Annual Report

For the year ended 31 December 2020

SECURE INCOME REIT PLC

Contents

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

Aside from the immense tragedy of the loss of life and the disruption caused to individuals and businesses worldwide, the Covid-19 pandemic has created significant challenges for our leisure and hospitality tenants. The combination of the Company's robust balance sheet, strong liquidity and experienced Management Team has enabled us to support those of our tenants that suffered the sudden closure of their businesses, and therefore to aid the expected resumption of their strong performance track records once the effects of the pandemic diminish. Ultimately, this should position the Company to regain its own strong growth trajectory.

Despite the interruption from the exceptional impact of the pandemic, the Company has continued to pay quarterly dividends throughout the year and has delivered a Total Accounting Return IRR of 15.3% p.a. over the six and a half years since listing and a Total Shareholder Return IRR of 12.8% p.a. over the same period. This compares with the equivalent for the FTSE EPRA NAREIT UK Index over the same period of 2.8% p.a.

The Company has £1.95 billion of gross property assets, £1.2 billion of net assets, £192 million of uncommitted and unfettered cash, structurally protected non-recourse debt, and very long leases on Key Operating Assets in defensive sectors and which are difficult to replicate. The approval and rapid rollout of vaccines in the UK and elsewhere are cause for cautious optimism that life will soon start to return to normal and allow our leisure and hospitality tenants to be able to resume trading. The Management Team invested a further £5.8 million of cash in their interests in SIR during the year and holds a 12.4% interest in the business, amounting to £152 million at 31 December 2020 EPRA NTA. The team remains energised, committed and aligned with all shareholders.

Highlights

Balance sheet and portfolio	**31 December 2020**	30 June 2020	31 December 2019
Properties at independent valuation	**£1,946.9m**	£1,958.7m	£2,083.1m
Net assets	**£1,221.5m**	£1,244.1m	£1,384.5m
EPRA NTA	**£1,229.2m**	£1,252.0m	£1,391.3m
EPRA NTA per share	**379.3p**	386.4p	429.4p
Uncommitted Cash	**£192.0m**	£219.6m	£234.2m
Net Loan To Value ratio	**36.4%**	35.3%	31.9%
Annualised passing rent before Covid-19 concessions	**£113.3m**	£111.8m	£110.7m
Topped Up Net Initial Yield	**5.42%**	5.32%	4.95%
Running Yield by January 2022[1]	**5.58%**	5.58%	5.25%
Weighted Average Unexpired Lease Term	**20.2 years**	20.8 years	21.0 years

(1) Using independent external valuers' RPI estimates averaging 2.5% (June 2020: 2.5%; December 2019: 2.6%)

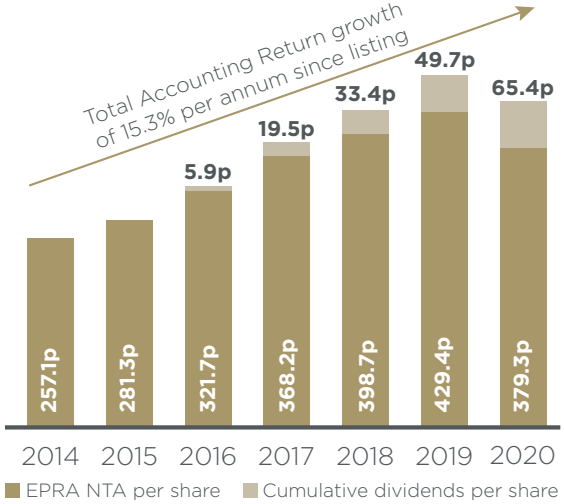
Earnings and returns	**Year to 31 December 2020**	Year to 31 December 2019
Adjusted EPRA earnings per share:		
Like for like rent net of all costs and tax, before rent concessions	**14.0p**	13.6p
Temporary rent concessions on a cash basis	**(10.5)p**	–
Like for like rents net of all costs and tax	**3.5p**	13.6p
Rent net of interest for properties sold in 2019	**–**	1.7p
Adjusted EPRA EPS	**3.5p**	15.3p
IFRS Earnings per share:		
Like for like rent net of costs and tax, before revaluations and rent concessions	**16.6p**	16.3p
IFRS impact of temporary rent concessions, spread over lease terms	**(0.3)p**	–
IFRS like for like rent net of costs and tax, before revaluations	**16.3p**	16.3p
Rent net of interest and profit on disposal of Hospitals sold in 2019	**–**	9.4p
Property revaluations	**(51.4)p**	23.4p
Incentive fee	**–**	(1.6)p
IFRS EPS	**(35.1)p**	47.5p
Dividends per share	**15.7p**	16.3p
Total Accounting Return	**(8.0)%**	11.7%
Latest dividend per share annualised (% of EPRA NTA)	**3.8%**	3.9%
Latest dividend per share annualised (% of 31 Dec 2020 share price)	**4.9%**	3.9%
Total Accounting Return over 30 June 2014 EPRA NTA (IRR)	**15.3% p.a.**	
Total Shareholder Return IRR over issue price at listing	**12.8% p.a.**	

All capitalised terms are defined in the glossary on page 142.

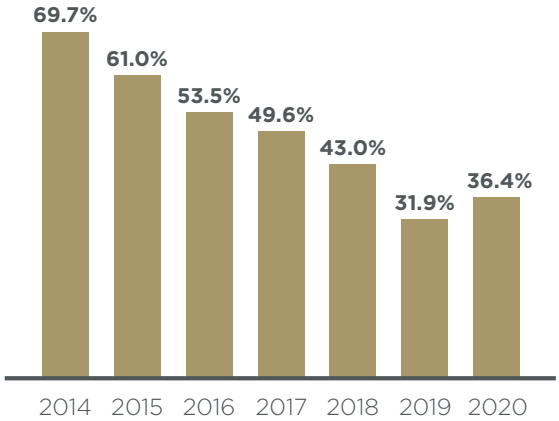
- EPRA NTA of £1.2 billion; **379.3 pence per share**:
  - 59.3 pence per share (15.8% of EPRA NTA) in unfettered cash plus 0.5p in other net assets
  - 125.3 pence per share (33.0%) in Healthcare
  - 112.8 pence per share (29.7%) in Leisure
  - 81.4 pence per share (21.5%) in Budget Hotels
- Overall portfolio valuation down 6.5% to £1.95 billion in the year:
  - **91% of the total decline was reflected in the June 2020 valuations**, with the balance representing a modest decline of 0.6% in gross property values in the second half of the year
  - Healthcare asset valuations up by 2.8%
  - Budget Hotel valuations accounted for 69% of the net value decline, falling by 20.3% following Travelodge's CVA but remaining stable since 30 June 2020
  - Leisure asset valuations down by 6.9%
- The Group's **20.2 year Weighted Average Unexpired Lease Term** remains one of the longest in the UK quoted real estate sector
- Net LTV of 36.4% up from 31.9% at the start of the year and 35.3% at 30 June 2020:
  - debt in six structurally separate non-recourse debt facilities
  - appropriate levels of headroom over financial covenants remain in place
- Adjusted EPRA EPS of 3.5 pence per share after the full earnings impact of the temporary rent concessions granted to our Leisure and Budget Hotels tenants, reflected in this measure on a cash flow basis
  - Total impact of concessions on Adjusted EPRA Earnings in 2020 of £34.0 million (10.5 pence per share)
  - Travelodge rents reduced by a total of £23.4 million from 1 April 2020 to 31 December 2021, of which £14.5 million relates to cash flows in the year to 31 December 2020
  - Merlin rents of £17.8 million (£17.7 million at the year end exchange rate) for June and September 2020 were deferred for collection in September 2021; rental cash flows returned to their previously contracted levels with effect from the December 2020 quarter
  - Stonegate pubs were granted a six month rent free period of £1.1 million from April to September 2020 in exchange for strengthened lease alienation provisions and lease extensions to a 25.0 year term, up from 19.6 years at that time
  - From January 2021 cash rents receivable amount to 92% of total contractual rents before concessions and under current arrangements, will revert to 100% of their originally contracted levels within ten months
  - The expected impact of concessions on 2021 cash flow and Adjusted EPRA Earnings is a reduction in Travelodge rents of £8.9 million and the expected receipt of £17.7 million of deferred rent from Merlin, resulting in a net positive impact of £8.8 million (2.7 pence per share)
- **Rent collections have remained strong** with only 0.3% of passing rents after concessions in arrears at 31 December, all of which were collected after the year end
- Dividend payments were maintained throughout 2020 and since the year end
- Neither the Company nor the Investment Adviser has requested or utilised any form of Covid-19 Government support
- The Management Team's shareholding is the largest by value amongst UK REITs, underpinning **very strong alignment with all shareholders**:
  - Management's 12.4% stake is worth £152.3 million at 31 December 2020 EPRA NTA
  - Every member of the Management Team has a personally significant investment in the business
  - During the year the Management Team invested a further £5.8 million of cash in their interests in the Company

Highlights continued

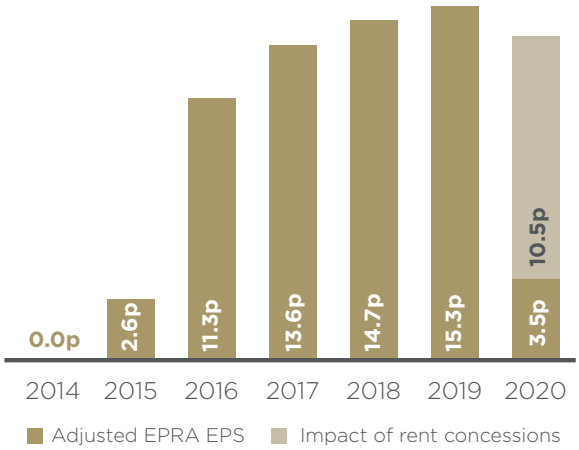
Total Accounting Return



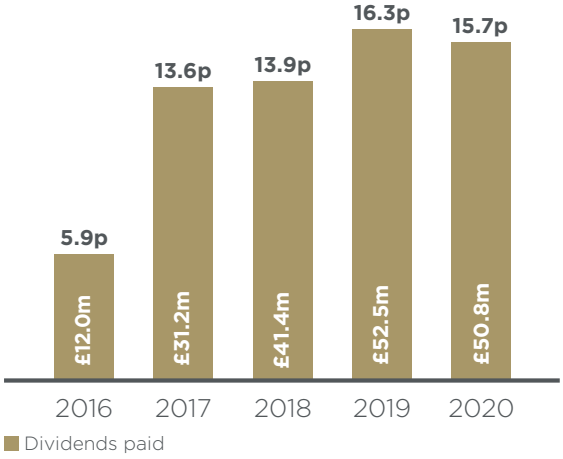
Net LTV



Adjusted EPRA EPS



Dividends and dividends per share



Chairman's Statement

"While we recognise that the last twelve months have negatively impacted short term returns for many investors, the performance of the business over the medium to longer term and its prospects over similar time scales remain the principal focus of the Management Team and Board. As economies and businesses hopefully emerge from these difficult circumstances, we believe that as and when pandemic restrictions are relaxed the bounce back in economic activity in the leisure and hospitality sectors will be significant and SIR's assets and tenants are well positioned to be early beneficiaries of any recovery. After a challenging period we are excited about opportunities for the business."

Dear Shareholder,

Following a year dominated by a devastating human toll and by extraordinary stresses on so many businesses around the world arising from the Covid-19 pandemic, progress with the rollout of vaccines gives us cause for cautious optimism and more confidence in assessing the outlook for the Company than when we reported our interim results six months ago. The pandemic has presented significant challenges to our leisure and hospitality tenants, but the Company's robust balance sheet, strong liquidity and experienced Management Team have enabled us to support those of our tenants that suffered the sudden closure of their businesses, to aid the resumption of their strong performance track records once the effects of the pandemic diminish and, as a result, to position the Company to regain its own strong growth trajectory.

The Company was established six and a half years ago to deliver attractive returns over the long term. Even with the interruption of the exceptional events of 2020, the Company has delivered a Total Accounting Return IRR of 15.3% p.a. since listing, a Total Shareholder Return IRR of 12.8% p.a. over the same period and has maintained its core dividend payments throughout the turbulence of the pandemic disruption. This compares with the equivalent for the FTSE EPRA NAREIT Index of 2.8% p.a. over the same period. The Company has ended 2020 with a robust balance sheet with £1.2 billion of net assets, £192.0 million of uncommitted and unfettered cash, structurally protected non-recourse debt and very long leases which are very difficult to replicate.

Results and financial position

The impact of the pandemic has meant that Group EPRA NTA per share, disappointingly, declined by 50.1 pence per share ending the year at 379.3 pence. Dividends paid in the year of 15.7 pence per share result in the Total Accounting Return of negative 34.4 pence per share or negative 8.0% in the year.

	IFRS Net Assets		EPRA NTA	
	£m	Pence per share	£m	Pence per share
1 January 2020	1,384.5	428.8	1,391.3	429.4
Investment property revaluation	(166.6)	(51.4)	(142.5)	(44.0)
Other retained earnings	54.4	15.3	31.2	9.6
Dividends paid	(50.8)	(15.7)	(50.8)	(15.7)
31 December 2020	**1,221.5**	**377.0**	**1,229.2**	**379.3**

Property values decreased over the year by a net 6.5%. Of the total decline, 91% was reported in the six months ended 30 June 2020, with the fall since then limited to a further 0.6% of gross property values. 69% of the net fall in valuation over the year was accounted for by the decline in the value of the Budget Hotels portfolio at the half year, following Travelodge's Company Voluntary Arrangement in June 2020.

Contractual passing rent grew by 2.0% across the portfolio at constant currency and by 2.3% overall, following rent reviews on 77% of total portfolio income. The blended Topped Up Net Initial Yield on the portfolio was 5.42% at 31 December 2020 compared with 5.32% at 30 June 2020 and 4.95% at the start of the year. The Investment Adviser reports on the valuation movements and changes in rental income over the year in detail in its report on the following pages.

Results and financial position continued

	IFRS EPS		Adjusted EPRA EPS	
	2020 Pence per share	2019 Pence per share	**2020 Pence per share**	2019 Pence per share
Like for like net rent after all costs tax, and before rent concessions and revaluations	**16.6**	16.3	**14.0**	13.6
Rent concessions	**(0.3)**	–	**(10.5)**	–
Like for like net rent after of all costs tax, and before revaluations	**16.3**	16.3	**3.5**	13.6
Rent net of interest for hospitals sold in 2019	**–**	2.1	**–**	1.7
Profit on sale of hospitals	**–**	7.3	**–**	–
Property revaluations	**(51.4)**	23.4	**–**	–
Incentive fee	**–**	(1.6)	**–**	–
Earnings per share	**(35.1)**	47.5	**3.5**	15.3

The Group's EPS measured on an IFRS basis without the industry standard EPRA adjustments includes the property revaluations and also the profit on the sale of the hospitals in 2019, resulting in a swing from positive to negative earnings compared to last year. The Group's Adjusted EPRA EPS, which excludes the impact of property revaluations and profits on property sales, was 3.5 pence per share for the year, against 15.3 pence per share reported for 2019. In our Adjusted EPRA EPS we eliminate the spreading of the rent concessions which is required by IFRS, instead reporting to you our earnings on a basis that reflects the cash flow impact of these concessions over the limited period over which they apply which is a 10.5 pence per share reduction in earnings in 2020. On this adjusted basis, the impact of the rent concessions is at its greatest in the 2020 financial year. Since the end of 2020, annualised rent receivable after rent concessions has increased by £5.8 million as a result of the increase in the Travelodge rents for the 2021 calendar year and the expectation is that 2022 will see a return in full to the originally contracted rent profiles.

In our interim results announcement, we reported that at 30 June 2020 the Company's shares stood at a 30% discount to EPRA NTA. At 31 December 2020, with the shares having closed at 300.0 pence per share the discount was 21%. On 9 March 2021 the discount had further narrowed to 6.7% at the closing price of 354.0 pence per share. The Board regularly examines options for managing any persistent share price discount including the risks and benefits of buying in the Company's shares with the aim of eliminating the share price discount while enhancing net asset value per share. To date, our conclusion has been that any positive impact would be marginal without allocating a substantial proportion of the Company's liquidity buffer to a share buy back, and that the resultant increase in Net LTV and reduction in the options available to the Company to deploy surplus cash for opportunities or liability management would outweigh the potential benefits. This remains under very regular review and re-assessment. However, we note that during 2020 the Board and Management Team invested £0.6 million in shares purchased on the market and the Management Team invested a further £5.3 million of cash in their interests in the Company through buying out a retiring non-executive director in the management company. The team remains energised, committed and aligned with all shareholders.

Outlook

The Government's road map envisions the reopening of outdoor visitor attractions from mid-April, followed by indoor activity in most hospitality assets permitted from mid-May, with the caveat that these dates are not cast in stone. The expectation that the rollout of vaccinations to the entire UK adult population by the middle of this year provides much stronger foundations for an enduring release from the impact of the pandemic. The capital markets reflect this view, pricing in a strong recovery in both the publicly traded equity and debt of many companies in the leisure and hospitality sectors. While many of our leisure and hospitality assets have been closed for an extended period, 78 of our 123 hotels are already open, serving those unable to work from home. But we expect clear benefits for our leisure, hotels and pubs tenants from the easing of restrictions anticipated in May. In the meantime, our healthcare assets have proved very resilient and remain in strong demand, further underpinned by an NHS tender valued at £10 billion over four years to the independent hospital sector to try to clear the backlog of procedures.

The pandemic has created a recession unlike any other with its economic effects felt very unevenly – devastating for a minority but leaving a surprising number financially untroubled. Lockdown restrictions have pushed up household savings ratios to record levels, creating high levels of enforced savings in the UK which provide the means to accompany the natural desire to make the most of leisure and hospitality when it reopens. In tandem, the unprecedented size and nature of Government financial support has driven down interest rates to record lows and unleashed a surge of liquidity seeking a suitable investment home – a home that may soon require inflation protection. Highly expansionary monetary policy has seen the Bank of England continue to increase its quantitative easing programme to a level over four times higher than after the Great Financial Crisis. With debt levels hitting unprecedented heights the Government has a strong incentive to manage its cost and deflate its value by letting inflation run above interest rates. Unfortunately, the other side of the same coin is the prospect of a protracted period of negative real interest rates which would pose a challenge for savers. This is where REITs with long-dated inflation linked leases can prove their worth, delivering healthy dividend yields and inflation protection.

Unfortunately, the pandemic has disrupted the businesses of our leisure and hospitality tenants but there are increasingly good grounds to believe that this will prove temporary. Theme parks and budget hotels typically recover quickly from any economic downturn and we were encouraged by the speed with which their trade began to rebuild last summer after the first lockdown. It is still possible that there will be further bumps along the road, however, and we consider it prudent to continue to hold high levels of cash as a shock absorber. The Management Team has a long-established track record of delivering strong performance in public markets and rarely have their property vehicles traded at a persistent discount to net asset value. We remain committed to ensuring that the share price reflects the prospects of our business and the resumption of its growth trajectory.

Martin Moore
Chairman
10 March 2021

Alton Towers

Travelodge Leicester Hinckley Road

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 2020. Capitalised terms within this report are explained in the glossary that follows the financial statements.

Our Management Team together owns 12.4% of the Company, worth £152.3 million at 31 December 2020 EPRA NTA, making ours the largest management holding by value of any UK REIT. Every member of the team holds a personally significant investment in Secure Income REIT. We believe that this aligns our interests very strongly with those of all shareholders and motivates us to work hard to deliver attractive risk adjusted returns for all shareholders over the medium to long term.

Secure Income REIT was created to provide attractive long term returns. The reporting cycle of half year and annual results necessarily focuses on those discrete six-monthly periods and 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 Board, as we consider that this leads to better decision making and therefore better outcomes in the long run.

In this report, we aim to explain the fundamentals of the business, the unique characteristics underlying the property portfolio including the key terms of the leases and the important features of the tenant operations that stand behind the lease obligations and therefore underpin the value of this Company. Our assessment of the tenant operations this year is focussed in large part on the impact of the Covid-19 pandemic, but we also look to their past performance and the medium and longer term prospects for their businesses and their potential impact upon the Group.

The performance of the Company since the onset of the pandemic breaks a long track record of strong performance year on year and in each reporting period. However, as we emerge from the pandemic the reasons for investing in the Company set out in our explanation of the business model remain as valid as they have been since it listed in 2014.

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 leverage 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.

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 backing 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 earnings;
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 including climate risk; and
iii) the properties should have high barriers to entry, making them difficult to replace whether by way of the 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), 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 81 year old brand) or in some cases, such as the Budget Hotels portfolio, where assets are held by the Company at a significant 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, transferring the burden of obsolescence from the owner to the occupier and thus preserving value for the Company's shareholders.

While any investment is required to have a Weighted Average Unexpired Lease Term of 15 years or more at the time of acquisition, income longevity alone is not enough. When we and the Board consider how sustainable the rental income is likely to be, we evaluate various aspects of income security including:

i) protections at site level, such as the profitability of a given site enhancing its attractiveness to the incumbent and alternative operators, high residual value and alternative use value;
ii) protections relating to the tenants, including financial strength, the sustainability of their business models, the strength of any restrictions relating to lease assignability and the spread of tenant operations, whether that is by segment or geography; and
iii) protections afforded by any lease guarantor in addition to the direct tenant, including its financial strength and 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 reflects 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. 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 share issues will be 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.

The portfolio

The Group held 161 properties at 31 December 2020 with contracted annual passing rent before Covid-related concessions of £113.3 million and a very long Weighted Average Unexpired Lease Term of 20.2 years without break. Movements in the independent property valuations and passing rents together with the key terms of leases are set out in the following sections. First though, we set out the Covid-related temporary concessions granted, as these have had a significant impact on the results of the Group for the year and its financial position at 31 December 2020.

Covid-19 tenant support provided

The Covid-19 pandemic presented a great many businesses globally with major challenges, most particularly in the hospitality and leisure sectors, and this Company and its tenants have not gone unscathed from the impact of the lockdowns in the UK and elsewhere. The resilience of this Company and that of our tenants has certainly been tested, but all have thus far proved to be able to withstand these extraordinary events.

As reported in the 30 June 2020 interim results, the sudden forced closure of all of the Group's leisure and hospitality assets and the majority of its Budget Hotels created immediate operational and liquidity pressures on certain tenants. As a result, the Company granted rent concessions, tailored in each case to provide the breathing space needed to assist our tenants with the recovery of their businesses and in so doing to support the Company's return to its own growth trajectory. Under current arrangements all rents are contracted to revert to the levels set out in the original lease terms by January 2022 at the latest. No rent reductions have been granted with enduring effect on cash flows after January 2022.

Concessions agreed prior to 30 June 2020 and disclosed in the June 2020 interim results

- Merlin Entertainments Limited took prudent action in April 2020 to significantly bolster its liquidity position, and part of the package of measures was an open and constructive discussion and then agreement with the Company (and a number of its other landlords) to reschedule certain rental payments. Deferrals of quarterly rents due in June 2020 and September 2020 amounting in total to £17.8 million (£17.7 million at the year end exchange rate) were agreed with the Company. The deferred rent is receivable in September 2021. Rents reverted to their originally contracted payment schedule from the December quarter and that rent was received in full when due.

Covid-19 tenant support provided continued

- In direct response to the pandemic and having had to close almost all of its over 570-strong hotel network in March 2020, Travelodge launched a Company Voluntary Arrangement ("CVA") which was approved by its creditors in June 2020. As a result, rent of £14.5 million was foregone by the Group in the 2020 financial year (including £0.2 million of the rental uplifts that took effect during the year). The annualised cash rents receivable from Travelodge increased by £5.6 million with effect from January 2021 and will return to their original contractual levels and terms in January 2022. At that point, the uplifts from the RPI-linked rent reviews that would have been receivable in the concession period will also become due. Certain other lease variations were also agreed as part of the CVA including the payment of the majority of rents monthly rather than quarterly during the concession period.

  Unusually for a CVA, Travelodge did not use the process to exit any of its leases, preferring to keep as much of its estate intact as possible, demonstrating the value of maintaining a national network with sophisticated yield management systems and perhaps a reflection of the fact that the business had been performing well before the pandemic, with a strong five year track record of profits growth and sector outperformance in its key metric of revenue per available room.

- A six month rent free period, reducing rent by £1.1 million, was agreed in respect of the Stonegate pubs portfolio from April 2020 in consideration for extending lease terms from 19.6 to 25.0 years and strengthening the lease alienation clauses. The rent free period ended in September 2020 and rents have reverted to their originally contracted level since then.

Concessions agreed subsequent to the 30 June 2020 interim results announcement

Rent concessions granted since the interim results announcement relate only to changes in the timing of rental receipts for limited periods, with the amounts receivable over the relevant lease terms unchanged. The following changes were agreed between 1 July and 31 December 2020:

- The Board agreed with Travelodge that any rents that were still receivable on a quarterly payment schedule following the CVA, totalling £0.8 million for the quarter, would instead be receivable in monthly instalments between January and March 2021 before reverting to their originally contracted quarterly payment schedule in April 2021.
- Quarterly rents of £0.8 million receivable in respect of the Brewery on Chiswell Street in each of September 2020, December 2020 and March 2021 are instead receivable in equal instalments, monthly in advance.
- A deferral totalling £0.1 million of rent from TeamSport, a tenant at Manchester Arena, for the period from May to September 2020, was agreed. The amount will instead be receivable in equal monthly instalments over 18 months commencing in January 2021.

The Company has experienced very low levels of arrears of rent, as demonstrated by the rent collection statistics presented later in this report. No further concessions have been granted since 31 December 2020.

Earnings and cash flow impact of concessions

The impact of rent concessions on Adjusted EPRA EPS for the 2020 financial year is a reduction of £33.3 million in rent plus costs of £0.7 million, amounting to 10.5 pence per share in total. Assuming that there are no changes in the composition of the portfolio or further variations to any of the leases, we are also able to reliably predict the impact on 2021 earnings, which is expected to be a positive effect of £8.8 million or 2.7 pence per share. Only the 2020 and 2021 financial years are affected by concessions granted to date, after which the Adjusted EPRA earnings and cash flows are expected to revert to their pre pandemic trajectory.

Yorkshire Clinic Bingley

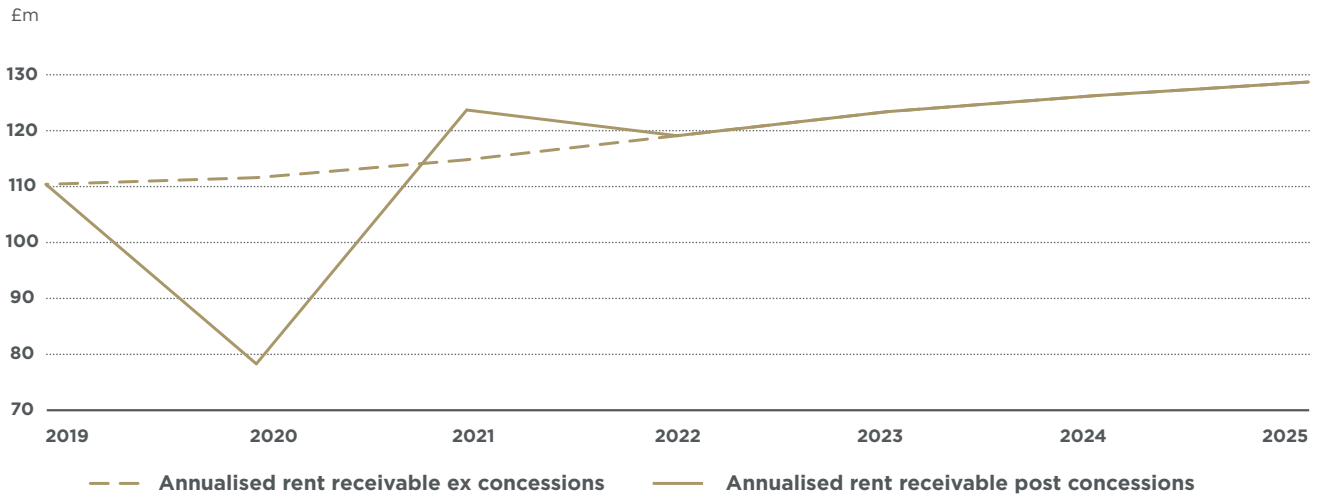
	Year to 31 December 2020 *actual* £m	Year to 31 December 2021 *contracted** £m
Annualised contractual rent before concessions at start of year	110.7	113.3
Fixed rental uplifts	0.7	1.1
RPI uplifts (expected uplifts in 2021 estimated in line with RPI swap curve)	0.9	0.7
Expiry of Manchester car park lease net of new operating agreement	(1.0)	–
Exchange rate movement	0.3	–
Expected rent before temporary concessions	**111.6**	**115.1**
Merlin leisure rent deferral	(17.8)	17.7
Exchange rate movement on Merlin leisure rent deferral	0.1	–
Budget Hotels rent reduction	(14.3)	(8.6)
Reduction in Budget Hotels rental uplifts for 2020 and 2021	(0.2)	(0.3)
Rent on Stonegate pubs reduced for two quarters in exchange for improved lease terms	(1.1)	–
Rental cash flow impact of temporary concessions	**(33.3)**	**8.8**
Annualised cash rent receivable	**78.3**	**123.9**

	Year to 31 December 2020 *actual* £m	Year to 31 December 2021 *contracted** £m
Rental cash flow impact of concessions	(33.3)	8.8
Costs of concessions charged to direct property costs	(0.7)	–
Impact on Adjusted EPRA Earnings (£m)	(34.0)	8.8
Impact on Adjusted EPRA EPS (Pence)	**(10.5)p**	**2.7p**

* this is an illustration of rents receivable on their current contractual terms and is not a profit forecast

We compare below the pre concession and post concession rent trajectories, assuming no further rent concessions, no rental uplifts from the open market rent reviews, and any RPI-linked reviews in line with the RPI swap curve as at 9 March 2021, demonstrating the short term impact of the concessions on passing rent.

