency law which allows a company to reschedule its debts with the consent of a specified majority of its creditors
Dividend Cover	Adjusted EPRA EPS divided by dividends per share
EPRA	European Public Real Estate Association
EPRA EPS	A measure of EPS designed by EPRA to present underlying earnings from core operating activities
EPRA Guidance	The EPRA Best Practices Recommendations Guidelines October 2019
EPRA NTA	A measure of NAV designed by EPRA to present the fair value of a company on a long term basis. For these purposes, the Group uses EPRA Net Tangible Assets as defined in the EPRA Guidance
EPS	Earnings per share, calculated as the profit or loss for the period after tax attributable to shareholders of the Company divided by the weighted average number of shares in issue in the period
ERV	Estimated Rental Value: the independent valuers' opinion of the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property
IFRS	International Financial Reporting Standards
Investment Adviser	Prestbury Investment Partners Limited or, as the context requires, its predecessor Prestbury Investments LLP
Investment Advisory Agreement	The agreement between the Company (and its subsidiaries) and the Investment Adviser, key terms of which are set out on pages 204 to 221 of the Secondary Placing Disclosure Document as modified by the amendments to the basis of fee calculation set out in note 25b to the financial statements
Key Operating Asset	An asset where the operations conducted from the property are integral to the tenant's business
LTV	Loan to value: the outstanding amount of a loan as a percentage of property value
Management Team	Nick Leslau, Mike Brown, Tim Evans, Sandy Gumm and Ben Walford, who are directors of the Investment Adviser
NAV	Net asset value
Net Initial Yield	Annualised net rents on an investment property as a percentage of the investment property valuation, less purchaser's costs
Net Loan To Value or Net LTV	LTV calculated on the gross loan amount less cash balances
REIT	Real Estate Investment Trust
Rent Smoothing Adjustments	The adjustments required to recognise any mismatch between rent received in the income statement and cash rent received
Running Yield	The anticipated Net Initial Yield at a future date, taking account of any rent reviews or other changes in rent in the intervening period
Secondary Placing Disclosure Document	The Secondary Placing Disclosure Document dated 14 March 2016 which is available in the Investor Centre of the Company's website under "Circulars to Shareholders/2016"
Total Accounting Return	The movement in EPRA NTA over a period plus dividends paid in the period, expressed as a percentage of the EPRA NTA at the start of the period
Total Shareholder Return	The movement in share price over a period plus dividends paid in the period, expressed as a percentage of the share price at the start of the period
Uncommitted Cash	Cash balances not subject to fixed charges in favour of lenders, net of any creditors or other cash commitments at the balance sheet date
Weighted Average Unexpired Lease Term	The term to the first tenant break or expiry of the leases in the portfolio, weighted by rental value before rent concessions, also referred to as WAULT

Company Information

Registered office	Cavendish House, 18 Cavendish Square, London W1G 0PJ
Directors	<p>Martin Moore, Non-Executive Chairman and Chairman of the ESG Committee</p> <p>Mike Brown</p> <p>Leslie Ferrar, Chairman of the Audit Committee</p> <p>Sandy Gumm</p> <p>Jonathan Lane, Chairman of the Nomination Committee</p> <p>Nick Leslau</p> <p>Ian Marcus, Senior Independent Director and Chairman of the Remuneration Committee</p>
Company Secretary	Sandy Gumm
Investment Adviser	<p>Prestbury Investment Partners Limited</p> <p>Cavendish House, 18 Cavendish Square, London W1G 0PJ</p>
Nominated Adviser and Broker	<p>Stifel Nicolaus Europe Limited</p> <p>150 Cheapside, London EC2V 6ET</p>
Auditor	<p>BDO LLP</p> <p>55 Baker Street, London W1U 7EU</p>
Property valuers	<p>CBRE Limited</p> <p>Henrietta House, Henrietta Place, London W1G 0NB</p> <p>Christie & Co</p> <p>Whitefriars House, 6 Carmelite Street, London EC4Y 0BS</p>
Derivative valuers	<p>Chatham Financial Europe Limited</p> <p>12 St James's Square, London SW1Y 4LB</p>
Financial PR advisers	<p>FTI Consulting LLP</p> <p>200 Aldersgate, Aldersgate Street, London EC1A 4HD</p> <p>Email: SecureIncomeREIT@FTIconsulting.com</p>
Registrar	<p>Link Group</p> <p>10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL</p> <p>Registrar's helpline: 0371 664 0300</p> <p>Calls are charged at the standard geographic rate and will vary by provider.</p> <p>Calls outside the United Kingdom will be charged at the applicable international rate.</p> <p>The helpline is open 9.00am - 5.30pm, Monday to Friday excluding public holidays in England and Wales</p> <p>Registrar's email: ShareholderEnquiries@LinkGroup.co.uk</p>
Website	www.SecureIncomeREIT.co.uk
Email	Enquiries@SecureIncomeREIT.co.uk

Important Notes

Forward looking information

This document includes forward looking statements which are subject to risks and uncertainties. You are cautioned that forward looking statements are not guarantees of future performance and that if risks and uncertainties materialise, or if the assumptions underlying any of these statements prove incorrect, the actual results of operations and financial condition of the Group may differ materially from those made in, or suggested by, the forward looking statements. Other than in accordance with its legal or regulatory obligations, the Company undertakes no obligation to review, update or confirm expectations or estimates or to release publicly any revisions to any forward looking statements to reflect events that occur or circumstances that arise after 9 March 2022.

Rounding of financial statements

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

Explanatory Notes Accompanying the AGM Notice

The Company's AGM notice appears on [page 150](#). Details of how to appoint a proxy are outlined following the explanatory notes to the resolutions.

With a view to reducing the impact of the Company on the environment and bearing in mind that the majority of our shareholders already vote electronically, paperless proxy voting is the default option and you will not receive a hard copy form of proxy for the AGM in the post automatically. You may still request and submit a paper proxy form.

The default option for receipt of the annual report is electronic distribution and shareholders will be notified either by post or by email when it becomes available. Any shareholder who wishes to receive a hard copy report will still be able to do so, at no cost. We also encourage our shareholders to receive dividend payments by direct bank transfer to minimise the distribution of cheques.

To request a paper proxy form, a hard copy of the annual report or to change dividend payments to direct bank transfer, please contact the registrars using the contact details given on [page 144](#).

Explanatory notes to the AGM resolutions

Resolutions 1 to 12 are ordinary resolutions. Resolutions 13 and 14 are special resolutions. Ordinary resolutions require a simple majority of votes cast to be in favour to be passed. For a special resolution to be passed, three quarters or more of the votes cast must be in favour. In either case, a vote marked 'withheld' will not count either as a vote for or as a vote against the resolution.

The Directors and Management Team and their related entities, who hold in aggregate 12.5% of the Company's issued share capital, intend to vote in favour of all of the resolutions.

Resolution 1: approval of the report and accounts

This is an ordinary resolution proposing that the Company's 2021 report and audited financial statements are approved. The report and financial statements have been approved by the Board, and the independent auditors have issued an unqualified audit opinion on them.

Resolution 2: approval of the Company's dividend policy

As a UK REIT the Company is required to distribute at least 90% of its tax exempt income in order to maintain compliance with the REIT rules. A key part of the Company's strategy is to provide shareholders with a secure and growing income stream by way of the dividends.

The authority sought in resolution 2 is to allow the Board to pay the Company's quarterly dividends as interim dividends. The alternative to this would be for the Company to pay three interim dividends during the year and for the last dividend relating to the financial year to be declared as a final dividend, subject to shareholder approval. As the shareholder approval process would delay the payment of one dividend each year, the Board considers that all dividends should be declared and paid as interim dividends. This is subject to shareholders confirming their satisfaction with this approach by voting on this ordinary resolution.