Rent concession impact on cash rents



This is an illustration of rents receivable on their current contractual terms and is not a profit forecast.

Covid-19 tenant support provided continued

The impact of the rent concessions on IFRS earnings reflects the spreading of those concessions over the remaining, very long period to the end of each lease. This has the effect of muting the impact of the concessions such that they reflect a materially smaller impact each year for a very long time. In the case of the deferred Merlin rent, which is reflected in the Adjusted EPRA earnings on a cash basis, the IFRS results do not change as a result of the variation in timing of the receipt.

	Year to 31 December 2020 *actual* £m	Year to 31 December 2021 *contracted** £m
Rent before temporary concessions	111.6	115.1
Budget Hotels rent reduction spread over average remaining 22 year lease term	(0.9)	(1.4)
Pubs rent reduction in 2020 spread over average remaining 25 year lease term	–	(0.1)
Decrease in revenue from concessions on an IFRS basis	(0.9)	(1.5)
	110.7	113.6
Other adjustments to cash rents reported in the income statement:		
Rent smoothing adjustments from originally contracted uplifts	8.9	7.3
Recovery of head rent and other service charge costs	1.7	1.7
Back rent recognised from 2017 hospitals rent review	0.4	0.4
IFRS rent receivable in the income statement	**121.7**	**123.0**

* this is an illustration of rents receivable on their current contractual terms and is not a profit forecast

The IFRS rental income already includes rent smoothing in respect of the leases where rent concessions were granted, amounting to £0.9 million. Therefore, the incremental increase from the IFRS basis of measurement to Adjusted EPRA earnings is an additional £32.4 million of rent smoothing, bringing the total to £33.3 million.

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

No Group or Investment Adviser Covid-19 support received

Neither the Group nor the Investment Adviser or any part of the Investment Adviser's group has taken advantage of any Government support packages offered to businesses during the pandemic. No employees of the Investment Adviser or its wider group have been furloughed or laid off and their salaries have continued to be paid in full.

Rent collections

Over the 2020 financial year, the Group reported only minimal rent arrears following each quarterly collection cycle. Collection rates for each quarter were as follows:

	25 March to 7 April 2020 £m	24 June to 7 July 2020 £m	29 September to 7 October 2020 £m	25 December 2020 to 7 January 2021 £m
Originally contracted	27.3	27.5	27.6	27.8
Rent concessions:				
Deferred	–	(8.9)	(8.9)	–
Reduced	(4.8)	(4.9)	(4.8)	(2.2)
Rescheduled to monthly payment	–	(1.0)	(1.6)	(4.0)
Due in the period	22.5	12.7	12.3	21.6
Collected on or before the due date	(20.2)	(12.7)	(12.3)	(21.3)
Collected after the due date but before 31 December 2020	(2.3)	–	–	–
Rent arrears at 31 December 2020	–	–	–	0.3
Collected subsequently*	–	–	–	(0.3)
Rents demanded prior to 31 December 2020 in arrears at the date of this report	–	–	–	–
Collected within seven days (%)	89.8%*	100.0%	99.9%	98.6%

* the collection rate for the March and April rent collections is lower as a result of the delay in receipt of Travelodge rents while their CVA ran its course. The rents as amended by the CVA were received after the conclusion of that process

The portfolio

Portfolio rents and valuation

The portfolio is valued by qualified independent external valuers every six months.

Passing rent before concessions	Leisure £m	Leisure Change	Healthcare £m	Healthcare Change	Budget Hotels £m	Budget Hotels Change	**Total £m**	**Total Change**
31 December 2019	46.8		35.6		28.3		**110.7**	
Uplifts	0.3	0.7%	1.0	2.8%	0.9	2.9%	**2.2**	**2.0%**
Exchange rate movement	0.4	0.9%	–	–	–	–	**0.4**	**0.3%**
Total movement in rents	0.7	1.6%	1.0	2.8%	0.9	2.9%	**2.6**	**2.3%**
31 December 2020	47.5		36.6		29.2		**113.3**	

Valuation	Leisure £m	Leisure Change	Healthcare £m	Healthcare Change	Budget Hotels £m	Budget Hotels Change	**Total £m**	**Total Change**
31 December 2019	851.9		748.4		482.8		**2,083.1**	
Revaluation	(65.2)	(7.6)%	20.7	2.8%	(98.0)	(20.3)%	**(142.5)**	**(6.8)%**
Exchange rate movement	6.3	0.7%	–	–	–	–	**6.3**	**0.3%**
Total revaluation movement	(58.9)	(6.9)%	20.7	2.8%	(98.0)	(20.3)%	**(136.2)**	**(6.5%)**
31 December 2020	793.0		769.1		384.8		**1,946.9**	

Yields	Leisure 31 Dec 2020	Leisure 31 Dec 2019	Healthcare^ 31 Dec 2020	Healthcare^ 31 Dec 2019	Budget Hotels 31 Dec 2020	Budget Hotels 31 Dec 2019	**Total 31 Dec 2020**	**Total 31 Dec 2019**
Topped Up Net Initial Yield*	5.54%	5.07%	4.46%	4.46%	7.10%	5.50%	**5.42%**	**4.95%**
Running Yield by January 2022†	5.76%	5.35%	4.58%	4.71%	7.21%	5.83%	**5.58%**	**5.25%**

* Topped up Net Initial Yield ignores the rent concessions, all of which are temporary

^ the healthcare valuation 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 2020

† the Leisure and Budget Hotels Running Yields are calculated using the independent external valuers' estimates of RPI averaging 2.5% per annum (2019: 2.6% per annum)

The independent external valuation of the properties has fallen by 6.5% in the year. Overall, the blended Topped Up Net Initial Yield has risen in aggregate by 47 basis points since 31 December 2019 of which 10 basis points represents the movement since 30 June 2020. The 20.3% reduction in the valuation of the Budget Hotels portfolio, all of which occurred in the first half of the year, accounts for 72% of the total valuation movement in the year.

The Leisure and Budget Hotels valuations at 31 December 2020 have been reported by the independent external valuers as being subject to material valuation uncertainty in light of Covid-19, based on the provisions of the Royal Institution of Chartered Surveyors' guidelines in force at that time and consistent with the approach taken for the 30 June 2020 valuations. No material valuation uncertainty applied to the 31 December 2019 valuations. The valuation of the healthcare assets, which account for 39.5% of investment properties at independent valuation, are not subject to the material valuation uncertainty proviso. Material valuation uncertainty does not mean that the valuations cannot be relied upon, but that less certainty can be attached to them than would otherwise be the case and is further explained in note 11 to the financial statements. Furthermore, this did not impact on the overall audit opinion, which is unqualified.

Basis of rent reviews

The rents on three of the portfolios have been subject to deferrals or reductions in the short term and of those, only one, the Budget Hotels, remains within the period over which rents demanded are reduced. On the basis of the concessions granted to date all rental cash flows are contracted to revert to their originally contracted terms by, at the latest, January 2022. As all rents are expected to revert to originally contracted terms within ten months of the date of this report, the income that will arise on the portfolio still benefits from fixed contractual rental uplifts which average 2.8% per annum on 41% of the income and upwards only RPI-linked rent reviews on 58%, with the remaining 1% subject to upwards only open market reviews. Two thirds of the rent is subject to annual review, giving the Group the benefit of frequent capture of any uplifts.

	31 December 2020			31 December 2019
Percentage of passing rents	**Reviewed annually**	**Reviewed three or five yearly**	**Total portfolio**	Total portfolio
Upwards only RPI:				
Uncapped	**25%**	**27%**	**52%**	53%
Collared	**4%**	**2%**	**6%**	6%
Total upwards only RPI-linked reviews	**29%**	**29%**	**58%**	59%
Fixed uplifts:				
Annual reviews	**38%**	**–**	**38%**	38%
Five-yearly reviews	**–**	**3%**	**3%**	3%
Total fixed uplifts	**38%**	**3%**	**41%**	41%
Open market reviews	**–**	**1%**	**1%**	–
Total portfolio	**67%**	**33%**	**100%**	100%

The increases in passing rent during the year from both fixed and RPI-linked uplifts take effect as follows:

	Leisure £m	Healthcare £m	Budget Hotels £m	**Total £m**
Paid current	(0.3)	1.0	–	**0.7**
Deferred to:				
September 2021	0.6	–	–	**0.6**
January 2022	–		0.9	**0.9**
2020 total at constant currency	0.3	1.0	0.9	**2.2**
Exchange rate movement	0.4	–	–	**0.4**
Total uplifts in passing rent	0.7	1.0	0.9	**2.6**

The net uplift on Leisure passing rent includes a £0.3 million fall as a result of the expiry of the car park lease at Manchester Arena. The £0.6 million uplift on the theme parks took effect in June and July 2020 and the uplift relevant to the deferred rent receivable in June and September 2020 is therefore deferred to September 2021. The uplift in subsequent quarters is unaffected by the rent concession. The terms of the Travelodge rent concessions are such that the contractual provisions relating to the rent reviews continue throughout the concession period but with any rental increases being receivable at the end of that period, in January 2022, and discounted at the relevant CVA rate. Consequently, the capture of these rental uplifts is deferred and becomes receivable within the next nine months. Review provisions in the Healthcare portfolio are unaffected by the rent concessions.

Changes in RPI calculation methodology from 2030

In November 2020, the UK Government and UK Statistics Authority announced changes to its calculation of 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 0.8 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.

Lease lengths

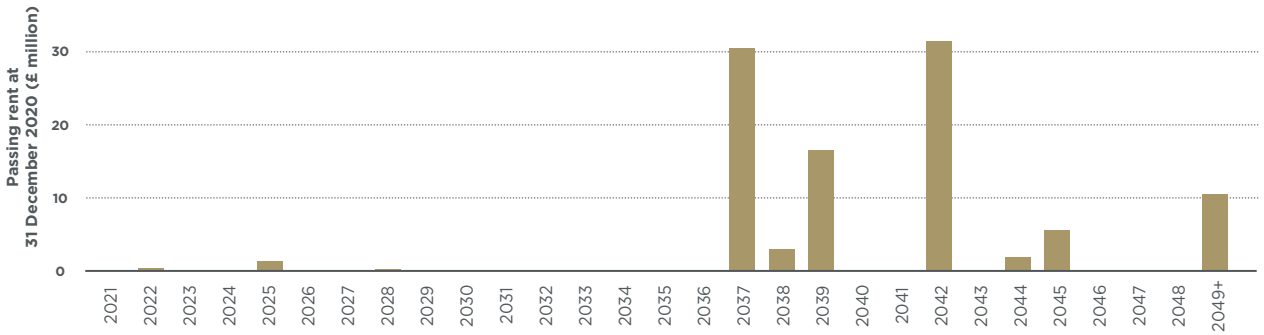
The Group's leases are very long with a Weighted Average Unexpired Lease Term of 20.2 years without break from 31 December 2020.

	Leisure*		Healthcare		Budget Hotels		**Total**	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	**31 Dec 2020**	31 Dec 2019
Weighted Average Unexpired Lease Term (years)	22.1	22.5	16.8	17.8	21.4	22.4	**20.2**	21.0

* The Leisure portfolio WAULT has shortened by less than 12 months as a result of the extension of the leases on the Pubs portfolio from 19.6 years to 25.0 years in July 2020 and the new longer term arrangements for the car park at Manchester Arena which replaced a lease that expired in March 2020

The portfolio Weighted Average Unexpired Lease Term of 20.2 years is significantly longer than that of any other major UK REITs (defined as those with a market capitalisation in excess of £1 billion). 98% of contractual passing rents have an unexpired term without break of more than 16 years.

Passing rent by year to first tenant break or expiry



No material vacancies or landlord costs

The portfolio is fully let. All occupational leases are on full repairing and insuring ("FRI") terms, meaning that overall, the Group's property running costs are low and there is only a very modest capital expenditure requirement. There is one small income stream relating to the car park at Manchester Arena that arises from an operating agreement rather than an FRI lease, which currently accounts for a negligible percentage of the Group's income.

Portfolio total rents

The Group's principal lease counterparties, analysed by contractual passing rent before concessions as at 31 December 2020, are as follows:

Tenant or guarantor	**31 December 2020 £m**	31 December 2019 £m
Merlin Entertainments Limited*	**35.6**	34.5
Ramsay Health Care Limited	**34.4**	33.5
Travelodge Hotels Limited	**29.2**	28.3
SMG & SMG Europe Holdings Limited	**4.0**	4.0
The Brewery on Chiswell Street Limited	**3.4**	3.4
Orpea SA	**2.2**	2.1
Stonegate Pub Company Limited	**2.2**	2.0
Others (each below £1.3 million)†	**2.3**	2.9
	113.3	110.7

* £7.1 million (2019 £6.6 million) of the Merlin rents are Euro denominated

† including £0.5 million of estimated variable net income for the car park at Manchester Arena

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

Leisure assets (41% of portfolio value)

Contracted rents before temporary rent concessions	**31 December 2020 £m**	31 December 2019 £m
UK assets	**40.4**	40.3
German assets (at constant Euro exchange rate)	**7.1**	6.9
	47.5	47.2

The Company's leisure assets are:

- four well established large scale visitor attractions with accommodation operated by Merlin Entertainments Limited;
- Manchester Arena, a city centre 20,000 capacity indoor arena;
- The Brewery, one of London's largest catered events venues on Chiswell Street in the City of London; and
- a portfolio of 18 freehold high street pubs located in England and Scotland.

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

Merlin is a private business owned by a consortium of substantial, established, long term investors that took the business private in 2019 at a price representing an enterprise value of some £6 billion. Merlin's owners are Kirkbi, the majority owners of the Lego business who have been invested in Merlin since 2005 and which own 50%, together with Blackstone Core Equity, a long term fund with Blackstone's latest reported assets under management over £400 billion, and Canada Pension Plan Investment Board, one of the world's largest pensions investors with latest reported assets under management of over £230 billion. During the pandemic, Merlin has been able to access capital from public bond markets as part of their liquidity management strategies. The quoted pricing for Merlin's publicly traded 5.75% bonds maturing in 2026, which have been in issue since before the onset of the pandemic, have recovered to within 3% of their pre pandemic price (taking the quoted price at 1 January 2020) and were trading above par at a yield to maturity on 9 March 2021 of 4.5% Nick Varney, Merlin Entertainments Limited's Chief Executive, commented in March 2021 that "after a very challenging year for the group, our experience in between lockdowns and our exciting future investment proposals for the UK and German theme parks allows us to look forward to the future with confidence that we can continue with our pre Covid-19 growth trajectory".

The average term to expiry of the Merlin leases is 21.5 years without break from 31 December 2020 and the tenants have two successive rights to renew for 35 years at the end of each term. The leases are on full repairing and insuring terms. There are upwards only uncapped RPI-linked rent reviews on the UK properties every June throughout the term (based on RPI over the 12 months to April each year), which in 2020 resulted in a rental increase of 1.5%. The German properties are subject to fixed annual increases of 3.34% every July throughout the term, as a result of which the German rents increased from £6.9 million to £7.1 million on 30 July 2020 (translated at the 31 December 2020 exchange rate).

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 the UK's largest indoor arena by capacity, some additional 160,000 sq ft of office and leisure space, a multi-storey car park with approximately 1,000 spaces, and other income sources.

The Arena is let to SMG and SMG Europe Holdings Limited, part of ASM Global, with 24.5 years unexpired without break from 31 December 2020. The annual rent is £4.0 million (before headrent) and is reviewed annually every June in line with RPI, collared between 2% and 5%, which in 2020 resulted in a rental increase of 2.0%.

ASM Global was created by a merger of AEG Facilities and SMG in October 2019 and is the world's largest venue management company, operating over 300 venues in 21 countries and with pro forma annualised 2019 revenues of $500 million estimated at the time of the merger. The ASM management team has been in regular dialogue with us. The arena has been closed throughout the pandemic period and the Government's roadmap for easing lockdown restrictions permits it to reopen from 21 June 2021, with the expectation that it is likely to be fully operational from September 2021. All arena rents have been paid when due. The offices and ancillary leisure space at Manchester Arena is let to tenants including Serco, Unison, JCDecaux and go-karting operator TeamSport.

The leases on the Manchester site as a whole have an average term to expiry of 17.1 years from 31 December 2020 and produce net passing rent of £5.7 million per annum at that date.

The Brewery on Chiswell Street is a predominantly freehold investment let to an established specialist venue operator on a full repairing and insuring lease. It provides the largest catered event spaces in the City of London and is located within five minutes' walk of the Moorgate entrance to the new Crossrail Station at Liverpool Street. As with Manchester Arena, the Brewery has been closed throughout the pandemic period but is permitted to reopen from 21 June 2021 and is likely to be fully operational from September 2021.

The lease term to expiry is 35.5 years without break from 31 December 2020 and the lease provides for five-yearly fixed uplifts of 2.5% per annum compounded. The passing rent is £3.4 million per annum as at 31 December 2020 and the next rental uplift to £3.8 million will take effect in July 2021.

The portfolio of 18 high street pubs produces passing rent of £2.2 million per annum as at 31 December 2020 and the leases have an average term to expiry of 24.5 years without break. The pubs are currently closed but will be able to open for indoor trading from 17 May 2021.

The pubs are let on individual leases either to, or guaranteed by, Stonegate Pub Company Limited, the largest pub company in the UK, with over 4,500 pubs following its March 2020 acquisition of Ei Group for £1.27 billion. Stonegate has been able to access public debt markets during the pandemic period in support of the group's liquidity needs. Stonegate's Sterling bonds maturing 2025, issued in July 2020, were trading above par at a yield to maturity of 7.0% at close on 9 March 2021.

Rents are subject to five-yearly RPI-linked increases collared between 1% and 4% per annum compounded. The rent reviews in February 2020 resulted in an increase in passing rent of £0.2 million per annum (13.2% or 2.5% per annum compounded).

Healthcare assets (39% of portfolio value)

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

The Group's healthcare assets, 11 freehold private acute hospitals and a central London freehold psychiatric hospital, have continued to trade throughout the year and since the year end, 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 Groupe Sinoué, a very substantial French company specialising in mental health care.

The Ramsay hospitals are let on full repairing and insuring leases with a term to expiry at 31 December 2020 of 16.3 years without break. The rents increase in May each year by a fixed minimum of 2.75% per annum throughout the lease term. Following the May 2020 fixed uplifts, the rents on the Ramsay portfolio increased from £33.5 million to £34.4 million per annum. In addition, there is an upwards only open market rent review within each lease as at 3 May 2018 and then in May 2022 and every five years thereafter. The May 2018 open market review remains outstanding. It is subject to a formal arbitration process which was put on hold by agreement between the parties during 2020, to allow Ramsay management to fully focus on its pandemic response and because the arbitrator would have been unable to inspect the hospitals during the lockdowns. Given the uncertainty over the time taken to resolve the arbitration and the nature of that process, there are currently no indications 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, the listed parent company of one of the top five private hospital operators in the world and the largest operator of private hospitals in Australia, France and Scandinavia. Ramsay is a constituent of the ASX 50 index of Australia's largest companies, with a market capitalisation at 9 March 2021 (and using the exchange rate on that date) of £8.1 billion (£6.5 billion at 10 March 2020).

Healthcare assets (39% of portfolio value) *continued*

The Ramsay hospitals have continued to trade without pause throughout the pandemic and, through their contracts with the NHS, have provided guaranteed capacity to the NHS to tackle the Covid-19 crisis at cost (including the cost of their rents) since 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. They also noted that private patient volumes showed some recovery between lockdowns. Ramsay UK is currently operating under a new volume-based agreement with NHS England from 1 January to 31 March 2021 under which the NHS may trigger a peak surge period on seven days' notice should Ramsay's capacity be required to enable the NHS to respond to Covid-19 cases. Importantly, Ramsay is able to continue providing private patient services under the new agreement. They have provided similar support in the other jurisdictions in which they operate. Control of their hospital capacity worldwide is being gradually regained, allowing Ramsay both to return to their more profitable core private healthcare business and to participate in the very significant backlogs of NHS and private patient treatment in the UK and elsewhere. This is expected to include their participation in the NHS's £10 billion tender process for independent providers which is currently underway in England.

The London psychiatric hospital is let on a full repairing and insuring lease with a term to expiry at 31 December 2020 of 23.6 years without break. The rent increases in May each year by a fixed 3.0% per annum throughout the lease term and as a result increased from £2.1 million to £2.2 million on 3 May 2020. The lease is guaranteed by Orpea SA, a leading European operator of nursing homes, post-acute care and psychiatric care, listed on Euronext Paris with a market capitalisation at 9 March 2021 (and using the exchange rate on that date) of £5.7 billion (£5.8 billion at 10 March 2020).

Budget Hotel assets (20% of portfolio value)

	31 December 2020 £m	31 December 2019 £m
Contracted rents before temporary rent concessions	**29.2**	28.3

At 31 December 2020 the Group owned 123 (2019: 123) Travelodge hotels in England, Wales and Scotland, let to Travelodge Hotels Limited which is the main operating company within the Travelodge group trading in the UK, Ireland and Spain. Travelodge is the UK's second largest budget hotel brand, with 586 hotels and over 44,500 rooms as at 31 December 2020.

As a response to liquidity issues created by the forced closure of nearly all of their more than 570 hotels, Travelodge concluded a Company Voluntary Arrangement ("CVA") in June 2020. As a consequence of the CVA, £14.5 million of rent (including £0.2 million of RPI uplifts) was foregone by the Group in the 2020 financial year and rent for the 2021 financial year will be £8.9 million (including £0.3 million of RPI uplifts) lower than the originally expected rental cash flows. Rents are due to return to the levels originally contracted from January 2022. Travelodge rents are currently receivable monthly in advance and all rent demanded under the terms of the CVA has been received when due.

A feature of Travelodge's CVA was a landlord option to break leases at no cost, which applied to 119 of the Group's 123 leases and which was exercisable on the majority of those prior to 20 November 2020. Against the background of a still challenging environment, the Management Team and Board conducted extensive analyses as to whether the prospects of the Group would be better served by retaining the current lease arrangements, seeking to lease to alternative operators or selling part or all of the Budget Hotels portfolio. Ultimately the conclusion reached was that the current lease arrangements provided the best value opportunity for the Company's shareholders and the properties were retained. We note that the vast majority of landlords remained with Travelodge which, immediately after the lease break option period, operated 578 hotels compared with 588 hotels at 31 December 2019.

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 received a £40 million equity investment from its shareholder group and completed a £65 million private debt placement in December 2020 to further support liquidity. Travelodge's publicly traded bonds that have been in issue throughout the pandemic period are trading at 8% lower than at the start of 2020, recovering from a decline of 38% in April 2020, and are trading at a yield to maturity of 7.6% at close of business on 9 March 2021.

One of the attractions of investment specifically in budget hotels rather than the wider hotel markets is their relative resilience in recessionary times. While we cannot examine the performance of the budget hotels sector following previous pandemics, we can look at periods of recessions and post recession recovery where it can be observed that budget hotels recover more quickly than the rest of the hotels sector. We understand that, consistent with the rest of the budget hotel sector, demand for bookings between lockdowns where hotels have been able to open has been relatively strong, particularly in leisure destinations. Travelodge reported on 12 February 2021 that they have contained costs to below the lower end of their expected range in lockdown while revenues remain in line with those experienced in the November 2020 lockdown which, together with their decisive action to increase their liquidity through their private placement in December 2020, resulted in a better than expected £117 million cash balance at 3 February 2021. Travelodge management consider that their business is well positioned to benefit from any improvement in trading conditions, with its strong brand, direct distribution model, low-cost proposition and "class-leading" operating margins.

The average term to expiry of the Travelodge leases is 21.4 years from 31 December 2020 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 arising during the CVA concession period, which runs to January 2022, continue to be calculated and documented but are reduced in line with the terms of the CVA and any remaining uplifts become receivable at the end of the concession period. Reviews on 39 budget hotels (22% of the portfolio by rental value) were agreed during 2020, with passing rent on those assets increasing by 13.3% from £6.3 million to £7.1 million, equivalent to an average uplift of 2.5% per annum. 24% of the passing rent will be reviewed in 2021, 39% in 2022, 11% in 2023 and 4% in 2024.

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 rights to remedy certain breaches, where cash can be temporarily injected into a security group in order to maintain covenant compliance if and when that is considered the best course of action for the Company. The objective of this structure is to provide a reasonable level of ongoing protection for the Group against unexpected valuation movements or changes in income.

Where rent concessions have been agreed this has, in each case, been done with the consent of the relevant lenders. In certain cases this has also included covenant waivers during the concession period. Save for the waivers, the terms of the various loan agreements remain unchanged and we appreciate the open and constructive communications with our lenders through the pandemic period.

The Group's total gross debt decreased by £2.4 million in the year. Scheduled loan repayments of £4.4 million and £1.5 million repaid out of the net proceeds of non-core hotels sold in 2019 but completed in 2020 were offset by a £3.5 million increase from foreign currency translation movements on the Group's Euro denominated debt. Net debt has increased by £45.0 million, largely reflecting the impact of £34.6 million of dividends paid in the year out of the Group's cash resources rather than from earnings and £11.8 million deployed in interest payments not covered by rent while the Merlin rents were temporarily deferred.

The Group's Net Loan To Value ratio increased from 31.9% to 36.4% over the financial year. The majority of this increase was reported in the six months to 30 June 2020 when the Net LTV was 35.3%, largely as a result of the valuation movements in the year being heavily weighted in the first half.

	Secured amounts £m	Unsecured amounts £m	**Group total £m**
Gross debt	928.3	–	**928.3**
Secured cash	(23.1)	–	**(23.1)**
Free cash*	(2.4)	(194.2)	**(196.6)**
Net debt	902.8	(194.2)	**708.6**
Property valuation			**1,946.9**
Net LTV			**36.4%**

* free cash within secured facilities is released to company free cash after each quarterly interest payment date as long as all loan covenants are complied with

Key terms of the facilities, ranked by maturity date

	Principal £m	Number of properties securing loan	Maximum annual interest rate	Interest rate protection	Annual cash amortisation	Final repayment date
Merlin leisure	380.4*	6	5.7%	Fixed	£3.8m†	Oct 2022
Budget Hotels 2	65.4	70	3.3%	80% fixed 20% capped	None	Apr 2023
Leisure: Arena, Brewery, Pubs	60.0	20	3.2%	83% fixed 17% capped	None	Jun 2023
Budget Hotels 1	59.0	53	2.7%	Fixed	None	Oct 2023
Healthcare 1	63.8	2	4.3%	Fixed	£0.3m	Set 2025
Healthcare 2	299.7	10	5.3%	Fixed	£3.2m	Oct 2025
Total	**928.3**	**161**	**4.9%**			

* £316.0 million of senior and mezzanine Sterling loans and €71.6 million of senior and mezzanine Euro denominated loans translated at the year end exchange rate of €1:£0.90. All loan tranches within the total £380.4 million are cross-collateralised

† amortisation in each of the years ending October 2021 and October 2022 comprises £3.2 million of the Sterling facility and €0.7 million of the Euro facility

Interest rate risk is managed by either fixing or capping rates over the term of each loan. 97.5% of the Group's borrowings at 31 December 2020 are subject to fixed rates.

The weighted average interest cost in the year was 4.9% per annum, consistent with the prior year. Interest cover, measured for these purposes as annualised current passing rent after concessions divided by annualised interest cost, was 2.3 times at 31 December 2020. This is a modest decrease compared to the 2.4 times cover reported for the 2019 financial year, as a result of the cash flow low point of the rent concessions being historic at the point of testing. As the Budget Hotels rent reduction for 2021 amounts to less than 8% of total passing rent the impact on overall interest cover is relatively small.

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

Financial review

EPRA measures

Together with the IFRS results reported in the financial statements, we include in this report financial measures recommended by the European Public Real Estate Association ("EPRA") to facilitate comparison with other real estate investment companies. The calculation of the EPRA measures and their reconciliation to the financial statements prepared under IFRS is presented in the Unaudited Supplementary Information which follows the financial statements. In addition, the calculation of EPRA EPS is presented in note 10 to the financial statements and EPRA Net Tangible Assets in note 23.

New EPRA guidelines became effective on 1 January 2020 and comparative figures have been provided on a consistent basis. The new EPRA guidelines set out three measures of Net Asset Value, each of which is disclosed and reconciled to the financial statements in note 23 and in the Unaudited Supplementary Information. In this report we highlight EPRA Net Tangible Assets ("EPRA NTA") as the most meaningful measure of long term performance for the Company and the measure which is being adopted by the majority of UK REITs, establishing it as the industry standard benchmark. The Unaudited Supplementary Information also includes a calculation of EPRA NAV on the basis reported in prior years and a reconciliation of that measure to EPRA NTA, both for the purposes of comparison and because EPRA NAV continues to be used in the calculation of certain fees payable to the Investment Adviser, as explained in note 25b to the financial statements.