Resolutions 3 to 9: reappointment of the Directors

While the Company's articles of association require Directors to retire and offer themselves for re-election every three years, the Board has decided that all Directors will stand for re-election annually, in line with the provisions of the UK Corporate Governance Code. Each appointment is dealt with in a separate resolution and brief details of the reasons for proposing each director's reappointment are set out below.

All of these resolutions numbered 3 to 9 are ordinary resolutions.

Resolution 3: reappointment of Martin Moore

Martin Moore is the Chairman of the Company, Chairman of the ESG Committee and a member of the Remuneration Committee. He is independent of the Management Team. He is a Chartered Surveyor with a great depth of experience from over 40 years in the property sector, including direct experience of investing in long lease real estate during his time at M&G Real Estate. His biography is on [page 46](#).

Resolution 4: reappointment of Mike Brown

Mike Brown is a qualified surveyor with extensive experience within real estate funds and public companies from over 37 years' experience in real estate investing. He is Chief Executive of, and a shareholder in, the Investment Adviser and is therefore not an Independent Director. He is also a member of the Company's ESG Committee and the Nomination Committee. His biography is on [page 46](#).

Resolution 5: reappointment of Leslie Ferrar

Leslie Ferrar is an Independent Director, Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees. She is a qualified accountant of over 36 years' standing and brings a wealth of financial reporting, tax and governance experience to the Board. Her biography is on [page 46](#).

Resolution 6: reappointment of Sandy Gumm

Sandy Gumm qualified as an accountant in 1992 and has worked in real estate finance for over 27 years. She is Chief Operating Officer of, and a shareholder in, the Investment Adviser and is therefore not an Independent Director. She also serves as the Company Secretary. Her biography is on [page 46](#).

Resolution 7: reappointment of Jonathan Lane

Jonathan Lane is an Independent Director, Chairman of the Nomination Committee and a member of the Audit Committee. He has extensive experience in real estate capital markets, mergers and acquisitions, and financing transactions through his career of over 40 years as an investment banker, the majority of which has been in specialist real estate investment banking. His biography is on [page 47](#).

Resolution 8: reappointment of Nick Leslau

Nick Leslau is a chartered surveyor with a very long and successful track record in UK real estate investment. He has been chief executive or chairman of a number of public and private real estate investment companies over the past 34 years. As Chairman and the majority shareholder of the Investment Adviser, he is not an Independent Director. He is also a member of the Company's Nomination Committee. His biography is on [page 47](#).

Resolution 9: reappointment of Ian Marcus

Ian Marcus is the Company's Senior Independent Director, Chairman of the Remuneration Committee and a member of the Audit Committee. Following a career of more than 30 years as an investment banker specialising in real estate markets, Ian also has a great deal of relevant experience through directorships and advisory positions in various real estate investment and financing businesses. His biography is on [page 47](#).

Resolutions 10 and 11: reappointment of the auditors and Directors' authority to agree their remuneration

These ordinary resolutions propose, separately, that BDO LLP be reappointed as auditors of the Company and that the Directors be authorised to fix their remuneration.

The Company's Audit Committee is responsible for the assessment of the auditors' performance and for reviewing their fee arrangements and their independence. The Audit Committee's report on the auditors, including confirmation that the Committee has assessed the auditors' performance, effectiveness and objectivity, is included at [page 71](#) of this document.

Fees payable to the auditors in respect of the years ended 31 December 2021 and 2020 are disclosed in [note 7](#) to the financial statements.

Explanatory Notes Accompanying the AGM Notice

continued

Resolution 12: granting the Directors authority to allot shares in the Company

This resolution would, if passed, give the Directors a general authority to allot new shares up to a nominal value of £10,801,171, which is equal to approximately one-third of the issued share capital of the Company as at 9 March 2022, being the latest practicable date prior to the publication of this document.

The resolution will give the Directors additional authority to allot relevant securities in connection with a rights issue up to a further one-third of the issued share capital of the Company as at 9 March 2022, being the latest practicable date prior to the publication of this document, being an aggregate nominal amount of £10,801,171.

In total, the resolution will therefore allow the Directors to allot a maximum aggregate of two-thirds of the issued share capital of the Company.

This is an ordinary resolution and the authority will, if approved, remain in force until the conclusion of the Company's next AGM or, if earlier, 31 August 2023.

Resolution 13: authority to make market purchases of the Company's own shares

This special resolution proposes that the Company has the authority until the conclusion of the next AGM to buy its own shares on the market subject to the limitations set out in the resolution. The Company seeks this flexibility in the event that the Board concludes that shares can be purchased on the market on terms that are beneficial for the shareholders of the Company as a whole.

It is proposed that the authority is limited to 48,572,868 shares which amounts to 14.99% of the Company's issued share capital as at 9 March 2022. Any shares purchased in this way cannot be purchased for less than their nominal value of 10 pence per share, nor for more than the higher of:

- (a) 5% above the average mid market quoted share price of the shares on the London Stock Exchange for the five days before any purchase; and
- (b) the higher of the price of the last independent trade of shares on the market and the current bid price from an independent bidder for a share.

This authority would expire at the conclusion of the Company's next AGM.

Resolution 14: authority to issue shares without pre-emption in favour of existing shareholders

Other than as approved by shareholders in a general meeting, shares may only be issued for cash after first offering them to shareholders in proportion to their existing holdings – a process known as pre-emption.

The Board considers that in order to most effectively implement the Company's investment strategy, it is in the interests of shareholders for the Company to have the authority to place shares for cash without pre-emption, subject to the limitations set out in the resolution. This limits the authority to 24.99% of the Company's issued share capital as at 9 March 2022, which would amount to 80,976,383 shares. Importantly, any shares issued under the authority proposed in this resolution may only be issued at or above the EPRA NTA per share of the Company. That is, shares issued under this authority will not be issued at a discount to EPRA NTA. This is considered appropriate as the Company's investment strategy is one that will generally require an issue of shares to finance the acquisitions that are a fundamental part of the Company's investment proposition.

This is a special resolution and, if passed, the authority would expire at the conclusion of the next AGM or, if earlier, on 31 August 2023.

Appointment of a proxy online

Members may appoint a proxy online at www.SignalShares.com (the "Link Website") by following the on-screen instructions, in particular at the "Proxy Voting" link, by no later than the deadline set out in note 4 of the notes to the AGM notice on [page 152](#). In order to appoint a proxy using the Link Website, members will need to log into their Signal Shares account or register if they have not previously done so. To register, members will need to identify themselves with their Investor Code which is detailed on their share certificate or available from our Registrar, Link Group, via the contact details listed on [page 144](#).

Shareholders are advised to read the terms and conditions relating to the use of this online facility on the Link website before appointing a proxy.

Appointment of a proxy using a paper form of proxy

The Company has opted for paperless proxy voting as the default option. However, you may request a hard copy form of proxy directly from our Registrar, Link Group, via the contact details listed on [page 144](#).

To be effective, the completed and signed form of proxy must be lodged at PXS1, Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL (together with any power of attorney or other authority under which it is signed or a notarially certified copy of such power or authority) by no later than the date set out in note 4 to the AGM notice on [page 152](#).

To appoint more than one proxy using a hard copy form of proxy, you may photocopy the form of proxy. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. If possible, all forms should be returned together in the same envelope.