Key performance indicators (KPIs)

The Board monitors the following key performance indicators and comments on performance against these KPIs in this report.

	Year to 31 December 2020	Year to 31 December 2019
Financial measures:		
Total Accounting Return	**(8.0%)**	11.7%
Total Shareholder Return	**(27.3%)**	19.4%
Adjusted EPRA EPS	**3.5p**	15.3p
Net LTV ratio	**36.4%**	31.9%
Uncommitted Cash	**£192.0m**	£234.2m
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	**32%**	38%
Rent headroom before tightest projected interest cover default test would be triggered	**29%**	33%

Impact of rent concessions on KPIs and IFRS financial statements

Recognising the Group's long term relationships with its tenants and the benefits to the Company of supporting their businesses through the impact of the Covid-19 pandemic and subsequent lockdowns, the Company provided support where it was needed. The forms of support provided are summarised at the start of this report, where we also highlight the altered cash flow profile of the Group's rental income during the year and the expected gradual restoration of the Group's contractual rental cash flows by January 2022.

In simple terms, the IFRS accounting standards applicable to the Group require that we calculate the rental income to be earned over the whole term of a lease (broadly the income that is contractually certain over the entire remaining term), and then recognise it in the income statement evenly over the term. Consequently, the Group's leases with fixed or fixed minimum uplifts (47% of the Group's total contracted pre-concession passing rent) require a 'smoothing' adjustment to reflect the mismatch between the rents actually receivable and those recognised in the income statement. The remaining 53% of the Group's rental income which is subject to RPI-linked or open market reviews is not subject to a smoothing adjustment. The revenue recognition accounting policy set out in note 2d to the financial statements is consistent with these principles and the smoothing effect is explained in more detail in the Unaudited Supplementary Information which follows the financial statements.

Applying these accounting policies and principles following the agreement of the rent concessions has affected the Group's IFRS income.

- The reduction in rent receivable from Travelodge reduces the Group's cash flows over the period from 1 April 2020 to 7 January 2022, with the original contractual rents receivable (and any accrued RPI uplifts arising in the concession period) due to be restored from January 2022. While the cash flow impact is temporary, it reduces the total rents receivable over the life of the leases, so while the cash impact is limited to the period from April 2020 to January 2022, it must be spread through the income statement over the whole remaining lease term from 1 April 2020, which on a weighted average basis was 22.2 years. The effect of spreading a total £22.9 million reduction in rents over the very long unexpired term results in rental income reported in the income statement being higher than cash rents receivable during the concession period until 7 January 2022 and lower than cash rents receivable thereafter. Travelodge rent reported in the IFRS income statement for the year ended 31 December 2020 is £13.7 million higher than the rent receivable on a cash basis and is expected to be £7.4 million higher in the year ended 31 December 2021. From the start of 2022 this mismatch will unwind, with cash rent higher than the income reported under IFRS by an expected £1.1 million per annum for approximately the following 20 years through to the end of the term of the leases.
- The six month rent free period granted to Stonegate on the pubs portfolio in consideration for extending lease terms to 25 years and strengthening the lease alienation provisions is treated in a similar way to the Travelodge rent reduction. Rent reported from Stonegate in the IFRS income statement for the year ended 31 December 2020 is £1.1 million higher than the rent receivable on a cash basis. From the start of 2021 this mismatch has begun to unwind, with cash rent higher than the income reported under IFRS by £47,000 per annum through to the end of the term of the leases.

Impact of rent concessions on KPIs and IFRS financial statements *continued*

The deferral of Merlin rent does not change the total lease income over the life of the lease, merely changing the timing of receipt, therefore there is no change to the IFRS income that would otherwise have been reported in the year. The rent deferred is held as an asset on the balance sheet, separate from and not valued as part of the investment properties by the external valuer. The carrying value of the rent receivable is evaluated at each balance sheet date and it is held at 31 December 2020 at its face value of £17.7 million as it is considered reasonable to conclude that it will be recoverable in full.

From the time of its listing six and a half years ago, the Group has had the benefit of a high proportion of income with fixed rental increases over very long lease terms therefore the requirement to spread rents over the whole of any lease has always created a mismatch between cash rents receivable and rental income reported under IFRS. That mismatch was a major contributing factor to the adoption by the Company of its Adjusted EPRA earnings measure. This measure is further explained under the "Adjusted EPRA earnings per share" heading later in this report, in note 10 to the financial statements and in the Unaudited Supplementary Information which follows the financial statements. In order to calculate Adjusted EPRA earnings on a basis consistent with the Group's definition of the measure and prior reporting periods, the cash and income mismatches arising as a result of the rent concessions are taken into account in Adjusted EPRA earnings in order to calculate dividend cover on a basis that more closely reflects the Group's actual cash flows. The composition of Adjusted EPRA Earnings is explained later in this report but the impact of the rent concessions in isolation is as follows:

	Year to 31 December 2020		Year to 31 December 2019	
	£m	**Pence per share**	£m	Pence per share
EPRA earnings	**52.9**	**16.3**	54.7	16.9
Rent Smoothing Adjustments:				
on pre-concession rental income	**(8.9)**	**(2.7)**	(10.6)	(3.3)
from Travelodge rent reductions	**(13.7)**	**(4.3)**	–	–
from Stonegate rent free period	**(1.1)**	**(0.3)**	–	–
Merlin theme parks rent deferral	**(17.7)**	**(5.5)**	–	–
Incentive fee adjustment	**–**	**–**	5.3	1.7
Adjusted EPRA earnings	**11.5**	**3.5**	49.4	15.3

Impact of rent concessions on dividend cover and dividend policy

The effects of the pandemic on the Group's net income and cash flows and the heightened uncertainty during this period prompted a review by the Board of the prudent and appropriate dividend policy to apply in the circumstances. The materially higher than usual liquidity buffer held in Uncommitted Cash by the Company following the sale of the private hospital portfolio in 2019 affords significant flexibility, not only in supporting the Group's tenants but also in providing appropriate returns to shareholders without putting at risk the strength and flexibility of the balance sheet.

With the Company's liquidity buffer directed in part to supporting tenants and ensuring that the balance sheet remains robust during such uncertain times, the Board concluded that it would be appropriate to discontinue the element of the dividend that had been deployed since July 2019 in topping up the dividend in the amount of the foregone income on the hospitals sold in 2019. The basis of the dividend payment has therefore reverted to the 'core' dividend as guided with the 2019 annual results announcement, without the top slice of the hospitals net income top-up. This equates to a quarterly dividend of 3.65 pence per share which has been paid in each of the last two quarters of 2020 and the first quarter of 2021 and which, all things being equal, is expected to be the amount for the second quarter of 2021 to be announced in April 2021. Subject to there being no material change in circumstances the dividend rate is expected to increase to 3.95 pence per share in the third quarter of 2021.

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

£m paid in the period	Year to 31 Dec 2016	Year to 31 Dec 2017	Year to 31 Dec 2018	Year to 31 Dec 2019	Year to 31 Dec 2020	Quarter 1 dividend paid March 2021
Core dividend	£12.0m	£16.1m	£41.4m	£49.0m	£46.4m	£11.8m
Hospitals top-up dividend	–	–	–	£3.5m	£4.4m	–
Total dividend paid	£12.0m	£16.1m	£41.4m	£52.5m	£50.8m	£11.8m
Pence per share paid						
Core dividend	5.9p	13.6p	13.9p	15.2p	14.4p	3.65p
Hospitals top-up dividend	–	–	–	1.1p	1.3p	–
Total dividend paid	5.9p	13.6p	13.9p	16.3p	15.7p	3.65p

The use of some of the Company's surplus liquidity to fund the £32.6 million of dividends in excess of the Group's Adjusted EPRA Earnings in the year was considered appropriate in recognition of the fact that the rent concessions granted to date do not have any impact on contracted rental income beyond January 2022. The dividend policy will be kept under regular review as conditions develop while the pandemic runs its course. The importance of the dividend to many investors is acknowledged and is carefully considered in any evaluation of the appropriateness of declaring a dividend in the context of the conditions prevailing at that time.

Key performance indicator – Total Accounting Return

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

The movements in net asset value reported under IFRS in the consolidated balance sheet and the calculation of Total Accounting Return on that basis are as follows:

	Year to 31 December 2020		Year to 31 December 2019	
	£m	**Pence per share**	£m	Pence per share
NAV at the start of the year	**1,384.5**	**428.8**	1,281.6	398.5
Investment property revaluation*	**(166.6)**	**(51.4)**	75.7	23.4
Rental income* less administrative expenses, finance costs and tax	**52.9**	**16.3**	58.9	18.3
Dividends paid	**(50.8)**	**(15.7)**	(52.5)	(16.3)
Currency translation and derivative revaluation movements	**1.5**	**0.5**	(3.0)	(0.9)
Dilution from shares issued in settlement of previous year's incentive fee	**–**	**(1.5)**	–	(1.5)
Net profit on disposal of investment properties	**–**	**–**	23.8	7.3
NAV at the end of the year	**1,221.5**	**377.0**	1,384.5	428.8
Change in NAV	**(163.0)**	**(51.8)**	102.9	30.3
Dividends paid	**50.8**	**15.7**	52.5	16.3
IFRS Total Accounting Return	**(112.2)**	**(36.1)**	155.4	46.6
IFRS Total Accounting Return: percentage		**(8.4)%**		11.7%

* including £23.7 million or 7.3 pence (2019: £10.5 million or 3.2 pence) of Rent Smoothing Adjustments

Key performance indicator – Total Accounting Return *continued*

The industry standard EPRA NTA measure takes IFRS net asset value and excludes items that are considered to have no relevance to the assessment of long term performance. Consistent with the EPRA Guidance, the Group's reported IFRS NAV is adjusted to exclude 50% of deferred tax on investment property revaluations (in this case relating to the German assets) and fair value movements on derivatives. EPRA NTA and EPRA NTA per share is reconciled to net asset value measured in accordance with IFRS in note 23 to the financial statements.

The Group's EPRA NTA per share at 31 December 2020 was 379.3 pence, down 11.7% over the year. The 50.1 pence per share fall in EPRA NTA, together with dividends of 15.7 pence per share, results in a Total Accounting Return over the year of negative 8.0%.

	Year to 31 December 2020		Year to 31 December 2019	
	£m	**Pence per share**	£m	Pence per share
EPRA NTA at the start of the year	**1,391.3**	**429.4**	1,292.9	400.5
Investment property revaluation*	**(142.5)**	**(44.0)**	86.3	26.7
Rental income* less administrative expenses, finance costs and current tax	**28.8**	**8.9**	49.3	15.4
Dividends paid	**(50.8)**	**(15.7)**	(52.5)	(16.3)
Currency translation movements	**2.4**	**0.7**	(2.6)	(0.8)
Net contribution from sold properties	**–**	**–**	23.8	7.3
Incentive fee dilution from shares to be issued	**–**	**–**	(0.3)	(1.7)
EPRA NTA at the end of the year	**1,229.2**	**379.3**	1,396.9	431.1
Movement in EPRA NTA	**(162.1)**	**(50.1)**	104.0	30.6
Dividends paid	**50.8**	**15.7**	52.5	16.3
Total Accounting Return	**(111.3)**	**(34.4)**	156.5	46.9
Total Accounting Return – percentage		**(8.0)%**		11.7%

* adjusted by £23.7 million or 7.3 pence (2019: £10.5 million or 3.2 pence) of Rent Smoothing Adjustments

Total Shareholder Return is calculated as:

	Year to 31 December 2020 Pence per share	Year to 31 December 2019 Pence per share
Share price at the end of the year	**300.0**	434.0
Share price at the start of the year	**(434.0)**	(377.0)
Movement in the year	**(134.0)**	57.0
Dividends paid	**15.7**	16.3
Total Shareholder Return	**(118.3)**	73.3
Total Shareholder Return – percentage	**(27.3)%**	19.4%

Key performance indicator – Adjusted EPRA earnings per share

Basic and diluted EPS (IFRS basis)	Year to 31 December 2020 £m	Year to 31 December 2020 Pence per share	Year to 31 December 2019 £m	Year to 31 December 2019 Pence per share
Rental income net of property outgoings	**120.2**	**37.0**	131.4	40.7
Investment property revaluation	**(166.6)**	**(51.4)**	75.7	23.4
Net finance costs	**(49.9)**	**(15.4)**	(54.2)	(16.7)
Administrative expenses	**(17.0)**	**(5.2)**	(16.9)	(5.2)
Tax charge	**(0.3)**	**(0.1)**	(1.1)	(0.4)
Profit on disposal of investment properties net of costs of early repayment of debt	**–**	**–**	23.8	7.3
Incentive fee (including irrecoverable VAT)	**–**	**–**	(5.3)	(1.6)
Basic earnings	**(113.6)**	**(35.1)**	153.4	47.5
Diluted earnings per share		**(35.1)**		47.3

The IFRS earnings measure includes unrealised property revaluations, gains or losses on property disposals and certain other factors 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.

A further element of the IFRS calculations considered to have a distorting effect on the Company's Dividend Cover is the impact of the weighting of share issues where they relate to incentive fee payments. The Group's basic and diluted EPS in accordance with IFRS must be calculated on the hypothetical assumption that any shares issued in settlement of an incentive fee are treated as having been issued on the first day of the year, regardless of when they are actually issued. As a result, basic EPS for 2019, for example, was calculated on the basis that the 1.3 million shares issued in March 2019 in settlement of the 2018 incentive fee were in issue for the whole year. This assumption results in a reduction in EPS which does not reflect the actual impact of the share issue. The calculation of diluted EPS for 2019 under the IFRS rules also included the 1.2 million shares not yet issued at 31 December 2019 in settlement of the 2019 incentive fee as if they had been issued, creating a further artificial reduction.

There are also certain items within the calculated EPRA earnings which create a material disconnect between EPRA earnings and the Group's funds from operations available for the payment of dividends: principally the Rent Smoothing Adjustments, including those arising as a result of the Covid-19 related rent concessions, and incentive fees which are payable in shares. The Board considers that including these items results in both IFRS earnings and EPRA earnings being an unreliable basis for calculating the Company's Dividend Cover and long term performance. A further measure, Adjusted EPRA EPS, is therefore presented, both for comparison of the performance of the Group from year to year and with its peer group, and to avoid distortions in the per share figures which in turn would result in unreliable measures of Dividend Cover.

Adjusted EPRA EPS is derived from EPRA EPS by:

- removing the Rent Smoothing Adjustments, including those arising from the Covid-related rent concessions, from rental income;
- excluding any significant non-recurring costs or income (there have been no non-recurring income or costs since 2016);
- excluding the charge for the 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; and
- calculating the weighted average number of shares so as to reflect the actual dates on which shares were issued.

Key performance indicator – Adjusted EPRA earnings per share *continued*

	Year to 31 December 2020		Year to 31 December 2019	
	£m	**Pence per share**	£m	Pence per share
Rental income net of property outgoings	**118.2**	**36.5**	129.7	40.1
Net finance costs	**(48.0)**	**(14.9)**	(52.5)	(16.3)
Administrative expenses	**(17.0)**	**(5.2)**	(16.9)	(5.2)
Tax charge	**(0.3)**	**(0.1)**	(0.4)	(0.1)
Incentive fee (including irrecoverable VAT)	**–**	**–**	(5.3)	(1.6)
EPRA earnings	**52.9**	**16.3**	54.6	16.9
Rent Smoothing Adjustments:				
Before any Covid-related rent concessions	**(8.9)**	**(2.7)**	(10.5)	(3.2)
Impact of Covid-related rent concessions – difference between IFRS and Adjusted EPRA EPS smoothing methodology	**(32.5)**	**(10.1)**	–	–
Incentive fee	**–**	**–**	5.3	1.6
Adjusted EPRA earnings	**11.5**	**3.5**	49.4	15.3

Adjusted EPRA EPS is reconciled to basic EPS in note 10 to the financial statements and the component parts of the Adjusted EPRA earnings are analysed below.

	Year to 31 December 2020		Year to 31 December 2019	
	£m	**Pence per share**	£m	Pence per share
Like for like earnings:				
Rental income net of outgoings before concessions	**110.8**	**34.2**	109.4	33.9
Finance costs	**(48.4)**	**(15.0)**	(49.0)	(15.2)
Finance income	**0.4**	**0.1**	0.7	0.2
Administrative expenses	**(17.0)**	**(5.2)**	(16.9)	(5.2)
Tax charge	**(0.3)**	**(0.1)**	(0.4)	(0.1)
Like for like, before concessions and excluding sold hospitals	**45.5**	**14.0**	43.8	13.6
Rent concessions	**(34.0)**	**(10.5)**	–	–
	11.5	**3.5**	43.8	13.6
Impact of hospitals sale:				
Rental income net of outgoings	**–**	**–**	9.8	3.0
Finance costs	**–**	**–**	(4.2)	(1.3)
Adjusted EPRA earnings	**11.5**	**3.5**	49.4	15.3

The key components of the Group's earnings are its rental income, finance costs and administrative expenses. 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 described in the following sections.

Adjusted EPRA EPS – property outgoings

Property outgoings under the IFRS, EPRA and Adjusted EPRA earnings measures are set out below.

	Year to 31 December 2020		Year to 31 December 2019	
	£m	**Pence per share**	£m	Pence per share
Costs of negotiating and documenting rent concessions	**0.6**	**0.2**	–	–
Headrents on leasehold properties	**0.5**	**0.1**	0.4	0.1
Irrecoverable property costs	**0.2**	**0.1**	0.1	–
Managing agents and other net property outgoings	**0.2**	**0.1**	0.2	0.1
Rent review costs	**–**	**–**	0.4	0.1
Feasibility costs of prospective capital projects	**–**	**–**	0.2	0.1
Property outgoings in the IFRS income statement and EPRA earnings	**1.5**	**0.5**	1.3	0.4
Financing element of headrent costs reclassified from finance costs	**1.7**	**0.6**	1.7	0.6
Costs of negotiating and documenting rent concessions reclassified from finance costs	**0.1**	–	–	–
Recovery of headrent and other costs reclassified from revenue	**(1.6)**	**(0.6)**	(1.6)	(0.6)
Property outgoings in Adjusted EPRA Earnings	**1.7**	**0.5**	1.4	0.4

On an Adjusted EPRA earnings basis, various items are reclassified within the income statement to more accurately reflect the net cost of the Group's property outgoings, which is used in the calculation of the EPRA cost ratios. This includes the recovery of certain headrent and other costs from the occupational tenants.

While the costs of the rent concessions are not a recurring cost they have not been excluded from Adjusted EPRA EPS as they relate to the ongoing management of the portfolio and are in any case not material to the Group.

Adjusted EPRA EPS: administrative expenses

The Group's administrative expenses for the year and prior year are the same under the IFRS and the EPRA measure, while Adjusted EPRA EPS excludes any incentive fees which are payable in shares.

	Year to 31 December 2020		Year to 31 December 2019	
	£m	**Pence per share**	£m	Pence per share
Advisory fees	**13.7**	**4.2**	14.7	4.6
Other administrative expenses	**2.8**	**0.8**	1.6	0.4
Corporate costs	**0.5**	**0.2**	0.6	0.2
	17.0	**5.2**	16.9	5.2
Incentive fee payable in shares	**–**	**–**	4.9	1.5
VAT on incentive fee, payable in cash	**–**	**–**	0.4	0.1
Total administrative expenses	**17.0**	**5.2**	22.2	6.8

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 30% during the year (2019: 26%) and was 39% as at 31 December 2020 (31 December 2019: 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 advisory fee for the year amounted to £12.8 million plus irrecoverable VAT of £0.9 million (2019: £13.8 million plus irrecoverable VAT of £0.9 million). If there were no change in EPRA NAV in the 2021 financial year and assuming that surplus cash at 31 December 2020 is not deployed, the advisory fee for 2021 would be £12.0 million plus VAT (£12.9 million of cost including irrecoverable VAT).

Adjusted EPRA EPS: administrative expenses *continued*

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 the reduction in the Group's EPRA NAV by way of a reduction in its fee income with the annualised reduction at 31 December 2020 amounting to £0.9 million per annum.

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

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

The saving for the 2020 financial year as a result of this amendment is £0.8 million. The surplus cash realised on the disposal was £164.0 million. Prior to the balance sheet date, £50.1 million (2019: £3.5 million) had been applied in dividend top ups and liability management, resulting in a balance of the surplus at 31 December 2020 of £113.9 million (2019: £160.5 million).

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

The other recurring administrative expenses are principally professional fees, including the costs of independent external property valuations, external trustee and administration costs, tax compliance fees and the fees of the external auditor, which are largely billed directly to subsidiary undertakings. 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 (2019: £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 (2019: £0.4 million) in the year.

If the Total Accounting Return to investors over a financial year, as set out in the audited accounts, exceeds a compound growth rate of 10% per annum above the EPRA NAV per share the last time any incentive fee was paid, the Investment Adviser earns an incentive fee amounting to 20% of any surplus above that priority return to shareholders, subject to a cap of 5% of EPRA NAV (other than in the event of a sale of the business, where an incentive fee, if earned, would not be capped). Any such fee is payable in shares which are not permitted to be sold, save in certain limited circumstances, for a period of between 18 and 42 months following the end of the year for which they were earned. The 2019 fee payment was satisfied by the issue of 1.2 million shares in March 2020.

Having adjusted for dividends paid in the year, the benchmark EPRA NAV per share for the year ended 31 December 2020 was 459.6 pence. Shareholder returns for the year fell short of the benchmark so no fee has been earned in respect of the 2020 year (2019: £4.9 million plus VAT).

The benchmark return to be achieved before any incentive fee is earned in respect of the 2021 financial year must exceed 10% per annum from 31 December 2019 (the most recent year in respect of which a fee was earned) therefore the Group's EPRA NAV growth plus dividends paid in the year must exceed 124.4 pence per share before any fee is earned for 2021, which is estimated to be equivalent to EPRA NTA of 503.6 pence per share before dividends.

Adjusted EPRA EPS: net finance costs

	Year to 31 December 2020		Year to 31 December 2019	
	£m	**Pence per share**	£m	Pence per share
Interest on secured debt facilities:				
Outstanding throughout the year	**45.9**	**14.2**	46.2	14.3
Repaid in August 2019	**–**	**–**	4.1	1.3
	45.9	**14.2**	50.3	15.6
Amortisation of costs of arranging facilities (non-cash):				
Routine amortisation over loan term	**2.3**	**0.7**	2.4	0.7
Accelerated amortisation on prepayment from property sales in 2019	**–**	**–**	1.4	0.5
	2.3	**0.7**	3.8	1.2
Interest charge on headlease liabilities	**1.7**	**0.5**	1.7	0.4
Loan agency fees and other lenders' costs	**0.3**	**0.1**	0.5	0.2
Fair value movements on derivatives	**0.1**	**–**	–	–
Interest income on cash and cash equivalents	**(0.4)**	**(0.1)**	(0.7)	(0.2)
Net finance costs for the year (IFRS basis)	**49.9**	**15.4**	55.6	17.2
Accelerated amortisation on prepayment from property sales in 2019	**–**	**–**	(1.4)	(0.5)
Net finance costs for the year (EPRA basis)	**49.9**	**15.4**	54.2	16.7
Financing element of headrent costs reclassified to property outgoings	**(1.7)**	**(0.5)**	(1.7)	(0.4)
Costs of negotiating and documenting rent concessions reclassified to property outgoings	**(0.1)**	**–**	–	–
Net finance costs for the year (Adjusted EPRA basis)	**48.1**	**14.9**	52.5	16.3

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

Oaklands Hospital Manchester

Adjusted EPRA EPS: Tax

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

Tax is payable on the Group's German rental operations at an effective tax rate in the year of 15% (2019: 15%), resulting in a tax charge of £0.4 million (2019: £0.3 million). The balance sheet includes a deferred tax liability of £11.9 million (2019: £11.3 million) relating to unrealised German capital gains tax on the German properties, which would only be crystallised on a sale of those assets. There are no plans at present to sell these assets, so the deferred tax is not currently expected to be crystallised.

On an IFRS basis, the current tax charge and the movement in deferred tax result in a net tax charge of £0.3 million (2019: £1.1 million). Deferred tax is excluded from EPRA EPS and Adjusted EPRA EPS as shown in note 10 to the financial statements.

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

Adjusted EPRA EPS: Currency translation

94% (2019: 95%) by value of the Group's property assets are located in the UK and the financial statements are therefore presented in Sterling. 3.9% (2019: 3.1%) of the Group's EPRA NTA comprises assets and liabilities relating to properties located in Germany, valued in and generating net earnings in Euros. Exposure to currency fluctuations is partially hedged through assets, liabilities, rental income and interest costs being Euro denominated. The Group remains exposed to currency translation differences on the net results and net assets of these unhedged operations. Foreign currency movements are recognised in the statement of other comprehensive income.

The German properties are valued at €128.2 million as at 31 December 2020 (2019: €129.7 million), with the Euro denominated secured debt amounting to €71.6 million (2019: €71.8 million). The Euro strengthened against Sterling over the year by c. 6% (2019: weakened by 5%) and as a result there was a net currency translation gain of £2.1 million (2019: loss of £2.0 million) on an IFRS basis. Half of the deferred tax liability is excluded from EPRA NTA and as a result a currency translation loss of £0.3 million (2019: gain of £0.3 million) arises in the movement in EPRA NTA in relation to the German operations.

Key performance indicator – Net LTV ratio

The Board structures debt facilities with a view to maintaining a capital structure that will enhance shareholder returns while withstanding a range of market conditions.

During the year, the Group's Net LTV rose from 31.9% to 36.4% which reflects the impact of £136.2 million of decreased property values (2019: £80.7 million of property valuation uplifts) along with the deployment of £34.6 million of cash in topping up dividends which have been maintained in the year and £11.8 million of liability management by way of meeting debt service costs temporarily uncovered during a rent deferral period.

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

Key performance indicator – headroom on debt covenants

The Board's approach to managing 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 and carefully monitored on various scenarios within a realistic range of outcomes, including stress tested and reverse stress test scenarios. 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 considers the Group's liquidity needs regularly and aims to maintain a level of Uncommitted Cash which could be applied in avoiding or curing debt defaults in the event that it is needed.

When evaluating the appropriateness of the level of secured debt, the Board has regard to the unusual nature of the Group's income streams, specifically that all of the occupational leases are significantly longer than conventional UK real estate leases and that the Group's rental income can be expected to increase annually as a result of the annual minimum fixed rental uplifts on 38% of portfolio income, with a further 3% subject to three or five yearly uplifts and the additional prospect of increases from the upwards only RPI-linked reviews on the rest of the portfolio. Overall, two thirds of the portfolio rents before any Covid-related rent concessions are subject to annual review with the remainder subject to three or five yearly reviews. This structure gives rise to predictable improvements in interest cover across the Group in aggregate on the basis of contractual income flows and a naturally deleveraging debt profile on the assumption of constant valuation yields. The Board also has regard to other factors including specific tenant credit risks.

The Board reviews the headroom on all financial covenants at least quarterly, including stress tested and reverse stress test scenarios. The headroom on key financial covenants at the first test date following 31 December 2020 (which in all cases fell before the end of January 2021) is summarised below, including the fall in valuation (and related Net Initial Yield) or the fall in rent that would trigger a breach of the relevant covenant at the first test date after the balance sheet date, before any preventative or remedial actions are taken. Defensive actions could include utilising any of the Group's significant Uncommitted Cash of £192.0 million as at 31 December 2020 and which is further explained under the heading "Key performance indicator – Uncommitted Cash".

		Scenarios before any remedial action			
	At 31 Dec 2020	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)	**616.2**				
Gross loan outstanding (£m)	**(380.4)**				
Other subgroup net assets (£m)	**10.2**				
Ring fenced equity (£m)	**246.0**				
Ring fenced equity (pence per share)	**75.9p**				
LTV default test	**n/a**	none	n/a	n/a	
Cash trap LTV test: 1% per annum loan amortisation	**62%**	<80%	7.0%	23%	
Cash trap LTV test: full cash sweep	**62%**	<85%	7.4%	27%	
Rental fall before interest covered 1:1					29%

While the valuation fall to trigger the LTV cash sweeps has tightened since 31 December 2019 (from 28% for 1% amortisation and 32% for the full cash sweep) as a result of the fall in valuation in the year, the yield required to trigger a cash sweep has increased slightly as a result of both the 1.5% RPI increases in rental income on the UK properties and 3.3% fixed increases on the German properties, and the reduction in finance costs by way of £1.0 million of scheduled loan amortisation. The net initial yield required to trigger a 1% per annum additional amortisation has increased from 6.9% to 7.0% and the full cash sweep trigger point has increased from 7.3% to 7.4%.

During the year, the lenders consented to the rent deferral but the credit agreements are otherwise unchanged.

***Key performance indicator – headroom on debt covenants** continued*

		Scenarios before any remedial action			
	At 31 Dec 2020	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)	**623.0**				
Gross loan outstanding (£m)	**(299.7)**				
Other subgroup net assets (£m)	**0.1**				
Ring fenced equity (£m)	**323.4**				
Ring fenced equity (pence per share)	**99.8p**				
Cash trap LTV test: full cash sweep	**48%**	<74%	6.8%	35%	
LTV test	**48%**	<80%	7.3%	39%	
Cash trap projected interest cover: full cash sweep	**192%**	>140%			27%
Projected interest cover test	**192%**	>120%			38%

Headroom on the LTV tests has increased over the 31 December 2019 levels which were a 33% fall in valuation to a 6.6% valuation yield for the LTV cash sweep trigger and a 38% fall to a 7.1% valuation yield for the LTV default test. Headroom on the interest cover test has improved from 35% to 38% as a result of a combination of the fixed 2.77% weighted average rental increase in the year and the reduction in finance costs because of £3.2 million of scheduled loan amortisation.

		Scenarios before any remedial action			
	At 31 Dec 2020	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)	**146.1**				
Gross loan outstanding (£m)	**(63.8)**				
Other subgroup net assets (£m)	**0.3**				
Ring fenced equity (£m)	**82.6**				
Ring fenced equity (pence per share)	**25.5p**				
LTV test	**44%**	<80%	8.2%	45%	
Cash trap projected debt service cover test (full cash sweep if triggered)	**225%**	>150%			33%
Projected debt service cover test	**225%**	>125%			44%

Headroom on the LTV test has increased over the 31 December 2019 levels which was a 44% fall in valuation to an 8.0% valuation yield. Headroom on the interest cover test has improved from 31% to 33% for the cash sweep test and from 42% to 44% on the default test as a result of a combination of the fixed 2.75% rental increase in the year and the reduction in finance costs because of £0.3 million of scheduled loan amortisation.

		Scenarios before any remedial action			
	At 31 Dec 2020	Covenant	Topped Up 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)	**195.9**				
Gross loan outstanding (£m)	**(65.4)**				
Other subgroup net assets (£m)	**0.5**				
Ring fenced equity (£m)	**131.0**				
Ring fenced equity (pence per share)	**40.6p**				
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	**33%**	<40%	8.5%	16%	
Cash trap LTV test (full cash sweep if triggered)	**33%**	<45%	9.6%	26%	
LTV test	**33%**	<50%	10.6%	33%	
Cash trap projected interest cover test (full cash sweep if triggered)	**610%**	>300%			51%
Projected interest cover test	**610%**	>250%			59%
Budget Hotels facility 1					
Property security at independent valuation (£m)	**188.9**				
Gross loan outstanding (£m)	**(59.0)**				
Other subgroup net assets (£m)	**2.3**				
Ring fenced equity (£m)	**132.2**				
Ring fenced equity (pence per share)	**40.8p**				
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	**31%**	<40%	9.1%	22%	
Cash trap LTV test (full cash sweep if triggered)	**31%**	<45%	10.2%	31%	
LTV test	**31%**	<50%	11.4%	38%	
Cash trap projected interest cover test (full cash sweep if triggered)	**792%**	>300%			62%
Projected interest cover test	**792%**	>250%			68%

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 the factors affecting the covenants in the year were the same for each facility.

Income and LTV covenants have both tightened as a consequence of the Travelodge CVA measures implemented in June 2020. The Budget Hotels facilities were both negotiated at low levels of LTV and with very significant income cover, designed to reflect the Board's assessment of risk in the tenant. This high income cover and relatively lower leverage has acted, as designed, as a 'shock absorber' and to a significant extent dealt with the impact of the CVA. As the maximum rent reductions are historic as at the January 2021 covenant test date, income covenant headroom is already approaching pre pandemic levels. Assuming that the rents continue to be paid on the terms agreed in the CVA, the headroom on interest cover and LTV tests should continue to improve.

Lenders consented in the year to the lease amendments arising from the tenant CVA and amended certain income covenants to accommodate the revised rental profile over the concession period. The credit agreements are otherwise unchanged.

***Key performance indicator – headroom on debt covenants** continued*

		Scenarios before any remedial action			
	At 31 Dec 2020	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)	**176.8**				
Gross loan outstanding (£m)	**(60.0)**				
Other subgroup net assets (£m)	**2.9**				
Ring fenced equity (£m)	**119.7**				
Ring fenced equity (pence per share)	**36.9p**				
Partial cash trap LTV cash (50% cash sweep)	**34%**	<40%	7.1%	15%	
Cash trap LTV test (full cash sweep if triggered)	**34%**	<45%	7.9%	25%	
LTV test	**34%**	<50%	8.8%	32%	
Projected interest cover test	**350%**	>150%			57%

The LTV on this facility has increased in the year from 30% to 34% resulting in lower headroom over the financial covenants. However, the yield movement required to trigger the LTV tests has tightened by only 0.2 percentage points given the relatively low leverage on the facility. The headroom on the income test has tightened from 71% to 57% as we have excluded from the income forecast at the test date any rents in arrears on that date. Those rents were collected very shortly after the test date and cover was therefore further restored. The low leverage and ample day one headroom on covenants has accommodated the valuation movements, rent concessions and a delay in collecting one of the amounts due in this portfolio meaning that headroom levels, while reduced, remain reasonably comfortable.

The lender has consented to the rent concessions granted in the year. The credit agreement is otherwise unchanged.

Key performance indicator – Uncommitted Cash

The ability to prevent or mitigate debt covenant breaches is an important part of the Board's leverage strategy. Headroom considered appropriate to the business has been negotiated on all financial covenants together with certain contractual cure rights, including the ability to inject cash (subject to some limitations as to the frequency and duration of cash cures) into ring-fenced financing structures in the event of actual or prospective breaches of financial covenants. The Board regularly monitors the Group's levels of Uncommitted Cash, which are the cash balances outside ring-fenced structures secured to lenders, net of any creditors or other cash commitments at the balance sheet date.

The Group's Uncommitted Cash was £192.0 million as at 31 December 2020, which represents free cash of £196.6 million net of £4.6 million of current liabilities. Uncommitted Cash is down from £234.2 million as at 31 December 2019 largely as a result of the £34.6 million of cash directed to supporting the dividend and the £11.8 million used for loan repayments during the period of temporary rent concessions. The balance of Uncommitted Cash held at 31 December 2020 exceeds the principal outstanding of each of four of the Group's six credit facilities.

As demonstrated in the table of covenant headroom, there remains a substantial 'cushion' over covenant levels in each facility but the option to manage future stresses on covenants remains an important part of the Company's leverage management strategy while general risk in the economy and for the certain of the Group's tenants remains at an elevated level.

Cash flow

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

The rent concessions granted in the period have reduced the cash flow from operating activities by £34.0 million in rent reductions and related costs. £17.7 million in deferral of rents due from Merlin are expected to be received in September 2021 and the temporary variation for some tenants to pay monthly in advance rather than quarterly has reduced operating cash inflows by a further £0.8 million. Both of these effects are expected to reverse in the 2021 financial year. Assuming that no further material tenant concessions are required, the effect of the pandemic concessions in 2021 is expected to be a positive £8.8 million in additional rents plus the reversal of the Merlin deferral and temporary changes in payment terms, so £27.3 million of additional cash inflow in the year compared with 2020. Rent collections have been very strong in the year with only £0.3 million in rent arrears at the year end, all of which has been since collected.

The structure of the Company's external manager's fees is such that the advisory fee, which covers the majority of Group overheads, has reduced by £1.0 million year on year and the reduction in debt from assets sales in 2019 together with scheduled loan amortisation means that net interest costs are £5.5 million lower in 2020 than in 2019. The continuation of dividend payments in the year through the period of temporary concessions is the main contributor to the £47.5 million cash outflow in the year.

	Year to 31 December 2020		Year to 31 December 2019	
	£m	**Pence per share**	£m	Pence per share
Cash from operating activities	**54.7**	**16.9**	100.7	31.2
Net interest and finance costs paid	**(47.4)**	**(14.5)**	(52.9)	(16.4)
Tax paid	**(0.4)**	**(0.1)**	(0.2)	(0.1)
	6.9	**2.3**	47.6	14.7
Dividends paid	**(50.8)**	**(15.7)**	(52.5)	(16.3)
	(43.9)	**(13.4)**	(4.9)	(1.6)
Scheduled repayment of secured debt	**(4.4)**	**(1.4)**	(4.0)	(1.2)
Property disposals net of debt repayment	**1.1**	**0.3**	174.7	54.1
Acquisition of tangible fixed assets	**(0.3)**	**(0.1)**	–	–
Acquisition of investment properties	**–**	**–**	(0.3)	(0.1)
Cash flow in the year	**(47.5)**	**(14.6)**	165.5	51.2
Cash at the start of the year	**267.1**	**82.7**	101.7	31.6
Currency translation movements	**0.1**	**–**	(0.1)	–
Dilution from incentive fee share issues	**–**	**(0.3)**	–	(0.1)
Cash at the end of the year	**219.7**	**67.8**	267.1	82.7

The Group's investment properties are 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 2020. Risks to future cash flows are summarised in the Principal Risks and Uncertainties section of the Strategic Review.

Investment Adviser's Report continued

Management Team and Investment Advisory Agreement

As explained at the start of this report, the Company is externally managed by an experienced team, appointed under the terms of a contract known as the Investment Advisory Agreement. The terms of that agreement have not changed since the amendment proposed by the Management Team and approved by the Board in March 2020 to reduce the advisory fee to reflect the larger than usual cash balance held by the Group, details of which appear in note 25b to the financial statements.

The team providing services to the Company has remained unchanged during the year and since the balance sheet date. In December 2020, a director and shareholder in the Investment Adviser retired. He had not been involved in the day to day delivery of services to the Company. The other members of the Management Team acquired his interests in the Investment Adviser and related entities and as a result increased their personal investment in the Company by some 10% each, investing a further £5.3 million in cash between them in their interests in the Company's shares through their increased shareholdings in those management entities, in addition to a further £0.5 million invested by the team in the purchase of the Company's shares on the market during 2020.

As a team, we are the second largest shareholder in the Company with 12.4% of the shares, worth over £152 million at 31 December 2020 EPRA NTA. Every member of the Management Team has a personally significant investment in Secure Income REIT Plc. That interest, together with the fee arrangements which are directly related to the value of the business and to growth in shareholder returns, provides exceptionally strong alignment of our interests with those of all shareholders.

Our team at Prestbury has continued to perform in their usual diligent way despite the many challenges and personal stresses of the pandemic and we are grateful to them for their commitment. This has been, without question, a challenging year but the team remains highly energised and motivated to deliver the very best for the Company and all of its stakeholders.

Nick Leslau
Chairman, Prestbury Investment Partners Limited
10 March 2021

Nightingale Hospital London

Travelodge Cambridge Fourwentways

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 'lower for longer' interest rate environment which has persisted for some time now creates conditions where we believe that demand for these types of assets should continue to remain strong. The prospect of inflationary conditions fuelled by Government responses to the pandemic only reinforces 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.

Through the implementation of the investment policy, set out below, the Board believes that it will be able to deliver 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 over £152 million at the 31 December 2020 EPRA NTA, making them as a team the second largest shareholder in the Company. The Management Team has continued to invest in their holdings in the Company during the year, with on market purchases amounting to £0.5 million and a further buyout of a retiring non-executive Management Team member amounting to a £5.3 million cash investment in December 2020. 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 Group's business model is explained in the Investment Adviser's Report on pages 8 and 9.

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 considered in this context are climate risk and the risks of an extended Covid-19 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. 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 later in this report. 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, albeit potentially for 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 Corporate Responsibility section of our annual reports and on our website.

The scale and suddenness of the onset of the Covid-19 pandemic prompted an early and considered reaction from the Board and management of the Company, both in terms of support provided for the Group's tenants and the change in our 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 Board considers that the Company is well positioned to provide further support to tenants if that is needed and to benefit from any recovery as and when it ultimately comes. This 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 the pandemic 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 23.

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".

While we do not run any trading operations on site at any of the assets owned by the Group, we take into account the impact of our assets on people and the environment so we monitor our tenants' compliance with the terms of their leases and with good estate management practice, including in the areas of health and safety and sustainability, recognising that the assets that the Group owns are places where buildings connect with peoples' lives. During the current financial year, we have commissioned a review of our ESG policies from independent experts. We therefore expect to further develop our reporting on this area with effect from the 2021 financial reports.

We comment below on the Company's own ESG policies and follow this with a brief summary of the key ESG policies and strategies of our major tenants' businesses in the specific areas of ESG where they intersect most closely with our portfolio.

Environmental responsibility

In considering environmental responsibility, the Board has regard to climate, nature and sustainability. In our reporting, the Board makes reference to the Real Estate Sustainability Accounting Standard, published in October 2019 by the Sustainability Accounting Standards Board ("SASB"). That standard sets out certain metrics that are considered relevant for REITs, and has categorised certain 'activity metrics' against which the Group reports as follows:

	Leisure	Hospitals	Budget Hotels	Total
Number of assets	26	12	123	161
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%

For the overwhelming majority of the Group's assets, operational control of the asset rests with the tenant. Consequently, the energy management and water management data outlined in the standard is not provided in this report, nor is it currently monitored by the Board as in most cases the information is not at this stage able to be obtained from the tenants under the terms of the leases. We comment further on the policies of our major tenants and our engagement with them under the heading "ESG policies and strategies of our major tenants" on page 42. We are, however, working closely with our tenants to obtain relevant information to better support their and our own objectives.

The SASB standard suggests disclosure of the approach to "management of tenant sustainability impacts", described as the manner in which agreements, contracts and relationships with tenants are structured to be instrumental in effectively managing the sustainability impacts of those tenants. This can include aligning sustainability outcomes, creating systems for measuring and communicating resource consumption information, and/or mandating minimum sustainability performance criteria. All investment property assets owned during the year, with the exception of the small income stream from the Manchester car park operating agreement entered into during 2020, had their leases already in place at the time of acquisition and the Group has no ability to unilaterally change their terms, including insofar as sustainability is concerned.

Environmental responsibility *continued*

Aside from the requirement for tenants to abide by all laws and regulations, including environmental law, none of the Group's leases have provisions which are relevant to management of tenant sustainability in a specific way. This is in large part because the majority were granted at least five years ago and in most cases over 13 years ago, when it was very uncommon for sustainability criteria or reporting to be included in leases. The Group has only negligible amounts of vacant space and therefore has extremely limited opportunity to make a meaningful difference by introducing tenant sustainability management measures on new lettings. Where space becomes available for letting or lease renewal, compliance with environmental standards and promotion of good environmental practices form part of the assessment of appropriate lease terms. A recent example is the requirement for Citipark, the new operator of the 1,000 space car park at Manchester Arena, to offer a discounted tariff to all Euro 6 compliant vehicles, which was negotiated when the operating agreement was entered into during the year. However, 98% of the Group's leases by rental value have terms to expiry (with no breaks) of greater than 16 years therefore it is not anticipated that the pace of change in lease terms will accelerate materially in the near term.

Finally, the SASB standard suggests reporting on "climate change adaptation" which is an assessment of the approach to managing climate change risk. The Board considers that the structures of the Group's leases, where the risks of continuing to operate each asset rest with the tenants and guarantors (where relevant), together with the insurance of assets in accordance with the principles of good estate management, mean that this risk is managed to the extent that is proportionate for a company with the vast majority of its assets being subject to very long leases on full repairing and insuring terms where the tenants bear the majority of these risks.

The Board has also considered the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") and, while not yet in a position to fully comply, has specifically aimed to address all four 'pillars' of TCFD's recommendations:

- Governance, where the Board retains responsibility for assessing environmental risks, opportunities and responsibilities, as set out in the Board Leadership and Company Purpose section of the Corporate Governance Report on page 56;
- Risk management, where climate risk is included in the report of Principal Risks and Uncertainties on page 47;
- Strategy, where the impacts of climate change and environmental issues are addressed in the summary of the business model, strategy and future strategy, on page 38; and
- Metrics and targets, where we explain in this section of the report our approach to working closely with our tenants and the continuing development of our own policies in this area.

Social responsibility

Social responsibility encompasses a wide range of issues, including in particular:

- Equality, diversity and inclusion
  The Board is committed to fairness and to encouraging diversity on the Board and in its operations, including prevention of any forms of discrimination including under the terms of the Equality Act 2010. The terms of reference of the Nominations Committee include a requirement for it to regularly review the structure, size and composition of the Board including the skills, knowledge, experience and diversity of the Directors. The Committee's report includes commentary on its work in this respect on page 77. The Corporate Governance Report includes details of the composition of the Board on pages 60 and 61, including a description of the balance of skills, experience and gender on the Board. The gender balance of the Board is two female and five male directors.

  As an externally managed business, no Group company has any employees, therefore the Group is not required to report in this annual report on gender balance or the gender pay gap, nor on recruitment policies or procedures for employees. The Board has, however, satisfied itself with the appropriateness of the Investment Adviser's approach to fairness and equality in its operations. The Investment Adviser has confirmed that it complies with all relevant laws and regulations in that respect. The gender split of the wider external management team and staff as shown on page 55 is 50/50 with eight males and eight females.

- Human rights and supply chain integrity
  Both the Company and the Investment Adviser have complied with their responsibilities under the Modern Slavery Act 2015 and the relevant confirmations are regularly updated and included on their respective websites.

- Data protection and protection of privacy
  The Company and the Investment Adviser seek to comply at all times with relevant data protection legislation and to protect the privacy of counterparties where appropriate. There have been no breaches of policy or regulation in this regard in the reporting period.

- Health, safety and wellbeing
  While the Company does not have any employees, the health, safety and wellbeing of the Board, the Investment Adviser's employees and those of its affiliated service provider, and the Group's suppliers and other counterparties is taken into account in the Board's decision making. This has been particularly relevant since the onset of the Covid-19 pandemic, where remote working practices were implemented at an early stage, ahead of the UK's national lockdown in March 2020. The Board and the board of the Investment Adviser have sought to support the physical and mental health of the workforce, including remaining in regular contact with all team members wherever they are based. The members of the Prestbury workforce have access to private health cover and also an externally run confidential helpline to support their physical and mental wellbeing.

Governance

Aspects of governance cover a broad range of matters including:

- the overall purpose and strategy of the Company;
- the structure and constitution of the Board and management of the business;
- engagement with the Company's stakeholders;
- the management of risks and opportunities;
- the creation of appropriate incentive and remuneration arrangements; and
- regulatory aspects such as the prevention of money laundering and corporate crime, anti-bribery and corruption policies and the establishment and monitoring of an appropriate, transparent tax policy for the Company.

These and other aspects of governance are set out in the Corporate Governance Report on pages 56 to 68.

ESG policies and strategies of our major tenants

One of the important features of the leases underpinning the value of the Group's real estate assets is that they are granted on Full Repairing and Insuring ("FRI") terms. This means that the tenant is responsible for the upkeep of the assets and their compliance with relevant laws and regulations. In terms both of the enduring value of the Group's assets and of the Company's responsibilities to stakeholders in a wide sense, understanding how our tenants fulfil these responsibilities is important to us.

While we do not in every case have reporting from our tenants on an asset by asset basis, we have engaged with their own Heads of Sustainability or other senior individuals responsible for ESG and we have summarised below key points from their publicly available corporate statements. We note that these are current as at the date of this report.

ESG policies and strategies of our major tenants *continued*

	Contractual rent per annum £m	
Merlin Entertainments Limited	35.6	Merlin Entertainments Limited has a "Responsible Business" section on its website, www.MerlinEntertainments.Biz. That includes reports on a range of ESG issues covering health, safety & security, people & communities, animal care & conservation, the environment and corporate governance. The most directly relevant of these to the Company's business is the Environmental Policy which includes among other things a commitment to comply with and, where appropriate and practicable, to exceed all relevant environmental legislation, and a commitment to measure, monitor and make public their annual carbon emissions with a carbon reduction target of at least 2% year on year.
Ramsay Health Care Limited	34.4	Ramsay Health Care Limited has published a Corporate Governance Statement on the "Investors" section of its website, www.RamsayHealth.com. This covers in some detail their various governance policies and includes, on page 14 of that statement, their sustainability policy. That report includes details of their Global Sustainability Committee and refers to the appointment during the financial year ended 30 June 2020 of a Group Sustainability Officer, responsible, among other things, for driving their sustainability programme. Ramsay has been included in the FTSE4Good Global Index every year since 2011. That index identifies companies demonstrating strong ESG practices, measured against globally recognised standards. Every year since 2017, Ramsay received an MSCI* ESG rating of AA. Ramsay also publishes a Sustainability Impact Report, available on its website, covering the various aspects of ESG including, in their 2020 report, specific commentary on their actions during the Covid-19 pandemic.
Travelodge Hotels Limited	28.3	Travelodge Hotels Limited's latest public statements on ESG matters are made in its annual report for the year ended 31 December 2019, which is available on the Investors section of its website www.Travelodge.co.uk/investors. This includes, on pages 23 to 27, their sustainability reporting and social impact statement. It also discloses that their gross greenhouse gas emissions in 2019 represented a 7.9% reduction on those in 2018 and a 12.2% reduction was achieved in that period for the measure of emissions intensity relative to turnover. Travelodge reports that its "Energy Governance Group" is continuing to drive positive change in this area.
ASM Global (parent entity of SMG)	4.0	ASM Group'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, stating their intention to be industry leaders in this area and confirming that they undertake the measurement of greenhouse gas emissions, water consumption and waste reduction.
The Brewery on Chiswell Street Limited	3.4	The Brewery's Corporate Social Responsibility statement is available within a dedicated section of its website www.TheBrewery.co.uk. The tenant and venue have achieved ISO20121 certification for sustainability in event management, incorporating socially and environmentally responsible decision making.
Major tenants	105.7	93% of Group contractual rent

* the reference to MSCI ESG Research LLC or its affiliates ("MSCI"), and the use of MSCI logos, trademarks, service marks or index names herein, does not constitute a sponsorship, endorsement, recommendation or promotion by MSCI. MSCI services and data are the property of MSCI or its information providers, and provided "as is" and without warranty. MSCI names and logos are trademarks or service marks of MSCI

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 2020, 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 from 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 decisions on the following matters specified in Section 172 of the Act:

- the interests of the workforce, for whom the Chairman of the Remuneration Committee has special responsibility and who are 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;
- the community and the environment, where the Board takes overall responsibility;
- 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; and
- the likely long term consequences of decisions made by the Board.

The strategy of the Company was initially laid out in the AIM Admission document issued in May 2014 and was approved by the Board at that time. Our strategy is summarised on page 37. In running the business, any 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. Through regular engagement with its stakeholder groups, 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, and where these types of transaction, or any other material transaction or decision, is considered, the Board has regard to its wider obligations under Section 172 of the Act.

Specifically, during the 2020 financial year the principal non-routine decisions made by the Board related to the support extended to certain of the Group's tenants as a result of the pressures on them from the Covid-19 pandemic. These were in the vast majority of cases constructive, collaborative bilateral discussions between the Company and those tenants, where the various outcomes were considered to represent a good result both for the tenant businesses, including their employees and other stakeholders, and the Company and its stakeholders, including specifically its shareholders and lenders. In the case of the Budget Hotels portfolio where the tenant implemented a Company Voluntary Arrangement ("CVA"), the process was more combative largely as a consequence of the way CVAs generally work, including the limits on information that can be provided and the lack of flexibility that is possible in accommodating suggestions or requirements from landlords either individually or in groups. However, despite these challenges the decisions taken by the Board as to how to approach the assessment of the CVA proposals and the consequences of it were taken with the best interests of the Company and its stakeholders in the foreground, but also in weighing up the best outcome for the tenant and its stakeholders including its customers, its many employees and its suppliers. The Board's commitment to taking into account the long term consequences of its decisions underlies its focus on risk, including risks to the long term viability and success of the business. These assessments led the Board to conclude that the actions taken in granting rent concessions would benefit the Company as well as its tenants.

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

The Board has been kept informed of relevant developments in the workforce. The Investment Adviser has confirmed that none of the workforce has been furloughed 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 have been 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. The whole team has been required to work from home during the Government mandated lockdowns and at times during the various other 'tiered' restrictions. Where office based work has been possible, teams were split and worked in rotation in and out of the office, to minimise the number of people in the office at any one time, to keep the workforce safe. The workforce below director level also participated in a special Covid-related charitable giving scheme funded by the Investment Adviser, additional to the charitable donations made in the ordinary course of its business, where each employee selected a number of charities which resulted in donations totalling £27,000 made to 32 good causes.

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.

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 reported in the Supplier Payment Policies below and our approach to our suppliers and to payments has been unchanged throughout the pandemic.

Thorpe Park

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 on pages 39 and 40. The Board and the Investment Adviser have committed to limiting the Company's own impact of the business on the environment where possible, including engagement with our tenants in understanding and where possible supporting their climate related targets.

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, which is conducted at least annually. Principal risks and uncertainties facing the business are summarised on pages 47 to 50.

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 and the Management Team is also available to other investors who may request meetings. The Board and Management Team also engage with investors and potential investors who request meetings on an ad hoc basis throughout the year. The impact of the pandemic on markets generally and specifically on the Company's share price meant that ad hoc engagement with shareholders has been significantly more frequent than usual in 2020.

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 these discussions have included our response to the pandemic and also our approach to the discount between the share price and the Group's net asset value, where in the main shareholders confirmed their support for the Board's decisions.

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

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 and the Management Team is also available to other investors who may request meetings. The Board and Management Team also engage with investors and potential investors who request meetings on an ad hoc basis throughout the year. The impact of the pandemic on markets generally and specifically on the Company's share price meant that ad hoc engagement with shareholders has been significantly more frequent than usual in 2020.

All Company announcements and formal shareholder presentations are made available on the Company's website.

Until 2020, the whole Board has always attended the Company's Annual General Meeting. However, the restrictions imposed on people gathering together that were in force at the time of the 2020 AGM meant that only one Director was able to attend the meeting, with one other shareholder present at an appropriate distance and with all Covid-19 related precautions having been taken. The Board's intention is to return to attendance in person at the AGM in future but, where that is not possible, 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 focussed 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. The Company's Strategy and Investment Policy are set out on page 37.

Supplier payment policies

Neither the Company nor any of its subsidiary undertakings exceeds 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 pre-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 30 days (2019: 23 days). The lengthening of the average in 2020 is due in large part to both of our accounts assistants unfortunately suffering from Covid-19 at the same time, but payment terms are reverting to normal levels since their recovery.

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 66 and 67.

Material changes to the Group risk register

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

Pandemic disruption was added to the overarching risks (which comprised Brexit risk and Climate risk) at the first review after the pandemic was declared, and the risk rating of each of the principal risks was increased at that time because all are impacted by the consequences of the pandemic and the response of governments and public health bodies to it. This remains the case in the current schedule of risks.

The rollout of vaccines in the UK and elsewhere is a positive development which has eased the Covid-19 pandemic risk, although this has been to some extent offset by the spread of more contagious strains of the virus leaving the risk, overall, unchanged albeit with a brighter medium term outlook.

Towards the end of 2020 a trade deal was agreed with the EU, just prior to the end of the Brexit transition period, reducing the Brexit risk by way of the removal of the risk of a disorderly exit on World Trade Organisation terms. As a result, Brexit risk has now been removed from the overarching risk list. However, as the change in trading conditions is recent and as terms of trade in various areas continue to evolve, the Board will continue to monitor Brexit risk to ensure that assessment remains appropriate, particularly as it may impact on our tenants despite its having been assessed as lower risk.

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

Overarching risks

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

- the risks of extensive economic and social disruption, including from a pandemic; and
- climate risk, including the risks and costs of decarbonisation.

Global economic and social disruption including pandemic risk

The Board and Management Team of the Company and those of the Group's major tenants have operated through a number of cycles of economic boom and bust, through varying degrees of political stability, and have dealt with deep recessions and periods of great disruption. However, the global reach, sudden onset and extensive impact of the spread of Covid-19 is in a class of its own in its scale and unpredictability. While the full force of the lockdowns and other pandemic related restrictions has been felt by our tenants in the Leisure and Budget Hotels sectors, this has been mitigated, from the Company's perspective, through its significant weighting in healthcare assets which account for 32% of the Group's passing rents before Covid-related concessions. The Company's Uncommitted Cash balance remains available to deal with further threats arising. While the path of the virus, of consumer behaviour in the face of it and of any resulting recession cannot be known, the experience of the Board and Management Team members is being brought to bear on every aspect of the risks faced by the Company as a result of the pandemic.

Climate risk

As the Company has very limited direct impact on the environment, this risk is not one where the Company can take steps to make a material impact on its own behalf. The Company is externally managed and has no offices and so has no directly produced emissions to report. However, in assessing the strength of the credit quality of our tenants and of potential tenants, we take climate risk into account. Climate risk assessments also form an integral part of the way that we consider how any assets being considered for acquisition meet the criteria set out in the Company's business model. We report on our own policies and those of our major tenants in the ESG section of the Strategic Review.