Appointment of a proxy through CREST

CREST members who wish to appoint and/or give instructions to a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM and any adjournment(s) thereof by using the procedures described in the CREST Manual and by logging on to the website www.euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (the CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("Euroclear") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Link Group (ID RA10) by no later than the deadline set out in note 4 of the notes to the AGM notice on [page 152](#). For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Link Group is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as is necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this regard, CREST members and, where applicable, their CREST sponsors or voting service providers are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Notice of Annual General Meeting

Secure Income REIT Plc (the “Company”)

NOTICE is hereby given that the Annual General Meeting (“**AGM**”) of the shareholders of the Company will be held at Cavendish House, 18 Cavendish Square, London W1G 0PJ on 1 June 2022 at 9.30am to consider and, if thought fit, pass the following resolutions, which in the case of resolutions 1 to 12 will be proposed as ordinary resolutions and in the case of resolutions 13 and 14 will be proposed as special resolutions:

Ordinary resolutions:

1. To receive and approve the Strategic Report, the Directors’ Report and the Financial Statements of the Company for the year ended 31 December 2021 together with the report of the auditors thereon.
2. To authorise the Directors of the Company to declare and pay all dividends as interim dividends and for the last dividend referable to any financial year not to be categorised as a final dividend that would ordinarily be subject to shareholder approval.
3. To re-elect Martin Moore as a Director of the Company.
4. To re-elect Mike Brown as a Director of the Company.
5. To re-elect Leslie Ferrar as a Director of the Company.
6. To re-elect Sandy Gumm as a Director of the Company.
7. To re-elect Jonathan Lane as a Director of the Company.
8. To re-elect Nick Leslau as a Director of the Company.
9. To re-elect Ian Marcus as a Director of the Company.
10. To reappoint BDO LLP as the auditors until the conclusion of the next AGM.
11. That the Directors be authorised to fix the remuneration of the auditors.
12. That, in place of all existing authorities, the Directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the “**Act**”) to allot:
 - (a) shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £10,801,171; and, in addition
 - (b) equity securities of the Company (within the meaning of section 560 of the Act) in connection with an offer of such securities by way of a rights issue up to an aggregate nominal amount of £10,801,171.

provided that this authority shall expire on 31 August 2023 or, if earlier, at the conclusion of the next AGM of the Company but, in each case, so that the Company may, before expiry of the authority, make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after its expiry and the Directors may allot shares or grant rights to subscribe for or convert securities into shares pursuant to such an offer or agreement as if this authority had not expired.

For the purposes of this resolution 11, “**rights issue**” means an offer to:

- (i) ordinary shareholders on the register on a record date fixed by the Directors in proportion (as nearly as may be practicable) to the respective number of shares held by them; and
- (ii) holders of other equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities,

to subscribe for further securities by means of the issue of a renounceable letter (or other negotiable document) which may be traded for a period before payment for the securities is due, but subject in both cases to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory, the requirements of any recognised regulatory body or stock exchange or any other matter.

Special resolutions:

13. That the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 10 pence each in the capital of the Company ("**Ordinary Shares**") on such terms as the Directors think fit, and where such shares are held as treasury shares, the Company may use them for the purposes set out in Section 727 of the Act, provided that:
- (a) the maximum number of Ordinary Shares hereby authorised to be purchased is 48,572,868 shares;
 - (b) the minimum price, exclusive of any expenses, which may be paid for an Ordinary Share is 10 pence;
 - (c) the maximum price, exclusive of any expenses, which may be paid for each Ordinary Share is an amount equal to the higher of: (a) 105% of the average of the middle market quotations for an Ordinary Share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately preceding the day on which the Ordinary Share is purchased; and (b) an amount equal to the higher of the price of the last independent trade of an Ordinary Share and the highest current independent bid for an Ordinary Share on the London Stock Exchange; and
 - (d) the authority hereby conferred shall, unless previously revoked or varied, expire at the conclusion of the next AGM of the Company (except in relation to the purchase of Ordinary Shares the contract for which was concluded before the expiry of this authority and which will or may be executed wholly or partly after such expiry).
14. That, subject to the passing of resolution 11 and in place of all existing authorities, the Directors be and are hereby empowered pursuant to section 570 of the Act to allot equity securities (within the meaning of section 560 of the Act) for cash, pursuant to the authority granted to them by resolution 11, and/or to sell equity securities held by the Company as treasury shares, in each case as if section 561 of the Act (existing shareholders' rights of pre-emption) did not apply, such power to be limited to the allotment of equity securities or sale of treasury shares up to an aggregate nominal amount of £8,097,638 and provided that the issue price in respect of any Ordinary Shares issued pursuant to this authority shall not be less than the consolidated EPRA NTA per Ordinary Share. This authority shall expire at the conclusion of the next AGM of the Company or, if earlier, at the close of business on 31 August 2023 but, in each case, before such expiry the Company may make offers and enter into agreements which would or might require equity securities to be allotted (and equity securities held in treasury to be sold) after the authority expires and the Directors may allot equity securities (and sell equity securities held in treasury) pursuant to any such offer or agreement as if this authority had not expired.