Principal risks and uncertainties

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

Risk and change in assessment since prior year	Impact on the Group	Mitigation
Tenant risk During the 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 listed parent companies. The three largest tenant groups account for 88% of passing rent before concessions as at the balance sheet date (31 December 2019: 87%). Although the Board considers the tenant and guarantor groups to be financially strong in ordinary circumstances, certain tenants experienced liquidity stresses during the pandemic and there can be no guarantee that they will remain able to comply with their obligations throughout the term of the relevant leases. The severe impact of Covid-19 on the Group's Leisure and Budget Hotels tenants, which suffered an abrupt and almost complete closure of their operations as a result of the pandemic, creates heightened tenant risk. The reopening of their businesses in the UK over the summer of 2020 brought some easing of risk but subsequent local restrictions and later national lockdowns continue to create pressures for them, although we note that many of the leisure and hotels operations are now in their quieter seasons and some are generally closed for the winter in any case.	A default of lease obligations by a material tenant and its guarantor (if any) would have an impact on the Group's revenue, earnings and cash flows and could have an impact on debt covenant compliance. The specialised use of the properties may mean that, in the event of an unexpected vacancy, re-letting takes time. Investment property valuations reflect an independent external valuer's assessment of the future security of income. A loss of income would therefore impact net asset value as well as earnings. It could also lead to a breach of interest cover or debt service cover covenants, resulting in increased interest rate margins payable to lenders, restricted cash flows out of secured debt groups or ultimately default under secured debt agreements. The availability of distributable reserves could also be restricted.	32% (31 December 2019: 32%) of passing rent before concessions at the balance sheet date is contractually backed by large listed companies and a further 35% (31 December 2019: 31%) by global businesses with multi billion pound valuations, all with capital structures considered by the Board to have been strong and with impressive long term earnings growth and (where relevant) share price track records up until the start of the pandemic. The balance of the income is payable by substantial businesses also considered by the Board to be sufficiently financially strong in the context of their lease obligations. The properties are Key Operating Assets, which should have the effect of enhancing rental income security. The Board reviews the financial position of the tenants and guarantors at least every quarter and more often when relevant, based on publicly available financial information and any other trading information which may be obtained either under the terms of the leases or informally. The Group's key performance indicators include the levels of covenant headroom and of Uncommitted Cash, both of which are relevant to monitoring and if necessary mitigating this risk. The Board reserves unsecured and Uncommitted Cash outside ring-fenced debt structures which would be available to be used to cure certain covenant defaults to the extent of the cash available.

Risk and change in assessment since prior year	Impact on the Group	Mitigation
Property valuation movements The Group invests in commercial property which is held on the balance sheet at its fair value at each balance sheet date. The Company is therefore exposed to movements in property valuations, which are subjective and may vary as a result of a number of factors, many of which are outside the control of the Board. As a result of the pandemic, this risk has increased since the start of 2020 because of the relative lack of liquidity in the Leisure and Budget Hotel sectors (61% of property assets by value), which is reflected in a 'material valuation uncertainty' in the independent external valuations. The risk relating to the healthcare assets is not considered to be similarly affected by the pandemic and no such 'material valuation uncertainty' applies to those valuations.	Investment properties make up the majority of the Group's assets, so material changes in their value will have a significant impact on measures of net asset value including EPRA NTA, with any effect of the valuation changes on net assets magnified by the impact of borrowings. Falls in the value of investment properties could lead to a breach of financial covenants in secured debt facilities, resulting in increased interest margins payable to lenders, restricted cash flows out of secured debt groups, restrictions of distributable reserves available for dividend payments or default under secured debt agreements.	The Group uses experienced independent external valuers whose work is reviewed by suitably qualified members of the Management Team and, separately, the Audit Committee before being considered by the Board in the context of the financial statements as a whole. The Board seeks to structure the Group's capital such that the level of borrowing and the protections available to cure a covenant default are appropriate having regard to market conditions and financial covenant levels. The Group's key performance indicators include the levels of covenant headroom and Uncommitted Cash, both of which are relevant to monitoring and if necessary mitigating this risk. The Board reserves Uncommitted Cash outside ring-fenced debt structures which would be available to cure certain covenant breaches.
Borrowing Certain Group companies have granted security to lenders in the form of mortgages over each of the Group's investment properties and fixed and floating charges over other assets. Following the sale of eight hospitals in August 2019, the Group holds an Uncommitted Cash balance that is substantially higher than the level of c. £60 million it has held historically. For such time as significant surplus cash is retained, the borrowing risk can be considered to be lower than prior to 2019 as the ability to cure breaches of financial covenants, should they occur, is significantly greater. While to date the Group has had the support of its lenders in agreeing any consents or waivers required to accommodate the support provided to its tenants throughout the pandemic, for as long as tenant risk is elevated, borrowing risk is also considered to be elevated.	In the event of a breach of a debt covenant, the Group may be required to pay higher interest costs or increase debt amortisation, affecting Group earnings and cash flows. If a financial covenant breach is the result of the financial weakness of a tenant or a guarantor, the property valuations and therefore net asset value may also be adversely affected. In certain circumstances the Company's ability to make cash distributions to shareholders may be reduced. Where a loan repayment cannot be made the Group may be forced to sell assets to repay part or all of the Group's debt. It may be necessary to sell assets at below book value, which would adversely impact net assets and future earnings. Early debt repayments would in most cases crystallise repayment penalties, which would also adversely impact cash balances and net assets and reduce distributable reserves.	The Group's borrowing arrangements comprise six ring-fenced subgroups with no cross-guarantees between them and no recourse to other assets outside each secured subgroup. A financial covenant issue in one portfolio should therefore be limited to that portfolio, save for tenant related events (such as a tenant insolvency) where the two healthcare subgroups would both be affected by any issue relating to Ramsay and the two budget hotel facilities would be affected by any issue relating to Travelodge. Five of the facilities have LTV default covenants (the Merlin leisure facility has no LTV default covenant) and all facilities have interest cover or debt service cover covenants. The Board reviews compliance with all financial covenants at least every quarter, including forward-looking tests for at least 12 months, and considers whether there is sufficient headroom on relevant loan covenants to withstand stress test and reverse stress test scenarios. The Board seeks to structure the Group's capital such that gearing is appropriate having regard to market conditions and financial covenant levels, with appropriate cure rights within debt facilities. The 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. The Board reserves Uncommitted Cash outside ring-fenced debt structures which would be available to cure certain covenant breaches.

Principal risks and uncertainties continued

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

Going concern and viability

The Board regularly monitors 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 Report of the Audit Committee on page 72. Summaries of the Company's and the Group's liquidity position, compliance with loan covenants and the financial strength of its tenants and their guarantors are considered at the scheduled quarterly Board meetings and more often as required. This includes updating of the stress tests and reverse stress tests described in the mitigation sections of the tenant and borrowing risks within the Principal Risks and Uncertainties section on pages 48 and 49. 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 31 to 34. The modelling includes (but is not limited to):

- the identification of uncertainties facing the Group, including the risks of tenant defaults and investment property valuation movements (as outlined in the Principal Risks and Uncertainties section on pages 48 and 49), the resulting impact on Group debt covenants 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 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 72. The projections and scenarios considered throughout 2020 and in connection with the approval of these financial statements had particular regard to issues arising from the Covid-19 pandemic, specifically the impact on 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 to deal with any further issues arising and the brighter medium term outlook as a result of the vaccine rollouts, are considered relevant in the context of the going concern and viability assessments for the Group.

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 assessments 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. 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 from the balance sheet date to 31 December 2025, 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 RPI 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.

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

Risk	Assumptions
Tenant risk	• 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.
Borrowing risk	• The Group continues to comply with all loan covenants. • The Group is able to negotiate acceptable terms to refinance £374.7 million of debt in the Merlin leisure facility falling due in October 2022 and £184.4 million in two hotel facilities and one leisure facility falling due between April and October 2023.
Liquidity risk	• The Group continues to generate sufficient cash to cover its costs while retaining the ability to make distributions, which includes the Group's continuing compliance with loan covenants.

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 10 March 2021.

Martin Moore
Chairman

Sandy Gumm
Director

Board of Directors

Martin Moore
Non-Executive Chairman
Member of the Remuneration Committee

Martin Moore, 64, 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 and Non-Executive Chairman of BMO Commercial Property Trust Limited. He is a past President and board member of the British Property Federation, a past Chairman of the Investment Property Forum 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 Nominations Committee

Mike Brown, 60, 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 36 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 Partners and Chairman of its Property Advisory Committee.

Leslie Ferrar
Independent Non-Executive Director
Chairman of the Audit Committee; member of the Remuneration Committee

Leslie Ferrar, 65, 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, 54, BEc, CA (ANZ), is an Australian qualified Chartered Accountant with over 29 years' experience and is a 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 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 Nominations Committee; member of the Audit Committee

Jonathan Lane, 62, 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, a member of the Bank of England's Commercial Property Forum, and Director and Trustee of the Tenebrae Choir, where he chairs the Development Board. He was formerly a member of the UK Government's Property Unit Advisory Panel, a member of the Advisory Board of Resolution Real Estate Advisors LLP and a Non-Executive Director of Songbird Estates Plc. He holds a masters degree 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 Nominations Committee

Nick Leslau, 61, 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, 62, 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, a member of Redevco NV's Advisory Board and a Trustee of The Prince's Foundation. He is also Senior Adviser to Elysian Residences, Work.Life and Anschutz Entertainment Group, a member of the Real Estate Advisory Board of the Department of Land Economy at the University of Cambridge, President of Cambridge University Land Society and is a Member of the European Advisory Board of the Wharton Business School Real Estate Faculty. Ian has formerly been Chairman of the Bank of England's Commercial Property Forum, Chairman of The Prince's Regeneration Trust, 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 ("Prestbury") 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 52 and 53.

Tim Evans
Tim Evans, 51, MA Hons (Cantab), MRICS, is a Chartered Surveyor with more than 25 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, 41, 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.

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 considering the application 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, be considered to be the Group's workforce despite not being employees of the Group.

Throughout the year ended 31 December 2020, 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 vesting and holding period for incentive rewards, explained on page 68, and the composition of the Nominations Committee, explained on page 64.

The FRC's Principles A to R, as set out in the Code, are summarised at the beginning of each of the explanatory sections 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 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;
- 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 key operating real estate assets, with additional potential for capital growth over the medium to long term. Acquisition opportunities and any related debt finance are examined 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 pages 8 and 9, and the Company's investment policy is described in the Strategic Review on page 37.

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 financial covenants. The Company's debt strategy is further described in the outline of the business model on pages 8 and 9 and the Investment Adviser's review of key performance indicators on page 31. The Board has committed that any equity issues will be at or above net asset value to minimise any risk of shareholder dilution.

The track record of the Group over the last five years and for certain key returns metrics since listing is set out on page 141 and the viability statement for the next five years is set out on page 51. 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 47 to 50. Investment and other opportunities are evaluated by the Board against the criteria set out in the Investment Strategy on page 37 and includes stress tested scenarios to evaluate the impact on medium to long term performance.

The control environment operated within the Group is subject to the review 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 pages 70 and 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 pages 70 and 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 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 the 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 £152 million at 31 December 2020 EPRA NTA per share, and 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. The 16 individuals who make up the workforce are listed on page 55, including the three Prestbury board representatives. 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 Committee's description of this aspect of their work is included in their report on page 75.

Board responsibility for workplace culture *continued*
The Board is committed to the Company and its representatives (including Prestbury) adhering to high standards of business conduct. Independent Directors seek to obtain and understand feedback from investors 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 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, as was the case during the year where the Covid-19 pandemic and its impact on the Company and its counterparties meant that meetings were held weekly or monthly for most of the year. 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 Company 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 and Nominations Committees meet at least once per year. Committee meetings are otherwise held as often as is required to properly discharge the duties of the relevant committee.

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. All scheduled Board meetings were fully attended during the year. Attendance at Board and committee meetings is reported on page 62.

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 press releases concerning the Company. The Company reports to shareholders at least twice each year in its interim and annual reports, and makes announcements where any price sensitive or other information requires disclosure to the London Stock Exchange, which are then made available 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 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 (subject to any social distancing restrictions) available to meet with shareholders and to answer any questions at the Company's AGM and otherwise as reasonably required, as further explained below. 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, Ian Marcus, offer themselves to meet with shareholders as necessary. The Board considers that this, along with the provision of independent feedback to the Board by Stifel 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 these who wish to do so.

Constructive use of the AGM

The AGM will be held on 20 May 2021. Conventionally, 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 AGM held in May 2020 to be held as a closed meeting and, unfortunately, shareholders were not permitted to attend. However, arrangements were made to ensure that questions could be raised in advance of the meeting and, in the event that restrictions apply again at the time of the 2021 AGM, the same procedures will apply. The notice of meeting and explanatory notes for the 2021 AGM are included on pages 145 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 significant votes against any resolution. The voting at the Company's May 2020 AGM is set out below.

	% For	% Against
Ordinary resolutions		
1. To approve the annual report for the year to 31 December 2019	98.79	1.21
2. To re-elect Martin Moore as a Director	99.92	0.08
3. To re-elect Mike Brown as a Director	97.57	2.43
4. To re-elect Leslie Ferrar as a Director	99.65	0.35
5. To re-elect Sandy Gumm as a Director	98.78	1.22
6. To re-elect Jonathan Lane as a Director	99.98	0.02
7. To re-elect Nick Leslau as a Director	97.57	2.43
8. To re-elect Ian Marcus as a Director	99.99	0.01
9. To reappoint BDO LLP as auditor	98.79	1.21
10. To authorise the Directors to fix the remuneration of the auditor	100.00	0.00
11. That the Company be generally and unconditionally authorised to allot ordinary shares in the Company	99.98	0.02
Special resolutions		
12. That the Company be generally authorised to make market purchases of ordinary shares subject to certain conditions	98.79	1.21
13. That the Directors be empowered to allot equity securities in the Company for cash without pre-emption rights subject to certain conditions	89.84	10.16

The total votes cast in respect of each resolution put to the 2020 AGM amounted to 77.5% of the shares in issue.

Engagement with stakeholders other than shareholders

Along with the interests of shareholders, the Board has regard to the interests of other stakeholders including the workforce and the Company's tenants and suppliers. The Company's statement of compliance with Section 172 of the Companies Act which deals with its engagement with stakeholders is set out on pages 43 to 46 and appears on the Company's website. Compliance with Section 172 of the Act is kept under review and updated as necessary. The Company's ESG report is set out on pages 39 to 42 and is available on the Company's website.

Whistleblowing policy

The whistleblowing policy applicable to all Prestbury staff who work on the Group's operations is reviewed and approved by the Audit Committee each year for recommendation (if appropriate) to the Board, and that policy provides for direct lines of communication from Prestbury staff 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 resolution would be minuted. If necessary, 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 (the "Investment Advisory Agreement"). Martin Moore has never acted in any executive capacity in the Company prior to his appointment as its Chairman 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 141.

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.

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. Through over six 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.

	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 & 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 (28.6%) and five men (71.4%). Brief biographies of the Company's Directors are set out on pages 52 and 53 and those of other key members of the Management Team on page 54.

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, of the Directors who may be classified as independent within the terms of the Code, three of the six are independent.

There is no individual with unfettered powers of decision making and the Articles of Association require an appropriate balance on the Board between Independent Directors and members of the Management Team such that Independent Directors must always hold the majority of voting power in order for a meeting of the Board to be quorate.

The Senior Independent Director

Ian Marcus is the Company's Senior Independent Director and his biographical details are included on page 53. 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 2021 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 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. 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.

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. However, 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 is able to challenge 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 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 their latest report to shareholders on page 74. 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 their work, they meet at least annually with the external auditor and without any management representatives present. The report of the Audit Committee is presented on pages 69 to 72.

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 generally is being considered. The Chairman convenes a meeting annually without the non-Independent Directors or any management representatives present. The most recent meeting convened for this purpose was held in March 2021 and attended by all Independent Directors.

Attendance at Board and Committee meetings and the AGM

The Directors' attendance at each scheduled Board, Committee and general meeting during the year is set out below.

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

As noted earlier in this report, the restrictions in place as a result of the Covid-19 pandemic meant that the Company's 2020 AGM was held with only one director, Sandy Gumm, attending in person.

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 and subject to any Covid-19 restrictions, and are summarised in Part 3 of the Secondary Placing Disclosure Document which is 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 Nominations 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 including disclosure of any potential areas of conflict of interest and estimates of the time commitments relating to them. 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. All of the Prestbury Directors work full time for the Investment Adviser with very few external appointments. There have been no 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 52 and 53.

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 Management Team holds a chairmanship or directorship of a FTSE 100 company, nor any other significant external appointment.

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 Board 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 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. Changes to the structure, size and composition of the Board may be made following recommendations from the Nominations Committee. This includes the selection of the Chairman of the Board and the Company Secretary, and the appointment of the Senior Independent Director.

The Nominations Committee
The Nominations Committee consists of three Directors: Jonathan Lane, Nick Leslau and Mike Brown and is chaired by Jonathan Lane. Their biographies are shown on pages 52 and 53. The composition of the committee deviates from the Code requirement for the majority of members to be independent as while Jonathan Lane is independent, Nick Leslau and Mike Brown are members of the Management Team. The Board considers this 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.

The Nominations Committee Report appears on pages 76 and 77.

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 on the re-election of Directors, 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 145 to 146.

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 under the terms of the Code, 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 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, the Nominations 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 76.

Evaluation
The Nominations 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 evaluations process. 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 Nominations 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 Nominations Committee Report on pages 76 and 77 includes confirmation that the commitment of each Director has been reviewed and confirmed as sufficient.

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 rests with the Audit Committee who report their conclusions to the Board and who also summarise their work in this respect in their report on page 70.

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 members and of the resources available to that team are reviewed each year in the internal control review which is conducted by the Audit Committee and 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 52 and 53.

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 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** continued*

The Audit Committee meets at least twice each year at appropriate intervals in the financial reporting and audit cycle. 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 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 69 to 72.

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 picture of the Group's position and prospects and has concluded that it does. The Board has also concluded that the 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 37.

A description of the Directors' responsibilities regarding the financial statements is set out in the Directors' Report on page 79 and a description of the auditor's responsibilities is set out in their report on page 85.

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 "TECH14/14CFF – Guidance on Financial Position and Prospects Procedures" in order to evaluate the appropriateness and effectiveness of the internal control framework. 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 since the register was last reviewed.

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 47 to 50.

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 identified by the Management Team or 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 tested in the Board memorandum was in place during the year and up to the date of approval of this annual report and the processes documented remain in operation, including throughout the periods in which remote working has been required as a result of the Covid-19 pandemic.

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 71.

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 50 and 51. 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.

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 52 and 53.

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 73 to 75.

Policy responsibility

The responsibilities of the Committee are set out in the report on page 73 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. 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 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 Report of the Remuneration Committee, 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 return for investors before any fee is earned, 'high water mark' provisions to prevent rebasing of incentives after periods 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.

***Shareholder alignment** continued*
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 in 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 2020.

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 a result, the Company and the Management Team agreed to introduce a cap 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 their report on page 74.

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 in 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 in certain circumstances. In general any termination fee would amount to six months' advisory fees and the maximum fee payable, in the event of a change of control of the Company, 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 10 March 2021.

Leslie Ferrar
Director

Audit Committee Report

Role of the Audit Committee

The Audit Committee's primary responsibility is to monitor the integrity of the financial statements 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 and judgements, 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 report 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;
- 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 financial controls and internal control 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 this and to decide whether any action is required. The Committee also makes recommendations on 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 52 and 53, 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 believes that the composition of the Committee remains appropriate.

Meetings of the Audit Committee

The Audit Committee met twice in each of 2020 and 2019. In 2020, meetings were held at the conclusion of the 2019 audit at the reporting stage and just prior to the 2020 interim results announcement, and both meetings were attended by all members of the Committee. The Committee met prior to the approval of these financial statements in March 2021 and all members attended the meeting. Part of each meeting took 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 2020 interim report and the 2019 annual report.

Audit Committee Report continued

External audit

BDO LLP were 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.

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:

- 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 their ability to challenge and review the Investment Adviser and Board is sufficient and appropriate. There are therefore 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 9 and 10) 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 scheduled permitted services.

The total fees charged by the auditor to the Group during the year were £319,000 (2019: £268,000) as disclosed in note 7 to the financial statements. This total includes £35,000 (2019: £39,000) of non-audit work during the year, all of which (2019: £36,000) relates to work that is typically performed by a company's auditor, principally the review of the interim report and financial statements. In the Committee's view, the auditor was best placed to most efficiently and cost-effectively carry out these non-audit services 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 2019 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 66. Given the changes in working practices brought about by the requirement to work from home during much of 2020, the Committee undertook an additional review of controls during the year. 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.

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 and for preventing bribery and corporate financial crime and considers them 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 • Investment Adviser's Report (page 13) • Strategic Review risks and uncertainties (page 49) • Note 11 to the Group financial statements	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. The 31 December 2020 independent valuations for the properties in the Leisure and Budget Hotels sectors highlighted a 'material valuation uncertainty', which was considered by the Audit Committee and discussed in its meeting with the valuers, and which is explained in note 11 to the financial statements. 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, competent and experienced to carry out the work. 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 external sources such as MSCI 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. 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.
Revenue recognition relating to rent concessions and rent reviews • Investment Adviser's Report (pages 9 to 12 and pages 21 and 22) • Note 2b to the Group financial statements	The impact of the rent concessions granted during the financial year as a result of the impact of the Covid-19 pandemic on certain leisure and hotel tenants required the Committee to determine the extent of any lease modifications and to determine the correct methodology for the spreading of income within the income statement in accordance with accounting standards and the Group's accounting policy for revenue recognition. An open market rent review, effective May 2018, on the Ramsay hospitals has been outstanding throughout the financial year. 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 as a result of that review. Given the uncertainty about the amount of any uplift, the Committee considers that it is not appropriate to reflect any additional revenue in the 2020 financial statements as a result of the review. This is consistent with the independent external valuation of the relevant investment properties, which is based on the current passing rent before any uplift.

Significant matters and judgements relating to the financial statements continued

Going concern and viability statement

- Strategic Review (pages 50 and 51)
- Corporate Governance Report (page 67)
- 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 debt covenant compliance over the period to at least 31 March 2022. The review included:

- the identification of material uncertainties facing the Group including the risks of tenant defaults, the resulting impact on Group 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 Report; 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.

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 67. The approach to stress testing and reverse stress testing is explained in the Strategic Review on page 50.

Following their review of these scenarios and discussion of them with the Investment Adviser, the Committee has concluded that the going concern basis remains appropriate.

The Committee has also reviewed the work of the Investment Adviser to support the viability statement included in the Strategic Report, which included forecasts of the Group's financial position over the period to 31 December 2025. These forecasts build on those used for the going concern review with substantially the same methodology. In carrying out this review, the Committee also considered the risks and assumptions relevant to those forecasts, together with various sensitivity scenarios. The key uncertainties relevant to this longer review period are set out in the viability statement on page 51. As a result, the Committee 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 Committee has had regard to the actual or potential financial impact of climate change and the transition risks associated with achieving the goals of the Paris Agreement.

Signed on behalf of the Audit Committee on 10 March 2021.

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 broad 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, the provisions and recommendations of the UK Corporate Governance Code, and associated guidance. 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.

In order 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 52 and 53, 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 financial year in connection with the approval of the 2019 annual report and has met once to date in 2021. 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. Specifically:

- 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 net asset value during the year. The Investment Advisory Agreement can be terminated with no compensation in the event that the Investment Adviser fails to meet its material obligations under that agreement.
- 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.
- 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) only released from restriction on a phased basis between 18 and 42 months.

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

The Committee considered two alterations to the Investment Advisory Agreement during the year, both of which were disclosed in the 2019 annual report and which take effect for the first time in the 2020 financial statements.

- Advisory fees are calculated on a reducing scale based on the Group's EPRA NAV. The Remuneration Committee concluded in March 2020 that, in order for the calculation of the fees to remain consistent with the way that they have been calculated since the Company's listing and as set out in the contract, the fees would continue to be calculated on the basis of EPRA NAV originally in place rather than the revised EPRA measures which took effect on 1 January 2020. The two measures are explained and reconciled in note 25b to the financial statements.
- As announced by the Company on 25 February 2020, following an approach by the Investment Adviser with a proposal to reduce the advisory fees earned on the undeployed surplus cash generated from the sale of eight hospitals in August 2019, the basis of the fee calculation was revised with effect from 1 April 2020. The effect of this revision is to exclude from EPRA NAV for the purposes of calculating the advisory fee the £164 million cash surplus on sale, less cash deployed to top up the quarterly dividend to reflect the reduction in net income as a result of the sale, in acquisitions or in debt management. The balance of the surplus cash is disclosed at each reporting date and is shown in note 25b to the financial statements.

The Committee considered these proposals and recommended them to the Board prior to their approval by the Independent Directors.

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") are 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.

The Committee and the Board have been mindful of the challenges arising from the extended periods of remote working since the first nationwide lockdown in March 2020. While the Investment Advisor has primary responsibility for the health and wellbeing of the workforce, the Committee has satisfied itself as to the appropriateness of the remote working arrangements. It is recognised that remote working generally is not perfect by its very nature, but the Committee has received assurances from the Investment Adviser that all of the team members have maintained appropriate contact and have been receiving support where needed. No workforce issues have been identified in this regard in the period since the last report of the Committee.

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 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. These 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.

	Year to 31 December 2020 £000	Year to 31 December 2019 £000
Martin Moore (Chairman of the Company)	**75**	75
Mike Brown	**–**	–
Leslie Ferrar (Chairman of the Audit Committee)	**45**	44
Sandy Gumm	**–**	–
Jonathan Lane (Chairman of the Nominations 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 10 March 2021.

Ian Marcus
Remuneration Committee Chairman

Nominations Committee Report

Role and responsibilities of the Nominations 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 Nominations 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 Nominations 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 any candidates to fill Board vacancies.

Before any appointment is made by the Board, the Nominations 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 Nominations Committee

The Nominations Committee comprises Jonathan Lane, Nick Leslau and Mike Brown, whose biographies are shown on pages 52 and 53, and is chaired by Jonathan Lane, who is independent of the Investment Adviser. Nick Leslau and Mike Brown are also Chairman and Chief Executive, respectively, of the Investment Adviser.

Report on the Committee's Activities
The Committee met once during the financial year in March 2020 ahead of the approval of the 2019 report and accounts, and once in the year to date, in March 2021. Both meetings were attended by all members of the Committee.

Commitment
A review by the Committee in the year 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 52 and 53.

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 Nominations 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 Nominations 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 the Board or Investment Adviser 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 Group's diversity and inclusion policy is set out in the Strategic Report on page 40. 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.

Succession Planning
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. 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 74.

The Committee does not consider there to be any requirements for specific succession planning for Directors or the Investment Adviser at this time. As and when succession planning does become necessary, the Committee is committed to taking account of the Company's diversity and inclusion policy and to have regard to relevant guidance such as the Hampton-Alexander Review of gender balance and the Parker Review of ethnic diversity.

Signed on behalf of the Nominations Committee on 10 March 2021.

Jonathan Lane
Nominations Committee Chairman

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 December 2020. The Corporate Governance Report on pages 56 to 68 forms part of this Directors' Report.

Directors

All Directors are non-executive directors and their biographies are set out pages 52 and 53. Details of the fees paid to Directors in the year are set out in the Remuneration Committee Report on page 75.

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 145 and 146.

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 2020 and at the date of this report were as follows:

	Number of shares	Percentage of issued share capital
Nick Leslau*†	18,342,009	5.68%
Mike Brown†	1,183,580	0.37%
Sandy Gumm†	192,574	0.06%
Martin Moore	127,226	0.04%
Ian Marcus	95,871	0.03%
Jonathan Lane	57,471	0.02%
Leslie Ferrar	26,286	0.01%

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

† in addition to the amounts shown above, as at 31 December 2020 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 and directors of both Prestbury Investment Partners Limited and the immediate parent undertaking of Prestbury Incentives Limited

During the year, the Company paid dividends totalling £3.1 million (2019: £3.9 million) to Directors on the beneficial interests listed above. A further £3.0 million (2019: £3.0 million) was paid in dividends to Prestbury Incentives Limited and £0.1 million (2019: £nil) to Prestbury Investment Partners Limited. Dividends paid to related parties and key management personnel are disclosed in note 25e to the financial statements.

Significant shareholdings

As at 10 March 2021 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	58,264,304	18.0%
Aegon Asset Management UK Plc	22,697,915	7.0%
Prestbury Incentives Limited*	19,262,042	5.9%
PIHL Property LLP*	16,850,300	5.2%
Mr Dominic Silvester	12,587,087	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 is externally managed and has no premises. It therefore had no direct energy consumption to report during the current and prior years.

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. Disclosures of any future developments in the business are 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 International Accounting Standards in conformity with the requirements of the Companies Act 2006, 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 10 March 2021.