Disclosure exemptions available in FRS102

In preparing the Company's financial statements, advantage has been taken of the disclosure exemptions available in FRS 102. The Company intends to continue to use these disclosure exemptions in drawing up the financial statements for the year ending 31 December 2022 unless objections are received from shareholders holding more than 5% of the shares in total.

By order of the Board

Sandy Gumm

Company Secretary
9 March 2022

Notes to the Notice of Annual General Meeting

Eligibility to vote

1. To be entitled to attend and vote at the AGM (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the register of members of the Company at close of trading on 30 May 2022. Changes to the register of members after that date shall be disregarded in determining the rights of any person to attend and vote at the AGM.

Appointing a proxy

2. Every shareholder has the right to appoint some other person(s) of their choice, who need not be a shareholder, as proxy to exercise all or any of their rights to attend, speak and vote on their behalf at the AGM. A shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder.
3. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).
4. In order to be valid, a proxy appointment must be returned by one of the following methods:
 - By completing it online using Link Group's Signal Share portal service at www.SignalShares.com, following the instructions on screen and noting that you will need to select the Company and identify yourself with your personal Investor Code; if you have not previously registered for an account, you will need your Investor Code which is shown on your share certificate or, alternatively, available from the Registrar, Link Group, whose contact details appear on [page 144](#).
 - In hard copy form by post to Link Group, PXS 1, Link Group, Central Square, 29 Wellington Street, Leeds, LS1 4DL; you may also deliver a hard copy form of proxy to that address by courier or by hand during usual business hours; to request a hard copy form of proxy, please contact the Registrar, Link Group, directly by phoning 0371 664 0300 (calls are charged at the standard geographic rate and will vary by provider; calls from outside the United Kingdom will be charged at the applicable international rate; and lines are open between 09:00 and 17:30, Monday to Friday excluding public holidays in England and Wales).
 - In the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out on [page 149](#).
5. In order for a proxy appointment to be valid, it must be completed and be received by the Registrar, Link Group, by 9:30 a.m. on 30 May 2022.
6. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence.
7. A vote "withheld" is not a vote in law and will not be counted in the calculation of the proportion of votes "for" and "against" a resolution. If no voting indication is given, your proxy will vote or abstain from voting at their discretion. Your proxy will vote or abstain from voting as they think fit in relation to any other matter that is put before the AGM.

Attending in person after voting by proxy

8. The completion and return of a paper proxy form, electronic filing or any CREST proxy instruction will not prevent you from attending in person and voting at the AGM should you decide to do so. If you attend the AGM in person, your proxy appointment will be terminated automatically.

Corporate shareholders

9. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder, provided that they do not do so in relation to the same shares.

Total voting rights

10. As at 9 March 2022 (being the latest practicable day prior to the publication of this Notice), the Company's ordinary issued share capital consists of 324,035,146 ordinary shares carrying one vote each. The total voting rights in the company at 9 March 2022 are 324,035,146.

Questions at the meeting

11. During the meeting there will be an opportunity for shareholders, proxies or corporate representatives to ask questions relevant to the business of the meeting.



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