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 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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 2020 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 the 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 international accounting standards in conformity with the requirements of the Companies Act 2006. 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 Directors' assessment as to the ability of each material tenant to satisfy its future 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 12 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 considered 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% (2019: 100%) of Group revenue 100% (2019: 100%) of Group profit before tax 100% (2019: 100%) of Group total assets		
Key audit matters		2020	2019
	Valuation of investment property	√	√
	Revenue recognition – lease amendments	√	n/a
Materiality	*Group financial statements as a whole* £20m (2019: £23m) based on 1% (2019: 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
Valuation of investment properties As detailed in note 11, the Group owns a portfolio of investment properties which are carried at their fair value of £1,947 million as at 31 December 2020. The Group's accounting policy for these properties is described in note 2d. The key judgements and estimates in arriving at the fair values are set out in note 11.	The determination of the fair value of investment properties is a key area of estimation. The Group engaged independent external valuers to undertake the valuation of its investment property portfolio. 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. The external valuers have also included a material valuation uncertainty clause in relation to the Group's leisure and budget hotel properties in their valuation reports as at 31 December 2020. This clause, which is set out in note 11, represents a significant estimation uncertainty in relation to the valuation of these properties, which represent 60% of the Group's total investment property portfolio by value. The valuation of investment properties was therefore considered to be a key audit matter.	Our audit work included, but was not restricted to, the following: • We assessed the competence, qualifications and objectivity of the independent 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. • 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. • 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. • 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. • We discussed the material valuation uncertainty clauses with the external valuers and our internal experts. We were satisfied that we had obtained sufficient appropriate audit evidence to demonstrate the appropriateness of the Directors' assessment that the valuations of the Group's Leisure and Budget Hotel properties were suitable for inclusion in the Group's financial statements. **Key observations** We did not identify any indicators to suggest that the valuation of the Group's investment properties is inappropriate.

Key audit matter		How we addressed the key audit matter in the audit
Revenue recognition – lease amendments		
As detailed in note 4, as a result of the Covid-19 pandemic, the Group has agreed various short-term rent concessions or deferrals during the year to provide cash flow assistance to certain of its tenants. The Group's accounting policy for the recognition of rental income and the accounting for lease modifications is described in note 2d.	The lease amendments and the accounting for those amendments varies from tenant to tenant. Certain aspects, such as the determination of whether the amendments constitute a lease modification in accordance with the accounting standards and, if so, the determination of the lease modification date, involve judgement. Accounting for the revenue receivable under leases that have been amended during the year was therefore considered to be a key audit matter.	Our audit work included, but was not restricted to, the following: • We assessed the accounting treatment adopted in respect of each lease amendment effected in the year and confirmed that they were appropriate in accordance with accounting standards. • We agreed the various lease amendments to supporting documentation and assessed the appropriateness of the judgements taken, including the determination of the lease modification date. Where lease modifications had occurred, we checked the accuracy of the new revenue recognition calculations. • We evaluated the Directors' assessment that there were no significant areas of judgement that had a material impact on the accounting for the lease amendments and therefore required specific disclosure in the Group's financial statements. **Key observations** We did not identify any indicators to suggest that the Group's recognition of revenue arising from leases which were amended during the period is inappropriate.

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	
	2020	2019	**2020**	2019
Materiality	**£20 million**	£23 million	**£8.8 million**	£9.8 million
Basis for determining materiality	**1% of total assets**	1% of total assets	**1% of total assets**	1% of total assets
Performance materiality	**75%**	75%	**75%**	75%

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. Our performance materiality thresholds were set having considered a number of aspects including the expected total value of known and likely misstatements based on previous assurance engagements and other factors.

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

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 (2019: £2.4 million) to apply to those classes of transactions and balances which impact on those earnings. We further applied a performance materiality level of 75% (2019: 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 (2019: £100,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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	• The Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified (set out on pages 50 and 51); and • The Directors' explanation as to their assessment of the entity's prospects, the period this assessment covers and why they period is appropriate (set out on page 51).
Other Code provisions	• Directors' statement on fair, balanced and understandable set out on page 66; • Board's confirmation that it has carried out a robust assessment of the emerging and principal risks (set out on page 66); • The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems (set out on page 66); and • The section describing the work of the Audit Committee (set out on pages 65 and 66).

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 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.

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

10 March 2021

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

Group Income Statement

	Notes	Year to 31 December 2020 £000	Year to 31 December 2019 £000
Revenue	3, 4	**121,664**	132,677
Property outgoings	5	**(1,525)**	(1,327)
Gross profit		**120,139**	131,350
Administrative expenses	6	**(17,001)**	(22,128)
Profit on disposal of investment properties		**32**	53,074
Investment property revaluation	11	**(166,622)**	75,708
Operating (loss)/profit	7	**(63,452)**	238,004
Finance income	8	**374**	730
Finance costs	8	**(50,264)**	(84,234)
(Loss)/profit before tax		**(113,342)**	154,500
Tax charge	9	**(299)**	(1,141)
(Loss)/profit for the year		**(113,641)**	153,359

		Pence per share	Pence per share
Earnings per share			
Basic	10	**(35.1)**	47.5
Diluted	10	**(35.1)**	47.3

All amounts relate to continuing activities.

The notes on pages 92 to 124 form part of these financial statements.

Group Statement of Other Comprehensive Income

	Notes	**Year to 31 December 2020 £000**	Year to 31 December 2019 £000
(Loss)/profit for the year		**(113,641)**	153,359
Items that may subsequently be reclassified to profit or loss:			
Currency translation differences	21	**2,101**	(2,000)
Fair value movements in derivatives	13, 21	**(637)**	(851)
Other comprehensive income/(loss)		**1,464**	(2,851)
Total comprehensive (loss)/income for the year		**(112,177)**	150,508

The notes on pages 92 to 124 form part of these financial statements.

Group Statement of Changes in Equity

	Share capital £000	Share premium reserve £000	Other reserves £000	Retained earnings £000	**Total £000**
Year to 31 December 2020					
At 1 January 2020	32,285	518,415	7,164	826,678	**1,384,542**
Loss for the year	–	–	–	(113,641)	**(113,641)**
Other comprehensive income	–	–	1,464	–	**1,464**
Total comprehensive income/(loss)	–	–	1,464	(113,641)	**(112,177)**
Issue of shares	119	4,791	(4,910)	–	**–**
Interim dividends of 15.7 pence per share	–	–	–	(50,824)	**(50,824)**
At 31 December 2020	32,404	523,206	3,718	662,213	**1,221,541**

	Share capital £000	Share premium reserve £000	Other reserves £000	Retained earnings £000	**Total £000**
Year to 31 December 2019					
At 1 January 2019	32,156	513,675	9,977	725,780	**1,281,588**
Profit for the year	–	–	–	153,359	**153,359**
Other comprehensive loss	–	–	(2,851)	–	**(2,851)**
Total comprehensive income	–	–	(2,851)	153,359	**150,508**
Issue of shares	129	4,740	(4,869)	–	**–**
Shares to be issued	–	–	4,907	–	**4,907**
Interim dividends of 16.3 pence per share	–	–	–	(52,461)	**(52,461)**
At 31 December 2019	32,285	518,415	7,164	826,678	**1,384,542**

The notes on pages 92 to 124 form part of these financial statements.

Group Balance Sheet

	Notes	31 December 2020 £000	31 December 2019 £000
Non-current assets			
Investment properties	3, 11	**1,975,600**	2,111,297
Headlease rent deposits		**2,740**	2,742
Tangible fixed assets		**228**	–
Interest rate derivatives	13	**7**	43
		1,978,575	2,114,082
Current assets			
Cash and cash equivalents	14	**219,730**	267,119
Trade and other receivables	15	**20,009**	3,798
		239,739	270,917
Total assets		**2,218,314**	2,384,999
Current liabilities			
Trade and other payables	16	**(32,889)**	(38,290)
Secured debt	17	**(4,984)**	(1,170)
Interest rate derivatives	13	**(557)**	(246)
Current tax liability		**(56)**	(129)
		(38,486)	(39,835)
Non-current liabilities			
Secured debt	17	**(916,596)**	(920,408)
Head rent obligations under finance leases	18	**(28,662)**	(28,190)
Deferred tax liability	19	**(11,899)**	(11,267)
Interest rate derivatives	13	**(1,130)**	(757)
		(958,287)	(960,622)
Total liabilities		**(996,773)**	(1,000,457)
Net assets		**1,221,541**	1,384,542
Equity			
Share capital	20	**32,404**	32,285
Share premium reserve	21	**523,206**	518,415
Other reserves	21	**3,718**	7,164
Retained earnings	21	**662,213**	826,678
Total equity		**1,221,541**	1,384,542

		Pence per share	Pence per share
Basic NAV per share	23	**377.0**	428.8
Diluted NAV per share	23	**377.0**	427.3
EPRA NTA per share	23	**379.3**	429.4

The notes on pages 92 to 124 form part of these financial statements.

The Group financial statements were approved and authorised for issue by the Board of Directors on 10 March 2021 and were signed on its behalf by:

Martin Moore
Chairman

Sandy Gumm
Director

Group Cash Flow Statement

	Notes	Year to 31 December 2020 £000	Year to 31 December 2019 £000
Operating activities			
(Loss)/profit before tax		**(113,342)**	154,500
Adjustments for non-cash items:			
Investment property revaluation	11	**142,516**	(86,727)
Depreciation		**18**	–
Administrative expenses payable in shares	25	**–**	4,907
Profit on disposal of investment properties		**(32)**	(53,074)
Finance income	8	**(374)**	(730)
Finance costs	8	**50,264**	84,234
Cash flows from operating activities before changes in working capital		**79,050**	103,110
Changes in working capital:			
Trade and other receivables		**(18,811)**	(265)
Trade and other payables		**(5,504)**	(2,144)
Headlease rent deposits		**2**	24
Cash generated from operations		**54,737**	100,725
Tax paid		**(401)**	(233)
Cash flows from operating activities		**54,336**	100,492
Investing activities			
Net proceeds on disposal of investment properties		**2,597**	357,744
Interest received		**409**	695
Acquisition of tangible fixed assets		**(246)**	–
Acquisition of investment properties		**–**	(307)
Cash flows from investing activities		**2,760**	358,132
Financing activities			
Dividends paid		**(50,824)**	(52,461)
Interest and finance costs paid	24	**(47,844)**	(53,638)
Scheduled repayment of secured debt	24	**(4,434)**	(3,988)
Repayment of secured debt from proceeds of property disposals	24	**(1,494)**	(154,519)
Fees on accelerated prepayment of secured debt	8, 24	**–**	(27,868)
Loan arrangement costs paid	24	**–**	(670)
Cash flows from financing activities		**(104,596)**	(293,144)
(Decrease)/increase in cash and cash equivalents		**(47,500)**	165,480
Cash and cash equivalents at the beginning of the year		**267,119**	101,745
Currency translation movements		**111**	(106)
Cash and cash equivalents at the end of the year	14	**219,730**	267,119

The notes on pages 92 to 124 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 2020 with comparative figures relating to the year to 31 December 2019. It includes the results and net assets of the Company and its subsidiaries, together referred to as the Group.

The Company is incorporated in England and Wales. 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 5 to 51. The Company is listed on the AIM market of the London Stock Exchange.

Further information about the Group can be found on its website, www.SecureIncomeREIT.co.uk.

2. Basis of preparation and accounting policies

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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 thousand pounds unless otherwise stated.

Euro denominated results for the German operations have been converted to Sterling at the average exchange rate for the year of €1:£0.89 (2019: €1:£0.88), 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 2020 exchange rate of €1:£0.90 (2019: €1:£0.85).

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 50.

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 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 2019 financial statements. A further consideration in the year is the treatment of the Covid-19 rent concessions, where the extent of any lease modifications and the methodology for spreading income over lease terms has been assessed in the context of accounting standards and the Company's accounting policies.

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 2k.

Adoption of new and revised standards
During the year, the Group adopted the amendments to IFRS 16 that were introduced as a result of the Covid-19 pandemic. As these largely apply to lessees rather than lessors, there was no material change to the Group's accounting policies and disclosures.

During year, the Group also adopted the "Interest Rate Benchmark Reform" amendments to IFRS 9, IAS 39 and IFRS 7. As well as certain additional disclosures, the amendments provide relief in applying the requirements of IFRS 9 to certain hedges, including allowing the Group to assume that LIBOR will not be altered as a result of interest rate benchmark reform. Consequently, hedging relationships that may otherwise have been impacted by interest rate benchmark reform have remained in place and no additional ineffective portion of the hedges has been recognised. LIBOR linked exposures amount to only 8% of Group borrowings and 4% of the Group's interest charge on secured debt for the year ended 31 December 2020, therefore any effects are not considered to be material.

None of the other new or amended standards or interpretations issued by the International Accounting Standards Board ("IASB") or 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 4, IFRS 7, IFRS 9, IFRS 17, IAS 1, IAS 8, IAS 16, IAS 28, IAS 37, IAS 39 and IAS 41 but these are not expected to have a material effect on the operations 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.

Acquisitions of investment properties are recognised on unconditional exchange of contracts where it is reasonable to assume at the balance sheet date that completion of the acquisition will occur. Disposals of investment properties are recognised when the buyer obtains control of the property, taking into account the points at which the Group has a right to payment and the buyer has obtained legal title or possession of the property, or has taken on the significant risks and rewards of ownership.

Gains or losses on disposal are determined as the difference between the net disposal proceeds and the carrying value of the asset in the previous balance sheet, adjusted for any subsequent capital expenditure or capital receipts.

2. Basis of preparation and accounting policies continued

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.

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 rent uplifts, an adjustment is made to ensure that the carrying value of the relevant investment property including accrued rent does not exceed the fair value of the property as assessed by the independent external valuers. Income arising from contractual rights that are subject to external factors, such as RPI-linked or open market rent reviews, is recognised in the income statement in the period in which it is determinable and reasonably certain.

Where there has been a change in the scope of a lease or the consideration for a lease that was not part of the original terms and conditions of that lease, this is accounted for as a lease modification. This treatment applies to cases where rent reductions have been agreed, as has been the case in the Covid-19 related rent concessions described in the Strategic Report on pages 9 and 10. 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, although credit risk is considered in the determination of the fair value of the related property.

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

e) Financial assets and liabilities

Financial assets and liabilities are initially recognised at their fair value when a Group entity becomes a party to the unconditional contractual terms of an instrument. Unless otherwise indicated, the carrying amounts of financial assets and liabilities are considered by the Directors to be reasonable estimates of their fair values.

Trade and other receivables

Trade and other receivables are measured at amortised cost using the effective interest method, less any impairment. Impairment is calculated using an expected credit loss model.

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.

Trade and other payables

Trade and other payables are measured at amortised cost using the effective interest method.

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. Transaction costs are amortised over the life of the loan and charged to the income statement 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.

Derecognition of financial liabilities
The Group derecognises financial liabilities when its obligations are discharged, cancelled or expire. The difference between the carrying amount of those financial liabilities and the consideration paid, including any non-cash assets transferred and any new liabilities assumed, is recognised in profit or loss on derecognition.

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 for trading. 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 against is no longer expected to occur. In such circumstances, the cumulative amounts in other comprehensive income are then reclassified from equity to profit or loss.

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.

2. Basis of preparation and accounting policies continued

h) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of directly attributable issue costs. Costs not directly attributable to the issue are included within administrative expenses in the income statement and financing activities within the cash flow statement. Dividends paid are also classified under financing activities in the cash flow statement.

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.

j) Fair value measurements

Fair value is the price that would be received on the sale of an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market. It is based on the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. A fair value measurement of a non-financial asset takes into account the best and highest value use for that asset.

k) Tangible fixed assets

Tangible fixed assets, which comprise car park equipment at Manchester Arena, are depreciated to their residual values, assessed for these purposes as zero, on a straight line basis over their estimated useful life of ten years.

3. Operating segments

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

The Group owned 161 properties at 31 December 2020 and 31 December 2019, 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 applicable non-current assets was:

	Year to 31 December 2020 £000	Year to 31 December 2019 £000
Revenue		
UK	**113,218**	124,348
Germany	**8,446**	8,329
	121,664	132,677
Investment properties		
UK	**1,860,300**	2,001,047
Germany	**115,300**	110,250
	1,975,600	2,111,297

Revenue by tenant comprises:

Revenue including Rent Smoothing Adjustments	Year to 31 December 2020 £000	Year to 31 December 2019 £000
Ramsay Healthcare UK Operations Limited, guaranteed by Ramsay Health Care Limited:		
Properties owned throughout the period	**37,180**	37,165
Properties sold in August 2019	**–**	10,907
Travelodge Hotels Limited	**29,373**	30,400
Merlin Attractions Operations Limited, guaranteed by Merlin Entertainments Limited	**28,286**	27,654
Other tenants (each less than 10% of revenue)	**26,825**	26,551
Reported revenue	**121,664**	132,677

Revenue excluding Rent Smoothing Adjustments	Year to 31 December 2020 £000	Year to 31 December 2019 £000
Ramsay Healthcare UK Operations Limited, guaranteed by Ramsay Health Care Limited		
Properties owned throughout the period	**34,121**	33,195
Properties sold in August 2019	**–**	9,752
Travelodge Hotels Limited	**14,072**	28,820
Merlin Attractions Operations Limited, guaranteed by Merlin Entertainments Limited	**14,043**	27,654
Other tenants (each less than 10% of revenue)	**16,044**	20,742
Revenue on Adjusted EPRA Earnings basis	**78,280**	120,163

4. Revenue

	Year to 31 December 2020 £000	Year to 31 December 2019 £000
Rent receivable	**96,360**	120,533
Rent Smoothing Adjustments:		
Smoothing of original contractual uplifts	**8,901**	10,564
Smoothing of Covid-19 rent concessions	**14,760**	–
Recovery of head rent and service charge costs from occupational tenants (note 5)	**1,643**	1,580
	121,664	132,677

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 rent 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 2020 (2019: 38%) that increases by a fixed percentage at each review date and the 6% of passing rent at 31 December 2020 (2019: 6%) that is subject to minimum RPI-linked uplifts.

A new feature of this calculation in the 2020 financial year is the impact of the temporary rent reductions agreed to assist tenants as a result of the Covid-19 pandemic, which in the short term result in rental income being recognised in the income statement ahead of cash flows but which, after the end of each relevant concession period, reverse so that rental income recognised in the income statement will be lower than cash rents received on those leases. These are further described in the Strategic Report on pages 9 and 10, in note 11 and in the Unaudited Supplementary Information following these financial statements. In addition, £17.7 million (2019: £nil) of rent on the Leisure portfolio, receipt of which has been deferred from 2020 to 2021, has also been excluded from revenue on an Adjusted EPRA earnings in the current year because although it has been recognised in the income statement it has not yet been received in cash.

4. Revenue continued

Revenue on an Adjusted EPRA earnings basis also excludes 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 the amounts recovered from occupational tenants for head rent and service charge costs, which are reclassified against the equivalent costs in property outgoings.

As a result of these adjustments, revenue reconciles between the IFRS basis and Adjusted EPRA Earnings basis as follows:

	Year to 31 December 2020 £000	Year to 31 December 2019 £000
IFRS revenue	**121,664**	132,677
Rent Smoothing Adjustments:		
relating to original contractual uplifts	**(8,901)**	(10,564)
relating to Covid-19 rent concessions	**(14,760)**	–
Leisure rent deferral	**(17,727)**	–
Recovery of head rent and service charge costs reclassified to property outgoings	**(1,643)**	(1,580)
Adjustment for back rent	**(353)**	(370)
Adjusted EPRA Earnings revenue	**78,280**	120,163

The Group's accounting policy for revenue recognition is disclosed in note 2d.

5. Property outgoings

	Year to 31 December 2020 £000	Year to 31 December 2019 £000
Property outgoings in the income statement	**1,525**	1,327
Finance element of head rent included in finance costs (note 8)	**1,680**	1,702
Movement in headlease liabilities included in property revaluations (note 11)	**106**	100
Property outgoings	**3,311**	3,129
Recovery of head rents and service charge costs from occupational tenants, included in revenue (note 4)	**(1,643)**	(1,580)
Net property outgoings	**1,668**	1,549

Property outgoings in the income statement	**Year to 31 December 2020 £000**	Year to 31 December 2019 £000
Cost of negotiating and documenting Covid-19 rent concessions	**568**	–
Head rents	**461**	441
Irrecoverable property costs	**293**	121
Managing agent costs and other net property outgoings	**190**	134
Rent review costs	**13**	416
Costs of prospective capital projects	**–**	215
	1,525	1,327

Amounts shown above include any irrecoverable VAT. The costs of prospective capital projects in the prior year related largely to feasibility studies and may be capitalised in future if those projects proceed.

The Group's accounting policy for headleases is disclosed in note 2d.

6. Administrative expenses

	Year to 31 December 2020 £000	Year to 31 December 2019 £000
Advisory fees (note 25b)	**13,661**	14,732
Other administrative expenses	**2,794**	1,546
Corporate costs	**546**	594
Incentive fee (note 25b)	**–**	5,256
	17,001	22,128

Amounts shown above include any irrecoverable VAT. The incentive fee in the prior year comprised £4.9 million satisfied by way of the issue of shares and £0.4 million of VAT payable in cash.

The Group's accounting policy for share based payments is disclosed in note 2i.

7. Operating profit

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

	Year to 31 December 2020 £000	Year to 31 December 2019 £000
Audit of the Company's consolidated and individual financial statements	**48**	47
Audit of subsidiaries, pursuant to legislation	**236**	182
Total audit services	**284**	229
Audit related services: review of interim report	**35**	33
Audit related services: regulatory reporting	**–**	3
Total audit and audit related services	**319**	265
Other non-audit services	**–**	3
Total fees	**319**	268

Amounts shown above include any irrecoverable VAT. The fees as received by the auditor, excluding VAT, in the year were £286,000 (2019: £259,000), of which £35,000 (2019: £39,000) related to non-audit work.

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 2020 £000	Year to 31 December 2019 £000
Martin Moore (Chairman)	**75**	75
Leslie Ferrar (Chairman of Audit Committee)	**45**	45
Jonathan Lane	**40**	40
Ian Marcus	**40**	40
	200	200

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 2020 £000	Year to 31 December 2019 £000
Finance income		
Interest on cash deposits	**374**	730
Finance costs		
Cash costs:		
Interest on secured debt	**(45,561)**	(49,920)
Interest charge on headlease liabilities (note 5)	**(1,680)**	(1,702)
Loan agency fees and other lender costs	**(300)**	(546)
Fees on accelerated prepayment of secured debt following property disposals	**–**	(27,868)
Non-cash movements:		
Amortisation of loan arrangement costs	**(2,280)**	(2,382)
Amortisation of interest rate derivatives, transferred from other reserves	**(339)**	(269)
Fair value adjustment of interest rate derivatives (note 13)	**(83)**	(104)
Amortisation of loan arrangement costs on accelerated debt prepayment	**(21)**	(1,443)
Total finance costs	**(50,264)**	(84,234)
Net finance costs recognised in the income statement	**(49,890)**	(83,504)
Fair value adjustment of interest rate derivatives	**(976)**	(1,120)
Amortisation of interest rate derivatives, transferred to the income statement	**339**	269
Net finance costs recognised in other comprehensive income/(loss) (note 13)	**(637)**	(851)

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

	Year to 31 December 2020 £000	Year to 31 December 2019 £000
Financial assets at amortised cost	**374**	730
Financial liabilities at amortised cost	**(50,181)**	(84,130)
Derivatives in effective hedges	**(83)**	(104)
Net finance costs recognised in the income statement	**(49,890)**	(83,504)

The Group's sensitivity to changes in interest rates, on the basis of a ten basis point change in LIBOR, was as follows:

	Year to 31 December 2020 £000	Year to 31 December 2019 £000
Effect on (loss)/profit for the year	**198**	242
Effect on other comprehensive income/(loss) and equity	**124**	181

The Group receives interest on its cash and cash equivalents so an increase in interest rates would increase finance income. An increase in LIBOR up to the maximum capped rate of 1.65% would also increase finance costs relating to the £23.3 million (2019: £24.8 million) of the secured debt that is hedged by interest rate caps. A further £50.0 million (2019: £50.0 million) of the secured debt is hedged with interest rate swaps, and movements in LIBOR 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 LIBOR on the remaining £855.0 million (2019: £855.9 million) of the secured debt which is at fixed rates. 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 2020 £000	Year to 31 December 2019 £000
Current tax – Germany		
Corporation tax charge	**360**	341
Adjustments in respect of prior years	**(39)**	41
Deferred tax – Germany		
Deferred tax (credit)/charge (note 19)	**(22)**	759
	299	1,141

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

	Year to 31 December 2020 £000	Year to 31 December 2019 £000
(Loss)/profit before tax	**(113,342)**	154,500
Tax (credit)/charge at the standard rate of corporation tax in the UK for the financial year of 19% (2019: 19%)	**(21,535)**	29,355
Effects of:		
Investment property revaluation not allowable/(taxable)	**29,924**	(15,652)
Qualifying property rental business not taxable under UK REIT rules	**(8,935)**	(4,001)
Unutilised tax losses carried forward	**273**	721
Finance costs disallowed under corporate interest restriction rules	**257**	420
German current tax charge for the year	**360**	341
Adjustments in respect of prior years	**(39)**	41
Profit on disposal of investment properties not taxable under UK REIT rules	**(6)**	(10,084)
Tax charge for the year	**299**	1,141

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 or in certain circumstances sold in the three years after completion of a development. None of the Group's properties were developed in the last three years.

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

The Group is subject to German corporation tax on its German property rental business at an effective rate of 15% (2019: 15%), resulting in a tax charge of £0.3 million (2019: £0.3 million). A deferred tax liability of £11.9 million (2019: £11.3 million) is recognised for the German capital gains tax that would potentially be payable on the sale of the relevant investment properties.

Certain non-resident unit trust Group entities entered into transparency elections during the year, such that any future disposals of UK investment properties by those entities will be deemed to arise in their parent companies and can therefore benefit from the REIT exemption.

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

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

Diluted EPS

The weighted average number of shares used in the calculation of diluted EPS is required to include any shares to be issued in respect of an incentive fee, as if those shares had been in issue throughout the whole of the year over which the fee was earned, although in fact they will not be issued until the following year.

	Year to 31 December 2020 £000	Year to 31 December 2019 £000
(Loss)/profit for the year	**(113,641)**	153,359

Weighted average number of shares in issue	**Number**	Number
Basic EPS calculation	**324,035,146**	322,850,595
Shares to be issued in satisfaction of incentive fee (note 25d)	**–**	1,184,551
Diluted EPS calculation	**324,035,146**	324,035,146

	Pence per share	Pence per share
Basic EPS	**(35.1)**	47.5
Diluted EPS	**(35.1)**	47.3

EPRA EPS

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

An Adjusted EPRA earnings calculation has also been presented. This adjusted measure was designed to reflect the fact that, as a Group with unusually long leases and a high proportion of fixed or minimum rental increases to spread over the lease terms, the Company's Dividend Cover would be artificially high if calculated on the basis of EPRA EPS. Adjusted EPRA EPS removes the effect of the Rent Smoothing Adjustments, including in the current year the impact of Covid-19 rent concessions. It also excludes any non-recurring costs or income which do not relate to the Group's routine operations, such as costs incurred for share placings. 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.

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

The weighted average number of shares applied in calculating Adjusted EPRA EPS has been calculated as follows:

	Year to 31 December 2020 Number	Year to 31 December 2019 Number
Shares in issue throughout the period	**322,850,595**	321,563,353
Adjustment for:		
Shares issued in March 2020 in settlement of 2019 incentive fee	**925,633**	–
Shares issued in March 2019 in settlement of 2018 incentive fee	**–**	976,893
	323,776,228	322,540,246

EPRA and Adjusted EPRA earnings are calculated as:

	Year to 31 December 2020 £000	Year to 31 December 2019 £000
(Loss)/profit for the year	**(113,641)**	153,359
EPRA adjustments:		
Investment property revaluation (note 11)	**166,516**	(75,708)
Profit on disposal of investment properties	**(32)**	(53,074)
Deferred tax on German investment property revaluations (note 9)	**(22)**	759
Amortisation of loan arrangement costs on accelerated debt prepayment (note 8)	**21**	1,443
Fair value adjustment of interest rate derivatives	**13**	36
Fees on accelerated debt repayments on property disposals (note 8)	**–**	27,868
EPRA earnings	**52,855**	54,683
Other adjustments:		
Rent Smoothing Adjustments (note 4)	**(23,661)**	(10,564)
Rent deferral	**(17,727)**	–
Incentive fee (note 6)	**–**	5,256
Adjusted EPRA earnings	**11,467**	49,375

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	**16.3**	16.9
Adjusted EPRA EPS	**3.5**	15.3

11. Investment properties

Freehold investment properties	Year to 31 December 2020 £000	Year to 31 December 2019 £000
At the start of the year	**1,802,390**	2,018,115
Revaluation movement	**(102,938)**	88,901
Currency translation movement	**6,341**	(5,986)
Disposals	**–**	(301,535)
Reclassification on acquisition of freehold interest in leasehold property	**–**	2,595
Acquisition of freehold interest in leasehold property	**–**	262
Additions	**–**	38
At the end of the year	**1,705,793**	1,802,390

Leasehold investment properties	Year to 31 December 2020 £000	Year to 31 December 2019 £000
At the start of the year	**308,907**	317,105
Revaluation movement	**(39,578)**	(2,174)
Increase/(decrease) in headlease liabilities	**578**	(221)
Revaluation movement in headlease liabilities	**(106)**	(100)
Additions	**6**	7
Disposals	**–**	(3,115)
Reclassification on acquisition of freehold interest in leasehold property	**–**	(2,595)
At the end of the year	**269,807**	308,907

Total investment properties	Year to 31 December 2020 £000	Year to 31 December 2019 £000
At the start of the year	**2,111,297**	2,335,220
Revaluation movement	**(142,516)**	86,727
Currency translation movement	**6,341**	(5,986)
Increase/(decrease) in headlease liabilities	**578**	(221)
Revaluation movement in headlease liabilities	**(106)**	(100)
Additions	**6**	45
Net cost of acquisition of freehold interest in leasehold property	**–**	262
Disposals	**–**	(304,650)
At the end of the year	**1,975,600**	2,111,297

As at 31 December 2020 the properties were valued at £1,946.9 million (2019: £2,083.1 million) by CBRE Limited or Christie & Co in their capacity as independent external valuers. Of the total fair value, £115.3 million (2019: £110.3 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. Healthcare asset valuations did not carry such a proviso as at 31 December 2020 or any prior period, and none of the 31 December 2019 valuations in any sector were subject to material valuation uncertainty.

The valuation report on Healthcare assets, which comprise 39.5% of the Group's investment property valuations as at 31 December 2020, included this wording:

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

The reports from each valuer included the following statement about material valuation uncertainty in respect of the Leisure and Budget Hotel properties, which together comprise 60.5% of the Group's investment property valuations as at 31 December 2020:

> "The outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a 'Global Pandemic' on 11 March 2020, continues to impact many aspects of daily life and the global economy – with some real estate markets having experienced lower levels of transactional activity and liquidity. Travel, movement and operational restrictions have been implemented by many countries. In some cases, 'lockdowns' have been applied – in varying degrees – to reflect further 'waves' of Covid-19. While these may imply a new stage of the crisis, they are not unprecedented in the same way as the initial impact.
>
> The pandemic and the measures taken to tackle Covid-19 continue to affect economies and real estate markets globally. In the case of the properties set out within this report, as at the valuation date, we continue to be faced with an unprecedented set of circumstances caused by Covid-19 and a reduction in market evidence on which to base our judgements. Our valuation is therefore reported as being subject to 'material valuation uncertainty', as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, in respect of these valuations less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case.
>
> For the avoidance of doubt, this explanatory note – including the 'material valuation uncertainty' declaration – does not mean that the valuation cannot be relied upon. Rather, it has been included to ensure transparency and to provide further insight as to the market context under which the valuation opinion was prepared. In recognition of the potential for market conditions to move rapidly in response to changes in the control or future spread of Covid-19, we highlight the importance of the valuation date."

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 2020 £000	31 December 2019 £000
Carrying value	**1,975,600**	2,111,297
Gross-up of headlease liabilities (note 18)	**(28,662)**	(28,190)
Independent external valuation	**1,946,938**	2,083,107

Included within the carrying value of investment properties at 31 December 2020 is £181.4 million (2019: £155.7 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.

11. Investment properties continued

Also included in the revaluation movement for the year is the impact of 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, together with movements on the headlease liabilities.

	Year to 31 December 2020 £000	Year to 31 December 2019 £000
Investment property revaluation	**(142,516)**	86,727
Rent Smoothing Adjustments (note 4)	**(23,661)**	(10,564)
Adjustment for back rent received	**(339)**	(355)
Movement in headlease liabilities (note 5)	**(106)**	(100)
Revaluation movement in the income statement	**(166,622)**	75,708

The historic cost of the Group's investment properties, translated at historic foreign exchange rates, as at 31 December 2020 was £1,479.6 million (2019: £1,479.6 million).

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

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 leasehold 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 £3.3 million (2019: £3.1 million) of which £1.7 million (2019: £1.5 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 (2019: £0.1 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. During the year, this resulted in a net cost to the Group of £0.1 million (2019: £nil), as the car park has been 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.

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 considers the valuation process, including meetings with the independent external valuers and assessing their expertise and independence, and reports on its assessment of the procedures 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 £000	Key unobservable input	Inputs Range	Inputs Blended yield
At 31 December 2020:				
Healthcare	769,095	Net Initial Yield	3.9% – 4.5%	4.5%
		Running Yield by January 2022	4.0% – 4.6%	4.6%
Leisure – UK	687,721	Net Initial Yield	4.8% – 7.3%	5.5%
		Running Yield by January 2022	4.8% – 7.4%	5.7%
		RPI assumption per annum	2.5%	
Budget Hotels	403,484	Topped Up Net Initial Yield	5.3% – 13.9%	7.1%
		Running Yield by January 2022	5.8% – 15.5%	7.2%
		RPI assumption per annum	2.5%	
Leisure – Germany	115,300	Net Initial Yield	5.8%	5.8%
		Running Yield by January 2022	5.9%	5.9%
	1,975,600			
At 31 December 2019:				
Healthcare	748,385	Net Initial Yield	3.9% – 4.5%	4.5%
		Running Yield by December 2020	4.0% – 4.6%	4.6%
Leisure – UK	751,008	Net Initial Yield	3.7% – 6.2%	5.0%
		Running Yield by December 2020	4.2% – 6.9%	5.1%
		RPI assumption per annum	2.5% – 3.1%	
Budget Hotels	501,654	Net Initial Yield	4.3% – 10.5%	5.5%
		Running Yield by December 2020	4.5% – 10.5%	5.7%
		RPI assumption per annum	2.5%	
Leisure – Germany	110,250	Net Initial Yield	5.5%	5.5%
		Running Yield by December 2020	5.7%	5.7%
	2,111,297			

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

The Group's accounting policy for investment properties is disclosed in note 2d.

12. Subsidiaries

The companies listed below are the subsidiary undertakings of the Company at 31 December 2020, 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*	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*	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*	Intermediate parent company
SIR Hotels Jersey Limited†	Intermediate parent company
SIR Unitholder 1 Limited†	Intermediate parent company
SIR Unitholder 2 Limited†	Intermediate parent company
Grove Property Unit Trust 6†	Property investment – budget hotels and borrower under secured debt facility
Grove Property Unit Trust 7†	Property investment – budget hotels and borrower under secured debt facility
Grove Property Unit Trust 9†	Property investment – budget hotels and borrower under secured debt facility
Grove Property Unit Trust 11†	Property investment – budget hotels and borrower under secured debt facility
Grove Property Unit Trust 12†	Property investment – budget hotels and borrower under secured debt facility
Grove Property Unit Trust 16†	Property investment – budget hotels and borrower under secured debt facility
SIR Hotels 2 Limited*	Intermediate parent company
SIR Hotels Jersey 2 Limited†	Intermediate parent company
SIR Unitholder 3 Limited†	Intermediate parent company
SIR Unitholder 4 Limited†	Intermediate parent company
Grove Property Unit Trust 2†	Property investment – budget hotels and borrower under secured debt facility
Grove Property Unit Trust 5†	Property investment – budget hotels and borrower under secured debt facility
Grove Property Unit Trust 13†	Property investment – budget hotels and borrower under secured debt facility

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

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

	Nature of business
Grove Property Unit Trust 14†	Property investment – budget hotels and borrower under secured debt facility
Grove Property Unit Trust 15†	Property investment – budget hotels and borrower under secured debt facility
SIR Maple 4 Limited	Property investment – budget hotels and borrower under secured debt facility
SIR Maple Holdco Limited*	Intermediate parent company
SIR Maple 1 Limited†	Intermediate parent company
SIR Unitholder 5 Limited†	Intermediate parent company
MIF I Unit Trust[x]	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*	Dormant
SIR MTL Limited*	Dormant
Charcoal Bidco Limited*	Dormant
SIR Hotels 2 Holdco Limited†	Dormant
SIR Hotels 2 GP Limited†	Dormant
SIR Hotels 2 Nominee Limited†	Dormant
SIR Hotels 2 LP†	Dormant
SIR Newco Limited*	Dormant
SIR Newco 2 Limited*	Dormant

* directly owned by the Company; all other entities are indirectly owned
† incorporated in Jersey with the registered office at 26 New Street, St Helier, Jersey JE2 3RA
x 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.

13. Interest rate derivatives

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

	31 December 2020 £000	31 December 2019 £000
Interest rate swaps (weighted average rate 1.3%)	**50,000**	50,000
Interest rate caps (weighted average rate 1.5%)		
In effective hedges	**23,272**	24,766
Classified as held for trading	**3,256**	1,762
	76,528	76,528

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

	31 December 2020 £000	31 December 2019 £000
Interest rate swaps:		
Falling due within one year	**(557)**	(246)
Falling due in more than one year	**(1,130)**	(757)
	(1,687)	(1,003)
Interest rate caps:		
Falling due in more than one year	**7**	43
	(1,680)	(960)

	Year to 31 December 2020 £000	Year to 31 December 2019 £000
At the start of the year	**(960)**	(5)
Charge to the income statement (note 8)	**(83)**	(104)
Charge to other comprehensive income (note 8)	**(637)**	(851)
At the end of the year	**(1,680)**	(960)

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 the credit risk of the counterparties. The amounts and timing of future cash flows are projected on the basis of the contractual terms of the derivatives. All interest rate derivatives are classified as level 2 in the fair value hierarchy as defined in IFRS 13 and there were no transfers to or from other levels of the fair value hierarchy during the 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 (2019: £14.8 million) of the floating rate loans shown in note 17a. Following a rebalancing of the hedging arrangements on £3.2 million (2019: £1.7 million) of the notional amount of the interest rate caps, matching the loan principal that has been repaid from the proceeds of investment property sales, the notional amounts of the interest rate caps designated for hedge accounting equal the loan principal balance and their maturity dates also match. As a result, the interest rate cap hedges, which have a fair value of £6,000 (2019: £40,000), are expected to be 100% effective throughout their terms. The remaining interest rate caps, which have a fair value of £1,000 (2019: £3,000), have been classified as held for trading.

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

The Group's accounting policy for interest rate derivatives is disclosed in note 2e.

14. Cash and cash equivalents

	31 December 2020 £000	31 December 2019 £000
Free cash and cash equivalents	**196,628**	240,254
Secured cash	**23,102**	26,261
Regulatory capital	**–**	604
	219,730	267,119

Secured cash is held in accounts over which the providers of secured debt have fixed and floating 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 any loan repayments have been made for each facility, as long as the terms of those facilities are complied with.

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

The Group's accounting policy for cash and cash equivalents is disclosed in note 2e.

15. Trade and other receivables

	31 December 2020 £000	31 December 2019 £000
Trade receivables	**605**	359
Accrued income	**18,425**	35
Prepayments	**614**	599
Other receivables	**365**	240
Investment property disposal proceeds receivable	**–**	2,565
	20,009	3,798

Having been reviewed for expected credit losses, no impairment was considered necessary for trade receivables and accrued income.

The Group's accounting policy for trade and other receivables is disclosed in note 2e.

16. Trade and other payables

	31 December 2020 £000	31 December 2019 £000
Trade payables	**968**	1,172
Rent received in advance and other deferred income	**19,566**	24,402
Interest payable	**7,979**	8,019
Tax and social security	**2,305**	3,192
Accruals and other payables	**2,071**	1,505
	32,889	38,290

The Group's accounting policy for trade and other payables is disclosed in note 2e.

17. Financial assets and liabilities

a) Borrowings

	31 December 2020 £000	31 December 2019 £000
Amounts falling due within one year		
Fixed rate secured debt	**7,284**	3,480
Unamortised finance costs	**(2,300)**	(2,310)
	4,984	1,170
Amounts falling due in more than one year		
Fixed rate secured debt	**847,719**	852,411
Floating rate secured debt	**73,272**	74,766
Unamortised finance costs	**(4,395)**	(6,769)
	916,596	920,408

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, 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 pages 9 and 10. There were no defaults or breaches of any loan covenants during the current or any prior year.

The analysis of borrowings by currency is as follows:

	31 December 2020 £000	31 December 2019 £000
Sterling denominated		
Secured debt	**863,877**	869,645
Unamortised finance costs	**(6,421)**	(8,677)
	857,456	860,968
Euro denominated		
Secured debt	**64,398**	61,012
Unamortised finance costs	**(274)**	(402)
	64,124	60,610

The Group's accounting policy for borrowings is disclosed in note 2e.

b) Categories of financial instruments

	31 December 2020 £000	31 December 2019 £000
Financial assets		
Financial assets at amortised cost:		
Cash and cash equivalents (note 14)	**219,730**	267,119
Accrued income (note 15)	**18,425**	35
Headlease deposits	**2,740**	2,742
Trade receivables (note 15)	**605**	359
Other receivables	**155**	19
Amounts receivable from investment property disposals	**–**	2,565
Derivatives in effective hedges:		
Interest rate caps (note 13)	**6**	40
Derivatives classified as held for trading:		
Interest rate caps (note 13)	**1**	3
	241,662	272,882
Financial liabilities		
Financial liabilities at amortised cost:		
Secured debt	**(921,580)**	(921,578)
Headlease liabilities (note 18)	**(28,662)**	(28,190)
Interest payable (note 16)	**(7,979)**	(8,019)
Accruals and other payables (note 16)	**(2,071)**	(1,505)
Trade payables (note 16)	**(968)**	(1,172)
Derivatives in effective hedges:		
Interest rate swaps (note 13)	**(1,687)**	(1,003)
	(962,947)	(961,467)

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

As at 31 December 2020 the fair value of the Group's secured debt was £969.2 million (2019: £961.0 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 financial assets and liabilities is disclosed in note 2e.

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 assets comprise only cash and cash equivalents. Changes in market interest rates therefore affect the Group's finance income. The Group's interest bearing 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 (2019: £50.0 million) of floating rate debt and interest rate caps on the remaining £23.3 million (2019: £24.8 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 £905.0 million (2019: £905.9 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 (2019: £24.8 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% (2019: 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, 3.5% (2019: 2.7%) 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 3.9% (2019: 3.1%). 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 2020 £000	Year to 31 December 2019 £000
Investment property revaluation net of deferred tax	**(131)**	290
Other income statement movements	**257**	227
Effect on (loss)/profit for the year	**126**	517
Effect on other comprehensive income and equity	**4,108**	3,805

Credit risk
Credit risk is the risk of financial loss to the Group if a counterparty fails to meet its contractual obligations as a result of financial stress. The principal counterparties 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) and the counterparties to the Group's investment property disposals.

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 71% of the portfolio (at 31 December 2020 valuations) that has been owned by Group entities since 2007, over the last 13 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 2020, the Group held financial assets with a carrying value of £0.4 million (2019: £nil) which were past due, all of which were trade receivables and all but £40,000 of which (a cost recovery from a tenant, not rent) have been received since the balance sheet date. The Group did not hold any financial assets that were impaired at either 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.

Inflation risk
Inflation risk arises from the impact of inflation on the Group's income and expenditure. 58% (2019: 59%) of the Group's contractual passing rent before concessions at 31 December 2020 is subject to RPI-linked rent reviews, though those rents are subject to nil or upwards review, never downwards. 41% (2019: 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% (2019: nil) subject to upwards only open market rent reviews. As a result, the Group is not exposed to any fall in rent in deflationary conditions.

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 0.8 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.

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 £3.3 million (2019: £2.4 million) in the current year (20% (2019: 11%) of total administrative expenses) and therefore the impact of any significant percentage increase in inflation on the financial results or position of the Group would be relatively limited.

17. Financial assets and liabilities continued

Liquidity risk

Liquidity risk arises from the Group's management of working capital and its ability to meet the finance costs and principal repayments on its secured debt. It is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Board seeks to manage liquidity risk by ensuring that sufficient cash is available to meet the Group's foreseeable needs. The Group's more material financial obligations are the payment of financing costs and any scheduled amortisation or repayments of its secured debt. Financing costs and scheduled amortisation have been met, 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 required by the facility agreements relating to the Group's secured debt.

Budgets and working capital forecasts are reviewed by the Board at least quarterly to assess liquidity requirements and compliance with loan covenants. The Board also 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, 73% (2019: 69%) of the Group's headlease liabilities were recoverable from tenants and are not included in this analysis to the extent that they are recoverable.

31 December 2020	Effective interest rate	Less than one year £000	One to two years £000	Two to five years £000	More than five years £000	**Total £000**
Financial assets						
Cash and cash equivalents	0.2%	219,730	–	–	–	**219,730**
Accrued income		18,425	–	–	–	**18,425**
Headlease deposits		–	–	–	2,740	**2,740**
Trade and other receivables		730	30	–	–	**760**
Interest rate derivatives		–	2	5	–	**7**
		238,885	32	5	2,740	**241,662**
Financial liabilities						
Fixed rate secured debt	5.1%	(50,775)	(425,351)	(524,259)	–	**(1,000,385)**
Floating rate secured debt	2.4%	(1,757)	(1,675)	(74,505)	–	**(77,937)**
Headlease liabilities		(533)	(533)	(1,600)	(7,295)	**(9,961)**
Accrued interest		(7,979)	–	–	–	**(7,979)**
Trade payables and accruals and other payables		(3,039)	–	–	–	**(3,039)**
Interest rate derivatives	1.3%	(558)	(686)	(443)	–	**(1,687)**
		(64,641)	(428,245)	(600,807)	(7,295)	**(1,100,988)**

31 December 2019	Effective interest rate	Less than one year £000	One to two years £000	Two to five years £000	More than five years £000	**Total £000**
Financial assets						
Cash and cash equivalents	0.6%	267,119	–	–	–	**267,119**
Trade and other receivables		2,924	–	–	–	**2,924**
Headlease deposits		–	–	–	2,742	**2,742**
Interest rate derivatives		–	3	40	–	**43**
Accrued income		35	–	–	–	**35**
		270,078	3	40	2,742	**272,863**
Financial liabilities						
Fixed rate secured debt	5.1%	(47,968)	(50,442)	(576,096)	(363,559)	**(1,038,065)**
Floating rate secured debt	2.9%	(2,134)	(2,083)	(77,922)	–	**(82,139)**
Headlease liabilities		(502)	(502)	(1,507)	(6,871)	**(9,382)**
Accrued interest		(8,019)	–	–	–	**(8,019)**
Trade payables and accruals and other payables		(2,677)	–	–	–	**(2,677)**
Interest rate derivatives	1.3%	(246)	(316)	(441)	–	**(1,003)**
		(61,546)	(53,343)	(655,966)	(370,430)	**(1,141,285)**

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 (2019: 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 2020 and 31 December 2019, the capital structure of the Group consisted of 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.

Until March 2020, the Group was subject to externally imposed capital requirements under AIFMD as disclosed in note 14. Those capital requirements were complied with at all relevant times during the current and prior year.

18. Headlease liabilities

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

Minimum headlease payments	31 December 2020 £000	31 December 2019 £000
Within one year	**1,817**	1,786
Between one and five years	**7,297**	7,166
More than five years	**157,922**	154,489
	167,036	163,441
Less future finance charges	**(138,374)**	(135,251)
	28,662	28,190

The earliest expiry date of all the headlease obligations is in more than five years. All but £0.5 million (2019: £0.5 million) of the minimum headlease payments due within one year are recoverable from the occupational tenants.

The Group's accounting policy for headleases is disclosed in note 2d.

19. Deferred tax liability

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

	Year to 31 December 2020 £000	Year to 31 December 2019 £000
At the start of the year	**11,267**	11,110
(Credit)/charge to the income statement (note 9)	**(22)**	759
Charge/(credit) to other comprehensive income	**654**	(602)
At the end of the year	**11,899**	11,267

The Group's accounting policy for deferred tax is disclosed in note 2f.

20. Share capital

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

	Year to 31 December 2020 Number	Year to 31 December 2019 Number
At the start of the year	**322,850,595**	321,563,353
Issue of ordinary shares:		
in settlement of 2019 incentive fee	**1,184,551**	–
in settlement of 2018 incentive fee	**–**	1,287,242
At the end of the year	**324,035,146**	322,850,595

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

Movements in other reserves comprise:

Year to 31 December 2020	Currency translation differences £000	Shares to be issued £000	Cash flow hedging instruments £000	**Total £000**
At the start of the year	3,305	4,910	(1,051)	**7,164**
Currency translation movements	2,101	–	–	**2,101**
Fair value of derivatives (note 13)	–	–	(637)	**(637)**
Other comprehensive income/(loss)	2,101	–	(637)	**1,464**
Shares issued in the year	–	(4,910)	–	**(4,910)**
At the end of the year	5,406	–	(1,688)	**3,718**
Year to 31 December 2019				
At the start of the year	5,305	4,872	(200)	**9,977**
Currency translation movements	(2,000)	–	–	**(2,000)**
Fair value of derivatives (note 13)	–	–	(851)	**(851)**
Other comprehensive loss	(2,000)	–	(851)	**(2,851)**
Shares issued in the year	–	(4,869)	–	**(4,869)**
Shares to be issued	–	4,907	–	**4,907**
At the end of the year	3,305	4,910	(1,051)	**7,164**

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 2020 is 20.2 years (2019: 21.0 years) and there are no tenant break options. The leases contain either fixed uplifts or upwards only RPI-linked uplifts, alongside periodic upwards only open market reviews on 1% (2019: nil) of the Group's contractual passing rent before concessions.

RPI-linked uplifts on 37% (2019: 41%) of the Group's passing rent as at 31 December 2020 resulted in the settlement of £0.9 million (2019: £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 2020 £000	31 December 2019 £000
Within one year	**104,903**	110,697
Between one and two years	**115,515**	111,932
Between two and three years	**116,875**	113,534
Between three and four years	**118,456**	114,944
Between four and five years	**118,504**	116,373
More than five years	**2,045,222**	2,129,296
	2,619,475	2,696,776

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, which as at 31 December 2020 was 324,035,146 shares (2019: 322,850,595 shares).

Diluted NAV per share includes within the denominator any shares that will be issued in future, such as those in settlement of any incentive fee that may become payable as explained in note 25d, which at 31 December 2020 resulted in a total of 324,035,146 shares (2019: 321,035,146 shares).

The European Public Real Estate Association ("EPRA") publishes guidelines for the calculation of three measures of NAV to enable consistent comparisons between property companies, which were updated in the prior year and took effect from 1 January 2020. The Group uses EPRA Net Tangible Assets ("EPRA NTA") as the most meaningful measure of long term performance and the measure which is being adopted by the majority of UK REITs, establishing it as the industry standard benchmark. It excludes items that are considered to have no impact in the long term, such as the fair value of derivatives and a portion of the deferred tax on investment properties held for long term benefit, and uses as its denominator the same number of shares in issue for calculating diluted NAV per share, which reflects any shares to be issued in settlement of an incentive fee as described in note 25d.

The Group's basic NAV, diluted NAV and EPRA NTA are as follows:

	31 December 2020		31 December 2019	
	£000	**Pence per share**	£000	Pence per share
Basic NAV	**1,221,541**	**377.0**	1,384,542	428.8
EPRA adjustments:				
Dilution from shares to be issued for 2019 incentive fee	**–**	**–**	–	(1.5)
Diluted NAV	**1,221,541**	**377.0**	1,384,542	427.3
50% of deferred tax on German investment property revaluations	**5,950**	**1.8**	5,634	1.8
Fair value of interest rate derivatives	**1,734**	**0.5**	1,084	0.3
EPRA NTA	**1,229,225**	**379.3**	1,391,260	429.4

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

Year to 31 December 2020	Secured debt due within one year (note 17a) £000	Secured debt due in more than one year (note 17a) £000	Headlease liabilities (note 18) £000	Interest payable (note 16) £000	Derivatives (note 13) £000	**Total £000**
At the start of the year	2,124	919,454	28,190	8,019	960	**958,747**
Cash flows:						
Interest and finance costs paid	–	–	(1,680)	(45,768)	(396)	**(47,844)**
Scheduled repayment of secured debt	(4,434)	–	–	–	–	**(4,434)**
Repayment of secured debt from property sales	–	(1,494)	–	–	–	**(1,494)**
Non-cash movements:						
Finance costs in the income statement	2,310	97	1,680	45,716	461	**50,264**
Finance costs in other comprehensive income	–	–	–	–	637	**637**
Increase in headlease liabilities	–	–	578	–	–	**578**
Revaluation movement in headlease liabilities	–	–	(106)	–	–	**(106)**
Currency translation movements	(15)	3,538	–	30	–	**3,553**
Reclassifications	4,999	(4,999)	–	(18)	18	**–**
At the end of the year	4,984	916,596	28,662	7,979	1,680	**959,901**

Year to 31 December 2019						
At the start of the year	1,771	1,078,495	28,511	9,248	5	**1,118,030**
Cash flows:						
Repayment of secured debt from property sales	–	(154,519)	–	–	–	**(154,519)**
Interest and finance costs paid	–	–	(1,702)	(51,833)	(103)	**(53,638)**
Loan break costs	–	(27,868)	–	–	–	**(27,868)**
Scheduled repayment of secured debt	(3,988)	–	–	–	–	**(3,988)**
Loan arrangement costs paid	–	(670)	–	–	–	**(670)**
Non-cash movements:						
Finance costs in the income statement	2,385	29,308	1,702	50,586	253	**84,234**
Finance costs in other comprehensive loss	–	–	–	–	851	**851**
Decrease in headlease liabilities	–	–	(221)	–	–	**(221)**
Revaluation movement in headlease liabilities	–	–	(100)	–	–	**(100)**
Currency translation movements	8	(3,344)	–	(28)	–	**(3,364)**
Reclassifications	1,948	(1,948)	–	46	(46)	**–**
At the end of the year	2,214	919,454	28,190	8,019	960	**958,747**

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 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.

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

b) Basis of calculation of fees

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

In addition, following a proposal made by the Investment Adviser, with effect from 1 April 2020 the advisory fee is reduced to the extent that the net assets include surplus cash realised on the disposal of a portfolio of hospitals in August 2019 to the extent that surplus cash remains available for deployment. The balance of the surplus cash at 1 April 2020 was £158.3 million and as at 31 December 2020 was £113.9 million. The 2016 basis EPRA NAV used for the fee calculations reconciles to EPRA NTA as follows:

	31 December 2020		31 December 2019	
	£000	**Pence per share**	£000	Pence per share
EPRA NTA	**1,229,225**	**379.3**	1,391,260	429.4
Add back 50% of deferred tax on German investment property revaluations	**5,950**	**1.9**	5,633	1.7
2016 basis EPRA NAV for purposes of incentive fee calculation	**1,235,175**	**381.2**	1,396,893	431.1
Adjustment for surplus cash	**(113,945)**	**(35.2)**	–	–
NAV for purposes of advisory fee calculations	**1,121,230**	**346.0**	1,396,893	431.1

c) Advisory fees payable

Advisory fees payable to the Investment Adviser are calculated on a reducing scale based on the Group's 2016 basis EPRA NAV adjusted for surplus cash:

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

During the year, advisory fees of £12.8 million (2019: £0.8 million) plus VAT were payable to PIP, of which £10,000 was receivable (as a routine adjustment to the calculation of the fee for the fourth quarter) as at the balance sheet date and included in trade and other receivables (note 15) (2019: £0.8 million payable and included in trade and other payables (note 16)). During the year, advisory fees of £nil (2019: £12.9 million) plus VAT were payable in cash to PILLP, of which £nil (2019: £nil) was outstanding as at the balance sheet date. The impact of adopting 2016 basis EPRA NAV is that fees payable in the current year were c. £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, but this exemption has never been requested.

The incentive fee is calculated by reference to growth in TAR: if that growth exceeds a hurdle rate of 10% over a given financial year, an incentive fee equal to 20% of this excess is payable in shares to the Investment Adviser. In the event of an incentive fee being payable, a high water mark is established, represented by the 2016 basis EPRA NAV per share at the end of the relevant financial year, after the impact of the incentive fee, which is then the starting point for the cumulative hurdle calculations for future periods. The hurdle is set at the higher of the 2016 basis EPRA NAV at the start of the year plus 10% or the high water mark 2016 basis EPRA NAV plus 10% per annum. In this way, the incentive fee is never rebased 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 EPRA NAV per share of 431.1 pence per share was established at 31 December 2019 when a fee was last earned, therefore TAR had to exceed 43.1 pence per share for the year to 31 December 2020 for a fee to be earned. Since dividends of 15.7 pence per share were paid in the year, this equated to a 2016 basis EPRA NAV per share of 459.6 pence per share at 31 December 2020. Since 2016 basis EPRA NAV is below this level, no incentive fee arises for the current year.

Assuming no changes in the Company's capital structure, 2016 basis EPRA NAV per share growth together with dividends paid will have to exceed 124.4 pence per share for the year ending 31 December 2021 before an incentive fee is earned for that year.

In the prior year, an incentive fee of £5.3 million was payable: £4.9 million that was satisfied by way of the issue of 1,184,551 shares to PIP in March 2020, plus £0.4 million of irrecoverable VAT which arises on any element of the Group's costs, including incentive fees, that relate to the healthcare portfolio.

25. Related party transactions and balances continued

e) Dividends paid to related parties and key management personnel

	Year to 31 December 2020 £000	Year to 31 December 2019 £000
Prestbury Incentives Limited†	**3,007**	3,049
Nick Leslau*	**2,880**	3,668
Mike Brown	**186**	193
Prestbury Investment Partners Limited†	**136**	–
Sandy Gumm	**30**	31
Martin Moore	**19**	19
Ian Marcus	**14**	14
Jonathan Lane	**9**	9
Leslie Ferrar	**4**	4
	6,285	6,987

† 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

* 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 5 March 2021, the Company paid an interim dividend of 3.65 pence per share amounting to £11.7 million.

Company Balance Sheet

Registered number: 6064259

	Notes	31 December 2020 £000	31 December 2019 £000
Fixed assets			
Investment in subsidiary undertakings	C	**394,535**	457,643
Current assets			
Loans to subsidiary undertakings	D	**292,916**	288,058
Other amounts owed by subsidiary undertakings		**–**	5,291
Other debtors		**762**	1,799
Cash at hand and in bank		**194,166**	231,164
		487,844	526,312
Creditors: amounts falling due within one year			
Trade creditors		**(66)**	(964)
Loans from subsidiary undertakings	E	**(24,298)**	(58,112)
Accruals and deferred income		**(258)**	(596)
Net current assets		**463,222**	466,640
Total assets less current liabilities		**857,757**	924,283
Net assets		**857,757**	924,283
Capital and reserves			
Share capital	F	**32,404**	32,285
Share premium reserve		**523,206**	518,415
Other reserves		**–**	4,910
Retained earnings		**302,147**	368,673
Shareholders' funds		**857,757**	924,283

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 loss for the year dealt with in the financial statements of the Company was £15.7 million (2019: profit of £126.2 million). As at 31 December 2020, the entire balance of £302.1 million (2019: £368.7 million) in retained earnings represents distributable reserves.

The notes on pages 127 and 128 form part of the Company financial statements.

The Company financial statements were approved and authorised for issue by the Board of Directors on 10 March 2021 and were signed on its behalf by:

Martin Moore
Chairman

Sandy Gumm
Director

Company Statement of Changes in Equity

	Share capital £000	Share premium reserve £000	Other reserves £000	Retained earnings £000	**Total £000**
Year to 31 December 2020					
At 1 January 2020	32,285	518,415	4,910	368,673	**924,283**
Loss and total comprehensive loss for the year	–	–	–	(15,702)	**(15,702)**
Interim dividends of 15.7 pence per share	–	–	–	(50,824)	**(50,824)**
Issue of shares	119	4,791	(4,910)	–	**–**
At 31 December 2020	32,404	523,206	–	302,147	**857,757**

	Share capital £000	Share premium reserve £000	Other reserves £000	Retained earnings £000	**Total £000**
Year to 31 December 2019					
At 1 January 2019	32,156	513,675	4,872	294,899	**845,602**
Profit and total comprehensive income for the year	–	–	–	126,235	**126,235**
Interim dividends of 16.3 pence per share	–	–	–	(52,461)	**(52,461)**
Issue of shares	129	4,740	(4,869)	–	**–**
Shares to be issued	–	–	4,907	–	**4,907**
At 31 December 2019	32,285	518,415	4,910	368,673	**924,283**

The notes on pages 127 and 128 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 2021, 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. Auditor's remuneration

The auditor's remuneration in respect of the audit of the Company for the year was £48,000 (2019: £47,000). 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 2020 £000	Year to 31 December 2020 £000
At the start of the year	**457,643**	457,643
Impairment	**(63,108)**	–
At the end of the year	**394,535**	457,643

The impairment reflects the impact of investment property valuation falls during the year on the carrying value of the subsidiaries that hold the Budget Hotels and Leisure 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 2020 £000	Year to 31 December 2019 £000
At the start of the year	**288,058**	341,963
Net loans drawn down/(repaid)	**4,858**	(53,905)
At the end of the year	**292,916**	288,058

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 2020 £000	Year to 31 December 2019 £000
At the start of the year	**58,112**	27,601
Net loans (repaid)/drawn down	**(33,814)**	30,511
At the end of the year	**24,298**	58,112

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 5 March 2021, the Company paid an interim dividend of 3.65 pence per share amounting to £11.7 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. Comparative figures below have been restated to be consistent with the new measure of EPRA NTA that was introduced by EPRA with effect from 1 January 2020.

TAR – EPRA NTA performance

	Year to 31 December 2020 Pence per share	Year to 31 December 2019 Pence per share
EPRA NTA per share:		
at the start of the year	**429.4**	398.8
at the end of the year	**379.3**	429.4
Movement in EPRA NTA per share	**(50.1)**	30.6
Dividends per share	**15.7**	16.3
Movement in EPRA NTA per share plus dividends per share	**(34.4)**	46.9
TAR	**(8.0)%**	11.8%

TSR – share price performance

	Year to 31 December 2020 Pence per share	Year to 31 December 2019 Pence per share
Mid market closing share price:		
at the start of the year	**434.0**	377.0
at the end of the year	**300.0**	434.0
Movement in share price	**(134.0)**	57.0
Dividends per share	**15.7**	16.3
Movement in share price plus dividends per share	**(118.3)**	73.3
TSR	**(27.3)%**	19.4%

Unaudited Supplementary Information
EPRA Measures

	31 December 2020	31 December 2019
EPRA Net Tangible Assets (EPRA NTA) per share	**379.3p**	429.4p
EPRA Net Reinstatement Value per share	**421.7p**	474.6p
EPRA Net Disposal Value per share	**364.3p**	417.9p
EPRA Net Initial Yield	**4.44%**	4.94%
EPRA Topped Up Net Initial Yield	**5.40%**	4.94%
EPRA Vacancy Rate	**0%**	0%

	Year to 31 December 2020	Year to 31 December 2019
EPRA EPS	**16.3p**	16.9p
Adjusted EPRA EPS*	**3.5p**	15.3p
EPRA Capital Expenditure	**£0.5m**	£0.3m
EPRA Cost Ratio excluding direct vacancy costs	**14.8%**	17.5%
EPRA Cost Ratio including direct vacancy costs	**15.1%**	17.6%
Adjusted EPRA Cost Ratio excluding direct vacancy costs†	**18.4%**	14.9%
Adjusted EPRA Cost Ratio including direct vacancy costs†	**18.7%**	15.0%

* not an EPRA measure: calculation explained in note 10 to the financial statements
† not an EPRA measure

EPRA Net Tangible Assets

	31 December 2020		31 December 2019	
	£000	**Pence per share**	£000	Pence per share
Basic NAV (note 23)	**1,221,541**	**377.0**	1,384,542	428.8
EPRA adjustments:				
Dilution from shares to be issued for 2019 incentive fee	**–**	**–**	–	(1.5)
Diluted NAV	**1,221,541**	**377.0**	1,384,542	427.3
Deferred tax on German investment property revaluations*	**5,950**	**1.8**	5,634	1.8
Fair value of derivatives	**1,734**	**0.5**	1,084	0.3
EPRA NTA	**1,229,225**	**379.3**	1,391,260	429.4

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

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

	31 December 2020 Number	31 December 2019 Number
Basic NAV	**324,035,146**	322,850,595
Shares to be issued in satisfaction of incentive fee (note 25d)	**–**	1,184,551
Diluted NAV and EPRA measures	**324,035,146**	324,035,146

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, calculated as follows:

	31 December 2020		31 December 2019	
	£000	**Pence per share**	£000	Pence per share
Basic NAV	**1,221,541**	**377.0**	1,384,542	428.8
EPRA adjustments:				
Dilution from shares to be issued for 2019 incentive fee	**–**	**–**	–	(1.5)
Diluted NAV	**1,221,541**	**377.0**	1,384,542	427.3
Adjustment for real estate transfer taxes	**131,418**	**40.5**	140,826	43.5
Deferred tax on investment property revaluations	**11,899**	**3.7**	11,267	3.5
Fair value of interest rate derivatives	**1,734**	**0.5**	1,084	0.3
EPRA Net Reinstatement Value	**1,336,592**	**421.7**	1,537,719	474.6

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 2020		31 December 2019	
	£000	**Pence per share**	£000	Pence per share
Basic NAV	**1,221,541**	**377.0**	1,384,542	428.8
EPRA adjustments:				
Dilution from shares to be issued for 2019 incentive fee	**–**	**–**	–	(1.5)
Diluted NAV	**1,221,541**	**377.0**	1,384,542	427.3
Fair value of fixed rate debt	**(40,966)**	**(12.7)**	(30,343)	(9.4)
EPRA Net Disposal Value	**1,180,575**	**364.3**	1,354,199	417.9

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 2020 £000	31 December 2019 £000
Investment property, all of which is completed and wholly owned, at independent external valuation (note 11)	**1,946,938**	2,083,107
Allowance for estimated purchasers' costs	**131,418**	140,826
Grossed up completed property portfolio valuation	**2,078,356**	2,223,933
Annualised cash passing rental income	**98,297**	110,726
Annualised non-recoverable property outgoings	**(1,020)**	(866)
Annualised net rents	**97,277**	109,860
Notional rent increase on expiry of rent free periods and other lease incentives	**15,032**	48
	112,309	109,908
EPRA Net Initial Yield	**4.68%**	4.94%
EPRA Topped Up Net Initial Yield	**5.40%**	4.94%

The EPRA Net Initial Yield at 31 December 2020 reflects the temporary rent concessions on the budget hotels arising as a result of the Covid-19 pandemic.

Unaudited Supplementary Information
EPRA Measures continued

EPRA Vacancy Rate

	31 December 2020 £000	31 December 2019 £000
ERV of vacant space	**40**	40
ERV of portfolio	**111,536**	110,766
EPRA Vacancy Rate	**0.04%**	0.04%

EPRA EPS

	Year to 31 December 2020 £000	Year to 31 December 2019 £000
(Loss)/profit for the year	**(113,641)**	153,359
EPRA adjustments:		
Investment property revaluation (note 11)	**166,516**	(75,708)
Profit on disposal of investment properties	**(32)**	(53,074)
Deferred tax on German investment property revaluations (note 9)	**(22)**	759
Other early debt repayment costs (note 8)	**21**	1,443
Fair value adjustment of interest rate derivatives	**13**	36
Cost of early repayment of debt on disposal of investment properties (note 8)	**–**	27,868
EPRA earnings	**52,855**	54,683
Other adjustments:		
Rent Smoothing Adjustments (note 4)	**(23,661)**	(10,564)
Rent deferral	**(17,727)**	–
Incentive fee (note 6)	**–**	5,256
Adjusted EPRA earnings	**11,467**	49,375

Weighted average number of shares in issue	**Number**	Number
Adjusted EPRA EPS	**323,776,228**	322,540,246
Adjustment for weighting of shares issued in the year*	**258,918**	310,349
EPRA EPS	**324,035,146**	322,850,595
Shares to be issued in satisfaction of incentive fee (note 25d)	**–**	1,184,551
Diluted EPRA EPS	**324,035,146**	324,035,146

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

	Pence per share	Pence per share
EPRA EPS	**16.3**	16.9
Diluted EPRA EPS	**16.3**	16.8
Adjusted EPRA EPS	**3.5**	15.3

EPRA Capital Expenditure

Wholly owned property	Year to 31 December 2020 £000	Year to 31 December 2019 £000
Acquisitions	**–**	307
Development	**–**	–
Expenditure on completed investment property held throughout the year:		
Creation of additional lettable area	**–**	–
Enhancing existing space	**–**	–
Other	**456**	–
EPRA Capital Expenditure	**456**	307

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 EPRA Capital Expenditure in the current period relates to Manchester Arena: £0.3 million for the acquisition of car park equipment and £0.2 million for capital works within the service charge that is not recoverable from the tenants. The expenditure on acquisitions in the prior year represents the purchase of the freehold of an existing leasehold property.

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. 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 (2019: £0.1 million).

EPRA Cost Ratio

	Year to 31 December 2020 £000	Year to 31 December 2019 £000
Revenue (note 4)	**121,664**	132,677
Tenant contributions to property outgoings (note 4)	**(1,643)**	(1,580)
EPRA gross rental income	**120,021**	131,097
Non-recoverable property operating expenses (note 5)*	**1,668**	1,549
Less headlease costs included in non-recoverable property operating expenses	**(604)**	(662)
Administrative expenses (note 6)	**17,001**	22,128
EPRA costs including direct vacancy costs	**18,065**	23,015
Direct vacancy costs	**(293)**	(95)
EPRA costs excluding direct vacancy costs	**17,772**	22,920
EPRA Cost Ratio including direct vacancy costs	**15.1%**	17.6%
EPRA Cost Ratio excluding direct vacancy costs	**14.8%**	17.5%

* included within the £3.3 million (2019: £3.1 million) of property costs payable by the Group are £1.7 million (2019: £1.5 million) of headlease and other costs that are recoverable from the tenants

The Group capitalises the initial direct costs incurred in obtaining a lease, which are then charged to the income statement over the term of the relevant lease. During the year, costs of £54,000 (2019: £10,000) were capitalised, and £4,000 (2019: £19,000) was released from capitalised costs and charged to the income statement. Costs of £568,000 (2019: £nil) for negotiating and documenting Covid-19 rent concessions, and rent review and other letting costs of £35,000 (2019: £416,000) are included in non-recoverable property operating expenses. A further £106,000 (2019: £nil) relating to the amendment of loan facilities as a result 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.

Unaudited Supplementary Information
EPRA Measures continued

Adjusted EPRA Cost Ratio excluding non-cash items

The Group also calculates an Adjusted EPRA Cost Ratio excluding the following non-cash items to present what the Board considers to be a measure of cost efficiency more directly relevant to its business model:

- revenue recognised ahead of cash receipt as a result of Rent Smoothing Adjustments (note 4); and
- any incentive fee, included in administrative expenses, which is settled in shares (note 25d).

	Year to 31 December 2020 £000	Year to 31 December 2019 £000
EPRA gross rental income	**120,021**	131,097
Rent Smoothing Adjustments (note 4)	**(23,661)**	(10,564)
Adjusted EPRA gross rental income excluding non-cash items	**96,360**	120,533
EPRA costs	**18,065**	23,015
Incentive fee settled in shares (note 25d)	**–**	(4,907)
Adjusted EPRA costs including direct vacancy costs	**18,065**	18,108
Direct vacancy costs	**(293)**	(95)
Adjusted EPRA costs excluding direct vacancy costs	**17,772**	18,013
Adjusted EPRA Cost Ratio including direct vacancy costs	**18.7%**	15.0%
Adjusted EPRA Cost Ratio excluding direct vacancy costs	**18.4%**	14.9%

Like for like rental growth by portfolio

Passing rent	Leisure portfolio £000	Healthcare portfolio £000	Budget Hotel portfolio £000	**Total portfolio £000**
At 1 January 2020	46,785	35,607	28,334	**110,726**
Movement in Euro exchange rate	377	–	–	**377**
Like for like passing rent	47,162	35,607	28,334	**111,103**
Rental uplifts	360	984	834	**2,178**
At 31 December 2020	47,522	36,591	29,168	**113,281**
Increase in like for like passing rent	0.8%	2.8%	2.9%	**2.0%**
Portfolio valuation at 31 December 2020	793,060	769,095	384,783	**1,946,938**

Passing rent	Leisure portfolio £000	Healthcare portfolio £000	Budget Hotel portfolio £000	**Total portfolio £000**
At 1 January 2019	45,723	50,217	29,049	**124,989**
Disposals	–	(15,569)	(874)	**(16,443)**
Movement in Euro exchange rate	(346)	–	–	**(346)**
Like for like passing rent	45,377	34,648	28,175	**108,200**
Rental uplifts	1,408	959	159	**2,526**
At 31 December 2019	46,785	35,607	28,334	**110,726**
Increase in like for like passing rent	3.1%	2.8%	0.6%	**2.3%**
Portfolio valuation at 31 December 2019	851,875	748,385	482,847	**2,083,107**

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

Unaudited Supplementary Information
EPRA Measures continued

Like for like rental growth by country

Passing rent	UK £000	Germany £000	**Total portfolio £000**
At 1 January 2020	104,239	6,487	**110,726**
Movement in Euro exchange rate	–	377	**377**
Like for like passing rent	104,239	6,864	**111,103**
Rental uplifts	1,949	229	**2,178**
At 31 December 2020	106,188	7,093	**113,281**
Increase in like for like passing rent	1.9%	3.3%	**2.0%**
Portfolio valuation at 31 December 2020	1,831,638	115,300	**1,946,938**

Passing rent	UK £000	Germany £000	**Total portfolio £000**
At 1 January 2019	118,365	6,624	**124,989**
Disposals	(16,443)	–	**(16,443)**
Movement in Euro exchange rate	–	(346)	**(346)**
Like for like passing rent	101,922	6,278	**108,200**
Rental uplifts	2,317	209	**2,526**
At 31 December 2019	104,239	6,487	**110,726**
Increase in like for like passing rent	2.3%	3.3%	**2.3%**
Portfolio valuation at 31 December 2019	1,972,857	110,250	**2,083,107**

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 historically related to the 41% of portfolio rents (before rent concessions) that are subject to fixed uplifts and the 6% of portfolio rents with minimum uplifts on RPI-linked reviews. From the current year onwards, the Rent Smoothing Adjustments also include the effect of the temporary Covid-19 rent concessions agreed with the tenants of the Budget Hotels and Pubs portfolios. The reductions represent lease modifications under IFRS 16, so their effect is spread over the remaining lease term from the effective date of the modification, which is the date at which both parties agreed to the modification.

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

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

The impact of the Rent Smoothing Adjustments on the Group's balance sheet as at 31 December 2020 is as follows:

	Receivable at 31 December 2020 £m	Maximum receivable £m	Date of maximum receivable
Fixed/minimum uplifts recognised ahead of cash receipt:			
Healthcare – Ramsay hospitals	**109.1**	111.8	March 2023
Leisure – German theme parks*	**37.8**	42.2	June 2026
Healthcare – Lisson Grove hospital	**12.3**	20.6	March 2035
The Brewery	**3.9**	23.5	June 2041
Manchester Arena	**2.9**	8.9	June 2032
Pubs	**0.6**	2.0	March 2030
	166.6	209.0	
Covid-19 related rent concessions:			
Budget Hotels	**13.7**	21.1	Dec 2021
Pubs	**1.1**	1.1	Sept 2020
	181.4	231.2	

* at the year end exchange rate of €1:£0.90

The future impact of this adjustment would change if there were acquisitions, disposals, lease variations of properties with fixed or minimum RPI-linked rental uplifts or further rent concessions. Assuming no change in the portfolio, the change in rental income that was recognised on the portfolio during the current year and is expected for each of the next three financial years (with the German adjustment translated at the 2020 average Euro conversion rate of €1:£0.89) is as follows:

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

Property Portfolio as at 10 March 2021

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

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

Property Portfolio as at 10 March 2021 continued

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

In addition to the properties listed above, the Group owns a further 57 Travelodges in the Budget Hotels portfolio (four located in Scotland, one in Wales and the remainder in the Rest of England) and a further 12 pubs in the Leisure portfolio (one located in London, one in Scotland and the remainder in the Rest of England), each of which is valued at less than £2 million.

Five Year Financial Summary

Net income summary	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Gross rental income*	**98.0**	122.1	114.9	95.5	80.4
Gross profit*	**96.6**	120.7	114.4	95.2	80.3
Administrative expenses	**(17.0)**	(22.1)	(20.6)	(29.5)	(21.6)
Property revaluations*	**(143.0)**	86.3	109.1	124.8	85.0
Profit on disposal of investment properties	**–**	53.1	0.2	–	–
Other income	**–**	–	–	0.2	–
Net finance costs	**(49.9)**	(83.5)	(54.5)	(51.8)	(49.7)
Tax	**(0.3)**	(1.1)	(1.1)	(1.7)	(1.7)
(Loss)/profit for the year	**(113.6)**	153.4	147.5	137.2	92.3

* 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

Net assets summary	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Properties at valuation	**1,946.9**	2,083.1	2,306.7	1,770.2	1,641.7
Net debt	**(708.5)**	(663.6)	(990.8)	(878.5)	(878.4)
Other net liabilities (IFRS basis)	**(16.9)**	(35.0)	(34.3)	(31.1)	(25.9)
IFRS net assets	**1,221.5**	1,384.5	1,281.6	860.6	737.4
50% of deferred tax on German investment property revaluations	**6.0**	5.7	5.5	5.1	4.3
Fair value of interest rate derivatives	**1.7**	1.1	0.2	–	–
EPRA NTA	**1,229.2**	1,391.3	1,287.3	865.7	741.7

Summary of key performance indicators	2020	2019	2018	2017	2016
EPRA NTA per share	**379.3p**	429.4p	398.7p	370.4p	323.6p
Adjusted EPRA EPS	**3.5p**	15.3p	14.7p	13.6p	11.3p
Total Accounting Return	**(8.0)%**	11.8%	12.1%	18.7%	16.5%
Total Shareholder Return	**(27.3)%**	19.4%	8.3%	18.7%	29.8%
Net LTV Ratio	**36.4%**	31.9%	43.0%	49.6%	53.5%
Headroom on debt covenants before any preventative cash cure or remedial action:					
Valuation headroom before tightest LTV default test is triggered	**32%**	38%	32%	30%	26%
Rent headroom before tightest interest cover default test is triggered	**29%**	33%	32%	28%	25%
Uncommitted Cash	**£192.0m**	£234.2m	£66.4m	£60.6m	£64.3m
Weighted Average Unexpired Lease Term	**20.2 years**	21.0 years	20.9 years	22.2 years	23.1 years

Portfolio	2020	2019	2018	2017	2016
Number of properties	**161**	161	175	81	81

Annualised returns since listing: IRR to 31 December 2020	
Total Accounting Return	**15.3% p.a.**
Total Shareholder Return from 174p issue price at listing	**12.8% p.a.**
By comparison: FTSE EPRA NAREIT UK Index over the same period	**2.8% p.a.**

Glossary

Adjusted EPRA EPS	**EPRA EPS** adjusted to exclude non-cash and non-recurring costs, calculated on the basis of the time-weighted number of shares in issue
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	Martin Moore, Non-Executive Chairman Mike Brown Leslie Ferrar, Chairman of the Audit Committee Sandy Gumm Jonathan Lane, Chairman of the Nominations Committee Nick Leslau Ian Marcus, Senior Independent Director and Chairman of the Remuneration Committee
Company Secretary	Sandy Gumm
Investment Adviser	Prestbury Investment Partners Limited Cavendish House, 18 Cavendish Square, London W1G 0PJ
Nominated Adviser and Broker	Stifel Nicolaus Europe Limited 150 Cheapside, London EC2V 6ET
Auditor	BDO LLP 55 Baker Street, London W1U 7EU
Property valuers	CBRE Limited St Martin's Court, 10 Paternoster Row, London EC4M 7HP Christie & Co Whitefriars House, 6 Carmelite Street, London EC4Y 0BS
Derivative valuers	Chatham Financial Europe Limited 12 St James's Square, London SW1Y 4LB
Financial PR advisers	FTI Consulting LLP 200 Aldersgate, Aldersgate Street, London EC1A 4HD Email: SecureIncomeREIT@FTIconsulting.com
Registrar	Link Group 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL Registrar's helpline: 0371 664 0300 Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales Registrar's email: ShareholderEnquiries@LinkGroup.co.uk
Website	www.SecureIncomeREIT.co.uk
Email	Enquiries@SecureIncomeREIT.co.uk

Note on 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 10 March 2021.

Explanatory Notes Accompanying the AGM Notice

The Company's AGM notice appears on pages 150 and 151.

As we noted last year, 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, the Company has opted for paperless proxy voting as the default option. Therefore, you will not receive a hard copy form of proxy for the AGM in the post automatically, although should you not wish to register the appointment of a proxy online you may still request and submit a paper proxy form. Details of how to appoint a proxy are outlined following the explanatory notes to the resolutions.

To reduce the amount of paper that we send into circulation and to reduce costs for the Company, the default option for receipt of the annual report is electronic distribution and shareholders receiving the annual report electronically 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.

Explanatory notes to the AGM resolutions
Resolutions 1 to 11 are ordinary resolutions. Resolutions 12 and 13 are special resolutions. Ordinary resolutions require a simple majority of votes cast to be in favour in order 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 2020 report and audited financial statements are approved. The report and financial statements have been approved by the Board, and the independent auditor has issued an unqualified audit opinion on them.

Resolutions 2 to 8: 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, together with an explanation of where further information about each person is presented.

All of these resolutions numbered 2 to 8 are ordinary resolutions.

Resolution 2: reappointment of Martin Moore
Martin Moore is the Chairman of the Company and a member of the Remuneration Committee and 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 52.

Resolution 3: 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 Nominations Committee. His biography is on page 52.

Resolution 4: reappointment of Leslie Ferrar
Leslie Ferrar is an Independent Director, Chairman of the Audit Committee and a member of the Remuneration Committee. 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 52.

Explanatory Notes Accompanying the AGM Notice
continued

Resolution 5: reappointment of Sandy Gumm
Sandy Gumm qualified as an accountant in 1992 and has worked in real estate finance for over 25 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 52.

Resolution 6: reappointment of Jonathan Lane
Jonathan Lane is an Independent Director, Chairman of the Nominations 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 53.

Resolution 7: 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 33 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 Nominations Committee. His biography is on page 53.

Resolution 8: 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 53.

Resolutions 9 and 10: reappointment of the auditor and Directors' authority to agree their remuneration
These ordinary resolutions propose, separately, that BDO LLP be reappointed as auditor 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 auditor's performance and for reviewing their fee arrangements and their independence. The Audit Committee's report on the auditor, including confirmation that the Committee has assessed the auditor's performance, effectiveness and objectivity, is included at page 70 of this document.

Fees payable to the auditor in respect of the years ended 31 December 2020 and 2019 are disclosed in note 7 to the financial statements.

Resolution 11: 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 10 March 2021, 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 10 March 2021, 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, 19 August 2022.

Resolution 12: 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 10 March 2021. 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 13: 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 10 March 2021, 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 NAV per share of the Company. That is, shares issued under this authority will not be issued at a discount to EPRA NAV. 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 19 August 2022.

Details of proxy appointment procedures
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, on Tel: 0371 664 0300 or by emailing ShareholderEnquiries@LinkGroup.co.uk. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 and 17:30, Monday to Friday excluding public holidays in England and Wales.

Shareholders are advised to read the terms and conditions relating to the use of this online facility before appointing a proxy. These terms and conditions may be viewed on the Link Website.

Explanatory Notes Accompanying the AGM Notice
continued

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, by telephoning 0371 664 0300 or by emailing ShareholderEnquiries@LinkGroup.co.uk. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 and 17:30, Monday to Friday excluding public holidays in England and Wales.

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.

Covid-19

At the time of issuing this report, it is not possible to hold Annual General Meetings in person. The Company Secretary is closely monitoring developments to determine the safest way to hold the AGM in accordance with Government and Public Health England guidance in place from time to time.

The Board's current intention is to hold the AGM at the time, date and place set out in the notice of meeting if that is permitted at that time. However, this might not be possible. A stock exchange announcement will be issued prior to the date of the AGM either to confirm the details set out in the notice of meeting or to advise the alternative arrangements, and that announcement will be available in the news section of the Company's website, www.SecureIncomeREIT.co.uk. To enable us to hold the meeting in as safe a way as possible, we will be asking shareholders to register their attendance in advance of the meeting, if possible, so that we can ensure that appropriate social distancing arrangements can be implemented. Any shareholders wishing to attend in person, if that is permitted, should email the Company Secretary at Enquiries@SecureIncomeREIT.co.uk by midday on 17 May 2021. Regardless of the logistics of the meeting, the Board intends to consider and respond to any questions submitted to the Board in respect of the meeting and will advise shareholders of the process for questions to be lodged with Board in the announcement confirming the arrangements for the meeting.

In order that shareholders can exercise their rights whether or not they are able to attend, and as it is important that shareholders cast their votes at the AGM, all shareholders are strongly encouraged to appoint the chairman of the meeting as a proxy in accordance with the procedure set out in these notes.

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 20 May 2021 at 9.30am to consider and, if thought fit, pass the following resolutions, which in the case of resolutions 1 to 11 will be proposed as ordinary resolutions and in the case of resolutions 12 and 13 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 2020 together with the report of the auditor thereon.
2. To re-elect Martin Moore as a Director of the Company.
3. To re-elect Mike Brown as a Director of the Company.
4. To re-elect Leslie Ferrar as a Director of the Company.
5. To re-elect Sandy Gumm as a Director of the Company.
6. To re-elect Jonathan Lane as a Director of the Company.
7. To re-elect Nick Leslau as a Director of the Company.
8. To re-elect Ian Marcus as a Director of the Company.
9. To reappoint BDO LLP as the auditor until the conclusion of the next AGM.
10. That the Directors be authorised to fix the remuneration of the auditor.
11. 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 19 August 2022 or, if earlier, at the conclusion of the next Annual General Meeting 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:

12. 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 Annual General Meeting 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).
13. 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 NAV 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 19 August 2022 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 2021 unless objections are received from shareholders holding more than 5% of the shares in total.

By order of the Board

Sandy Gumm
Company Secretary
10 March 2021

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 18 May 2021. 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 by 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 143.
   - 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); and
   - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out on page 148.

   In order for a proxy appointment to be valid a form of proxy must be completed. In each case the form of proxy must be received by Link Group at PXS 1, Link Group, Central Square, 29 Wellington Street, Leeds, LS1 4DL by 9:30 am on 18 May 2021.

5. In each case, 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 18 May 2021.

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 10 March 2021 (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 10 March 2021 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.

Designed and produced by emperor
Visit us at emperor.works

Registered office
Cavendish House
18 Cavendish Square
London W1G 0PJ

Website
www.SecureIncomeREIT.co.uk

SECURE INCOME REIT PLC